

In the Senate of the United States,

June 27, 1997.

Resolved, That the bill from the House of Representatives (H.R. 2014) entitled “An Act to provide for reconciliation pursuant to subsections (b)(2) and (d) of section 105 of the concurrent resolution on the budget for fiscal year 1998.”, do pass with the following

AMENDMENT:

Strike out all after the enacting clause and insert:

1 ***SECTION 1. SHORT TITLE; AMENDMENT OF 1986 CODE;***

2 ***TABLE OF CONTENTS.***

3 *(a) SHORT TITLE.—This Act may be cited as the*
4 *“Revenue Reconciliation Act of 1997”.*

5 *(b) AMENDMENT OF 1986 CODE.—Except as otherwise*
6 *expressly provided, whenever in this Act an amendment or*
7 *repeal is expressed in terms of an amendment to, or repeal*
8 *of, a section or other provision, the reference shall be consid-*
9 *ered to be made to a section or other provision of the Inter-*
10 *nal Revenue Code of 1986.*

1 (c) *TABLE OF CONTENTS.—The table of contents for*
 2 *this Act is as follows:*

Sec. 1. Short title; amendment of 1986 Code; table of contents.

TITLE I—CHILD TAX CREDIT AND OTHER FAMILY TAX RELIEF

Sec. 101. Child tax credit.

Sec. 102. Adjustment of minimum tax exemption amounts for taxpayers other than corporations.

Sec. 103. Allowance of credit for employer expenses for child care assistance.

Sec. 104. Expansion of coordinated enforcement efforts of Internal Revenue Service and HHS Office of Child Support Enforcement.

Sec. 105. Adoption expenses.

TITLE II—EDUCATION INCENTIVES

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Subtitle B—Expanded Education Investment Savings Opportunities

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Sec. 212. Eligible educational institutions permitted to maintain qualified tuition programs; other modifications of qualified State tuition programs.

PART II—EDUCATION INDIVIDUAL RETIREMENT ACCOUNTS

Sec. 213. Education individual retirement accounts.

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Sec. 221. Extension of exclusion for employer-provided educational assistance.

Sec. 222. Repeal of limitation on qualified 501(c)(3) bonds other than hospital bonds.

Sec. 223. Increase in arbitrage rebate exception for governmental bonds used to finance education facilities.

Sec. 224. 2-percent floor on miscellaneous itemized deductions not to apply to certain continuing education expenses of elementary and secondary school teachers.

Sec. 225. Treatment of cancellation of certain student loans.

TITLE III—SAVINGS AND INVESTMENT INCENTIVES

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Sec. 302. Establishment of nondeductible tax-free individual retirement accounts.

Sec. 303. Distributions from certain plans may be used without penalty to purchase first homes and when unemployed.

Sec. 304. Certain bullion not treated as collectibles.

Subtitle B—Capital Gains

Sec. 311. 20 percent maximum capital gains rate for individuals.

Sec. 312. Modifications to exclusion of gain on certain small business stock.

Sec. 313. Rollover of gain from sale of qualified stock.

Sec. 314. Exemption from tax for gain on sale of principal residence.

TITLE IV—ESTATE, GIFT, AND GENERATION-SKIPPING TAX PROVISIONS

Sec. 401. Cost-of-living adjustments relating to estate and gift tax provisions.

Sec. 402. Family-owned business exclusion.

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Sec. 405. No interest on certain portion of estate tax extended under section 6166, reduced interest on remaining portion, and no deduction for such reduced interest.

Sec. 406. Extension of treatment of certain rents under section 2032A to lineal descendants.

Sec. 407. Expansion of exception from generation-skipping transfer tax for transfers to individuals with deceased parents.

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Sec. 502. Contributions of stock to private foundations.

Sec. 503. Work opportunity tax credit.

Sec. 504. Orphan drug tax credit.

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- Sec. 765. Increased deductibility of business meal expenses for individuals subject to Federal hours of service and seafood processors.*
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- Sec. 789. Current refundings of certain tax-exempt bonds.*
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1 **TITLE I—CHILD TAX CREDIT AND**
2 **OTHER FAMILY TAX RELIEF**

3 **SEC. 101. CHILD TAX CREDIT.**

4 (a) *IN GENERAL.*—Subpart A of part IV of subchapter
5 A of chapter 1 (relating to nonrefundable personal credits)
6 is amended by inserting after section 23 the following new
7 section:

8 **“SEC. 24. CHILD TAX CREDIT.**

9 “(a) *ALLOWANCE OF CREDIT.*—There shall be allowed
10 as a credit against the tax imposed by this chapter for the
11 taxable year with respect to each qualifying child of the tax-
12 payer an amount equal to \$500.

13 “(b) *LIMITATIONS.*—

14 “(1) *CREDIT LIMITED TO EDUCATION SAVINGS*
15 *FOR CERTAIN CHILDREN.*—In the case of a qualifying
16 child who has attained the age of 13 as of the close
17 of the calendar year in which the taxable year of the
18 taxpayer begins, the amount of the credit allowed
19 under subsection (a) for such taxable year with re-
20 spect to such child (after the application of para-
21 graphs (2) and (3)) shall not exceed the excess of—

22 “(A) the aggregate amount contributed by
23 the taxpayer for such taxable year for the benefit
24 of such child to qualified tuition programs (as
25 defined in section 529) and education individual

1 *retirement accounts (as defined in section 530),*
2 *over*

3 “(B) *the aggregate amount distributed dur-*
4 *ing such taxable year from such programs and*
5 *accounts (the beneficiary of which is such child)*
6 *which is subject to tax under section 529(f) or*
7 *530(c)(3).*

8 “(2) *LIMITATION BASED ON ADJUSTED GROSS IN-*
9 *COME.—*

10 “(A) *IN GENERAL.—The \$500 amount in*
11 *subsection (a) shall be reduced (but not below*
12 *zero) by \$25 for each \$1,000 (or fraction thereof)*
13 *by which the taxpayer’s modified adjusted gross*
14 *income exceeds the threshold amount. For pur-*
15 *poses of the preceding sentence, the term ‘modi-*
16 *fied adjusted gross income’ means adjusted gross*
17 *income increased by any amount excluded from*
18 *gross income under section 911, 931, or 933.*

19 “(B) *THRESHOLD AMOUNT.—For purposes*
20 *of subparagraph (A), the term ‘threshold amount’*
21 *means—*

22 “(i) *\$110,000 in the case of a joint re-*
23 *turn,*

24 “(ii) *\$75,000 in the case of an individ-*
25 *ual who is not married, and*

1 “(iii) \$55,000 in the case of a married
2 individual filing a separate return.

3 For purposes of this subparagraph, marital sta-
4 tus shall be determined under section 7703.

5 “(3) LIMITATION BASED ON AMOUNT OF TAX.—
6 The aggregate credit allowed by subsection (a) (deter-
7 mined after paragraph (2)) shall not exceed the excess
8 (if any) of—

9 “(A) the taxpayer’s regular tax liability for
10 the taxable year reduced by the credits allowable
11 against such tax under this subpart (other than
12 this section), over

13 “(B) the sum of—

14 “(i) the taxpayer’s tentative minimum
15 tax for such taxable year (determined with-
16 out regard to the alternative minimum tax
17 foreign tax credit), plus

18 “(ii) 50 percent of the credit allowed
19 for the taxable year under section 32.

20 Any reduction in the credit otherwise allowable
21 by subsection (a) by reason of this paragraph
22 shall be allocated pro rata among all qualifying
23 children for purposes of applying paragraph (1).

24 “(c) QUALIFYING CHILD.—For purposes of this sec-
25 tion—

1 “(1) *IN GENERAL.*—*The term ‘qualifying child’*
2 *means any individual if—*

3 “(A) *the taxpayer is allowed a deduction*
4 *under section 151 with respect to such individual*
5 *for the taxable year,*

6 “(B) *such individual has not attained the*
7 *age of 17 (age of 18 in the case of taxable years*
8 *beginning after 2002) as of the close of the cal-*
9 *endar year in which the taxable year of the tax-*
10 *payer begins, and*

11 “(C) *such individual bears a relationship to*
12 *the taxpayer described in section 32(c)(3)(B).*

13 “(2) *EXCEPTION FOR CERTAIN NONCITIZENS.*—
14 *The term ‘qualifying child’ shall not include any in-*
15 *dividual who would not be a dependent if the first*
16 *sentence of section 152(b)(3) were applied without re-*
17 *gard to all that follows ‘resident of the United States’.*

18 “(d) *TAXABLE YEAR MUST BE FULL TAXABLE*
19 *YEAR.*—*Except in the case of a taxable year closed by rea-*
20 *son of the death of the taxpayer, no credit shall be allowable*
21 *under this section in the case of a taxable year covering*
22 *a period of less than 12 months.*

23 “(e) *RECAPTURE OF CREDIT.*—

24 “(1) *IN GENERAL.*—*If—*

1 “(A) during any taxable year any amount
2 is withdrawn from a qualified tuition program
3 or an education individual retirement account
4 maintained for the benefit of a beneficiary and
5 such amount is subject to tax under section
6 529(f) or 530(c)(3), and

7 “(B) the amount of the credit allowed under
8 this section for the prior taxable year was con-
9 tingent on a contribution being made to such a
10 program or account for the benefit of such bene-
11 ficiary,

12 the taxpayer’s tax imposed by this chapter for the
13 taxable year shall be increased by the lesser of the
14 amount described in subparagraph (A) or the credit
15 described in subparagraph (B).

16 “(2) NO CREDITS AGAINST TAX, ETC.—Any in-
17 crease in tax under this subsection shall not be treated
18 as a tax imposed by this chapter for purposes of de-
19 termining—

20 “(A) the amount of any credit under this
21 subpart or subpart B or D of this part, and

22 “(B) the amount of the minimum tax im-
23 posed by section 55.

24 “(f) OTHER DEFINITIONS.—For purposes of this sec-
25 tion, the terms ‘qualified tuition program’ and ‘education

1 *individual retirement account* have the meanings given
 2 *such terms by section 529 and 530, respectively.*

3 “(g) *PHASE-IN OF CREDIT.*—*In the case of taxable*
 4 *years beginning in 1997—*

5 “(1) *subsection (a)(1) shall be applied by sub-*
 6 *stituting ‘\$250’ for ‘\$500’, and*

7 “(2) *subsection (c)(1)(B) shall be applied by sub-*
 8 *stituting ‘age of 13’ for ‘age of 17’.*”

9 (b) *CONFORMING AMENDMENTS.*—

10 (1) *Subsection (a) of section 26 is amended by*
 11 *inserting “(other than the credit allowed by section*
 12 *24)” after “credits allowed by this subpart”.*

13 (2) *The table of sections for subpart A of part IV*
 14 *of subchapter A of chapter 1 is amended by inserting*
 15 *after the item relating to section 23 the following new*
 16 *item:*

“*Sec. 24. Child tax credit.*”

17 (d) *EFFECTIVE DATE.*—*The amendments made by this*
 18 *section shall apply to taxable years beginning after Decem-*
 19 *ber 31, 1996.*

20 **SEC. 102. ADJUSTMENT OF MINIMUM TAX EXEMPTION**
 21 **AMOUNTS FOR TAXPAYERS OTHER THAN**
 22 **CORPORATIONS.**

23 (a) *IN GENERAL.*—*Subsection (d) of section 55 is*
 24 *amended by adding at the end the following new paragraph:*

1 “(4) *ADJUSTMENT OF EXEMPTION AMOUNTS FOR*
2 *TAXPAYERS OTHER THAN CORPORATIONS.—*

3 “(A) *TAXABLE YEARS BEGINNING AFTER*
4 *DECEMBER 31, 2000 AND BEFORE JANUARY 1,*
5 *2003.—In the case of any calendar year after*
6 *2000 and before 2003—*

7 “(i) *the dollar amount applicable*
8 *under paragraph (1)(A) for such a calendar*
9 *year shall be \$600 greater than the dollar*
10 *amount applicable under paragraph (1)(A)*
11 *for the prior calendar year, and*

12 “(ii) *the dollar amount applicable*
13 *under paragraph (1)(B) for such a calendar*
14 *year shall be \$450 greater than the dollar*
15 *amount applicable under paragraph (1)(B)*
16 *for the prior calendar year.*

17 “(B) *TAXABLE YEARS BEGINNING AFTER*
18 *DECEMBER 31, 2002.—In the case of any calendar*
19 *year after 2002—*

20 “(i) *the dollar amount applicable*
21 *under paragraph (1)(A) for such a calendar*
22 *year shall be \$950 greater than the dollar*
23 *amount applicable under paragraph (1)(A)*
24 *for the prior calendar year, and*

1 “(ii) the dollar amount applicable
2 under paragraph (1)(B) for such a calendar
3 year shall be \$700 greater than the dollar
4 amount applicable under paragraph (1)(B)
5 for the prior calendar year.

6 “(C) APPLICATION OF TAXABLE YEARS.—
7 The dollar amount applicable under this para-
8 graph to any calendar year shall apply to tax-
9 able years beginning in such calendar year.

10 “(D) ADJUSTMENT.—The Secretary shall
11 reduce the dollar amounts otherwise in effect
12 under this paragraph for any calendar year to
13 the extent necessary to increase Federal revenues
14 by the amount the Secretary estimates Federal
15 revenues will be reduced by reason of allowing
16 distributions from education individual retire-
17 ment accounts under section 530 to be used for
18 qualified elementary and secondary education
19 expenses described in section 530(b)(2)(A)(ii).”.

20 (b) CONFORMING AMENDMENTS.—

21 (1) Subparagraph (C) of section 55(d)(1) is
22 amended by striking “\$22,500” and inserting “the
23 amount equal to $\frac{1}{2}$ the dollar amount applicable
24 under subparagraph (A) for the taxable year”.

1 “(1) *QUALIFIED CHILD CARE EXPENDITURE.*—

2 *The term ‘qualified child care expenditure’ means any*
3 *amount paid or incurred—*

4 “(A) *to acquire, construct, rehabilitate, or*
5 *expand property—*

6 “(i) *which is to be used as part of a*
7 *qualified child care facility of the taxpayer,*

8 “(ii) *with respect to which a deduction*
9 *for depreciation (or amortization in lieu of*
10 *depreciation) is allowable, and*

11 “(iii) *which does not constitute part of*
12 *the principal residence (within the meaning*
13 *of section 1034) of the taxpayer or any em-*
14 *ployee of the taxpayer,*

15 “(B) *for the operating costs of a qualified*
16 *child care facility of the taxpayer, including*
17 *costs related to the training of employees, to*
18 *scholarship programs, and to the providing of*
19 *increased compensation to employees with higher*
20 *levels of child care training,*

21 “(C) *under a contract with a qualified child*
22 *care facility to provide child care services to em-*
23 *ployees of the taxpayer,*

1 “(D) under a contract to provide child care
2 resource and referral services to employees of the
3 taxpayer, or

4 “(E) for the costs of seeking accreditation
5 from a child care credentialing or accreditation
6 entity.

7 “(2) QUALIFIED CHILD CARE FACILITY.—

8 “(A) IN GENERAL.—The term ‘qualified
9 child care facility’ means a facility—

10 “(i) the principal use of which is to
11 provide child care assistance, and

12 “(ii) which meets the requirements of
13 all applicable laws and regulations of the
14 State or local government in which it is lo-
15 cated, including, but not limited to, the li-
16 censing of the facility as a child care
17 facility.

18 Clause (i) shall not apply to a facility which is
19 the principal residence (within the meaning of
20 section 1034) of the operator of the facility.

21 “(B) SPECIAL RULES WITH RESPECT TO A
22 TAXPAYER.—A facility shall not be treated as a
23 qualified child care facility with respect to a tax-
24 payer unless—

1 “(i) enrollment in the facility is open
2 to employees of the taxpayer during the tax-
3 able year,

4 “(ii) the facility is not the principal
5 trade or business of the taxpayer unless at
6 least 30 percent of the enrollees of such fa-
7 cility are dependents of employees of the
8 taxpayer, and

9 “(iii) the use of such facility (or the
10 eligibility to use such facility) does not dis-
11 criminate in favor of employees of the tax-
12 payer who are highly compensated employ-
13 ees (within the meaning of section 414(q)).

14 “(d) *RECAPTURE OF ACQUISITION AND CONSTRUCTION*
15 *CREDIT.*—

16 “(1) *IN GENERAL.*—If, as of the close of any tax-
17 able year, there is a recapture event with respect to
18 any qualified child care facility of the taxpayer, then
19 the tax of the taxpayer under this chapter for such
20 taxable year shall be increased by an amount equal
21 to the product of—

22 “(A) the applicable recapture percentage,
23 and

24 “(B) the aggregate decrease in the credits
25 allowed under section 38 for all prior taxable

1 years which would have resulted if the qualified
 2 child care expenditures of the taxpayer described
 3 in subsection (c)(1)(A) with respect to such facil-
 4 ity had been zero.

5 “(2) *APPLICABLE RECAPTURE PERCENTAGE.*—

6 “(A) *IN GENERAL.*—For purposes of this
 7 subsection, the applicable recapture percentage
 8 shall be determined from the following table:

“If the recapture event occurs in:	The applicable recapture percentage is:
Years 1–3	100
Year 4	85
Year 5	70
Year 6	55
Year 7	40
Year 8	25
Years 9 and 10	10
Years 11 and thereafter	0.

9 “(B) *YEARS.*—For purposes of subpara-
 10 graph (A), year 1 shall begin on the first day of
 11 the taxable year in which the qualified child care
 12 facility is placed in service by the taxpayer.

13 “(3) *RECAPTURE EVENT DEFINED.*—For pur-
 14 poses of this subsection, the term ‘recapture event’
 15 means—

16 “(A) *CESSATION OF OPERATION.*—The ces-
 17 sation of the operation of the facility as a quali-
 18 fied child care facility.

19 “(B) *CHANGE IN OWNERSHIP.*—

1 “(i) *IN GENERAL.*—*Except as provided*
2 *in clause (ii), the disposition of a tax-*
3 *payer’s interest in a qualified child care fa-*
4 *ility with respect to which the credit de-*
5 *scribed in subsection (a) was allowable.*

6 “(ii) *AGREEMENT TO ASSUME RECAP-*
7 *TURE LIABILITY.*—*Clause (i) shall not*
8 *apply if the person acquiring such interest*
9 *in the facility agrees in writing to assume*
10 *the recapture liability of the person dispos-*
11 *ing of such interest in effect immediately be-*
12 *fore such disposition. In the event of such*
13 *an assumption, the person acquiring the in-*
14 *terest in the facility shall be treated as the*
15 *taxpayer for purposes of assessing any re-*
16 *capture liability (computed as if there had*
17 *been no change in ownership).*

18 “(4) *SPECIAL RULES.*—

19 “(A) *TAX BENEFIT RULE.*—*The tax for the*
20 *taxable year shall be increased under paragraph*
21 *(1) only with respect to credits allowed by reason*
22 *of this section which were used to reduce tax li-*
23 *ability. In the case of credits not so used to re-*
24 *duce tax liability, the carryforwards and*

1 *carrybacks under section 39 shall be appro-*
2 *priately adjusted.*

3 “(B) *NO CREDITS AGAINST TAX.*—*Any in-*
4 *crease in tax under this subsection shall not be*
5 *treated as a tax imposed by this chapter for pur-*
6 *poses of determining the amount of any credit*
7 *under subpart A, B, or D of this part.*

8 “(C) *NO RECAPTURE BY REASON OF CAS-*
9 *UALTY LOSS.*—*The increase in tax under this*
10 *subsection shall not apply to a cessation of oper-*
11 *ation of the facility as a qualified child care fa-*
12 *cility by reason of a casualty loss to the extent*
13 *such loss is restored by reconstruction or replace-*
14 *ment within a reasonable period established by*
15 *the Secretary.*

16 “(e) *SPECIAL RULES.*—*For purposes of this section—*

17 “(1) *AGGREGATION RULES.*—*All persons which*
18 *are treated as a single employer under subsections (a)*
19 *and (b) of section 52 shall be treated as a single tax-*
20 *payer.*

21 “(2) *PASS-THRU IN THE CASE OF ESTATES AND*
22 *TRUSTS.*—*Under regulations prescribed by the Sec-*
23 *retary, rules similar to the rules of subsection (d) of*
24 *section 52 shall apply.*

1 “(3) *ALLOCATION IN THE CASE OF PARTNER-*
2 *SHIPS.—In the case of partnerships, the credit shall*
3 *be allocated among partners under regulations pre-*
4 *scribed by the Secretary.*

5 “(f) *NO DOUBLE BENEFIT.—*

6 “(1) *REDUCTION IN BASIS.—For purposes of this*
7 *subtitle—*

8 “(A) *IN GENERAL.—If a credit is deter-*
9 *mined under this section with respect to any*
10 *property by reason of expenditures described in*
11 *subsection (c)(1)(A), the basis of such property*
12 *shall be reduced by the amount of the credit so*
13 *determined.*

14 “(B) *CERTAIN DISPOSITIONS.—If during*
15 *any taxable year there is a recapture amount de-*
16 *termined with respect to any property the basis*
17 *of which was reduced under subparagraph (A),*
18 *the basis of such property (immediately before*
19 *the event resulting in such recapture) shall be in-*
20 *creased by an amount equal to such recapture*
21 *amount. For purposes of the preceding sentence,*
22 *the term ‘recapture amount’ means any increase*
23 *in tax (or adjustment in carrybacks or*
24 *carryovers) determined under subsection (d).*

1 “(2) *OTHER DEDUCTIONS AND CREDITS.*—No de-
2 *duction or credit shall be allowed under any other*
3 *provision of this chapter with respect to the amount*
4 *of the credit determined under this section.*

5 “(g) *TERMINATION.*—*This section shall not apply to*
6 *taxable years beginning after December 31, 1999.*”.

7 (b) *CONFORMING AMENDMENTS.*—

8 (1) *Section 38(b) is amended—*

9 (A) *by striking out “plus” at the end of*
10 *paragraph (11),*

11 (B) *by striking out the period at the end of*
12 *paragraph (12), and inserting a comma and*
13 *“plus”, and*

14 (C) *by adding at the end the following new*
15 *paragraph:*

16 “(13) *the employer-provided child care credit de-*
17 *termined under section 45D.*”.

18 (2) *The table of sections for subpart D of part*
19 *IV of subchapter A of chapter 1 is amended by adding*
20 *at the end the following new item:*

 “*Sec. 45D. Employer-provided child care credit.*”.

21 (c) *EFFECTIVE DATE.*—*The amendments made by this*
22 *section shall apply to taxable years beginning after*
23 *December 31, 1997.*

1 **SEC. 104. EXPANSION OF COORDINATED ENFORCEMENT EF-**
2 **FORTS OF INTERNAL REVENUE SERVICE AND**
3 **HHS OFFICE OF CHILD SUPPORT ENFORCE-**
4 **MENT.**

5 (a) *STATE REPORTING OF CUSTODIAL DATA.*—Section
6 454A(e)(4)(D) of the Social Security Act (42 U.S.C.
7 654(e)(4)(D)) is amended by striking “the birth date of any
8 child” and inserting “the birth date and custodial status
9 of any child”.

10 (b) *MATCHING PROGRAM BY IRS OF CUSTODIAL DATA*
11 *AND TAX STATUS INFORMATION.*—

12 (1) *NATIONAL DIRECTORY OF NEW HIRES.*—Sec-
13 tion 453(i)(3) of the Social Security Act (42 U.S.C.
14 653(i)(3)) is amended by striking “a claim with re-
15 spect to employment in a tax return” and inserting
16 “information which is required on a tax return”.

17 (2) *FEDERAL CASE REGISTRY OF CHILD SUP-*
18 *PORT ORDERS.*—Section 453(h) of the such Act (42
19 U.S.C. 653(h)) is amended by adding at the end the
20 following:

21 “(3) *ADMINISTRATION OF FEDERAL TAX LAWS.*—
22 *The Secretary of the Treasury shall have access to the*
23 *information described in paragraph (2), consisting of*
24 *the names and social security numbers of the custo-*
25 *dial parents linked with the children in the custody*
26 *of such parents, for the purpose of administering*

1 *those sections of the Internal Revenue Code of 1986*
2 *which grant tax benefits based on support and resi-*
3 *dence provided dependent children.”.*

4 *(c) EFFECTIVE DATE.—The amendments made by this*
5 *section shall take effect on October 1, 1997.*

6 **SEC. 105. ADOPTION EXPENSES.**

7 *(a) DISTRIBUTIONS FROM CERTAIN PLANS MAY BE*
8 *USED WITHOUT PENALTY TO PAY ADOPTION EXPENSES.—*

9 *(1) IN GENERAL.—Section 72(t)(2) (relating to*
10 *exceptions to 10-percent additional tax on early dis-*
11 *tributions from qualified retirement plans) is amend-*
12 *ed by adding at the end the following:*

13 *“(E) DISTRIBUTIONS FROM CERTAIN PLANS*
14 *FOR ADOPTION EXPENSES.—Distributions to an*
15 *individual from an individual retirement plan*
16 *of so much of the qualified adoption expenses (as*
17 *defined in section 23(d)(1)) of the individual as*
18 *does not exceed \$2,000.”.*

19 *(2) CONFORMING AMENDMENT.—Section*
20 *72(t)(2)(B) is amended by striking “or (D)” and in-*
21 *serting “, (D) or (E)”.*

22 *(3) EFFECTIVE DATE.—The amendments made*
23 *by this subsection shall apply to payments and dis-*
24 *tributions after December 31, 1996.*

1 **TITLE II—EDUCATION**
2 **INCENTIVES**
3 **Subtitle A—Tax Benefits Relating**
4 **to Education Expenses**

5 **SEC. 201. HOPE CREDIT FOR HIGHER EDUCATION TUITION**
6 **AND RELATED EXPENSES.**

7 (a) *IN GENERAL.*—Subpart A of part IV of subchapter
8 A of chapter 1 (relating to nonrefundable personal credits)
9 is amended by inserting after section 25 the following new
10 section:

11 **“SEC. 25A. HIGHER EDUCATION TUITION AND RELATED EX-**
12 **PENSES.**

13 “(a) *ALLOWANCE OF CREDIT.*—

14 “(1) *IN GENERAL.*—In the case of an individual,
15 there shall be allowed as a credit against the tax im-
16 posed by this chapter for the taxable year the amount
17 equal to 50 percent of qualified tuition and related
18 expenses paid by the taxpayer during such taxable
19 year for education furnished during any academic pe-
20 riod beginning in such year.

21 “(2) *SPECIAL RULE FOR EDUCATION AT COMMU-*
22 *NITY COLLEGES AND VOCATIONAL SCHOOLS.*—In the
23 case of qualified tuition and related expenses for edu-
24 cation furnished at a community college or vocational

1 school, paragraph (1) shall be applied by substituting
2 ‘75 percent’ for ‘50 percent’.

3 “(b) *LIMITATIONS.*—

4 “(1) *DOLLAR LIMITATION.*—The amount allowed
5 as a credit under subsection (a) for any taxable year
6 with respect to the qualified tuition and related ex-
7 penses of any 1 individual shall not exceed \$1,500.

8 “(2) *ELECTION REQUIRED.*—

9 “(A) *IN GENERAL.*—No credit shall be al-
10 lowed under subsection (a) for a taxable year
11 with respect to the qualified tuition and related
12 expenses of an individual unless the taxpayer
13 elects to have this section apply with respect to
14 such individual for such year.

15 “(B) *CREDIT ALLOWED ONLY FOR 2 TAX-*
16 *ABLE YEARS.*—An election under this paragraph
17 shall not take effect with respect to an individual
18 for any taxable year if an election under this
19 paragraph (by the taxpayer or any other indi-
20 vidual) is in effect with respect to such individ-
21 ual for any 2 prior taxable years.

22 “(C) *COORDINATION WITH EXCLUSIONS.*—
23 An election under this paragraph shall not take
24 effect with respect to an individual for any tax-
25 able year if there is in effect for such taxable

1 year an election under section 529(c)(3)(B) or
2 530(c)(1) (by the taxpayer or any other individ-
3 ual) to exclude from gross income distributions
4 from a qualified tuition program or education
5 individual retirement account used to pay quali-
6 fied higher education expenses of the individual.

7 “(3) CREDIT ALLOWED FOR YEAR ONLY IF INDI-
8 VIDUAL IS AT LEAST $\frac{1}{2}$ TIME STUDENT FOR PORTION
9 OF YEAR.—No credit shall be allowed under sub-
10 section (a) for a taxable year with respect to the
11 qualified tuition and related expenses of an individ-
12 ual unless such individual is an eligible student for
13 at least one academic period which begins during
14 such year.

15 “(4) CREDIT ALLOWED ONLY FOR FIRST TWO
16 YEARS OF POSTSECONDARY EDUCATION.—No credit
17 shall be allowed under subsection (a) for a taxable
18 year with respect to the qualified tuition and related
19 expenses of an individual if the individual has com-
20 pleted (before the beginning of such taxable year) the
21 first 2 years of postsecondary education at an eligible
22 educational institution.

23 “(c) LIMITATION BASED ON MODIFIED ADJUSTED
24 GROSS INCOME.—

1 “(1) *IN GENERAL.*—*The amount which would*
2 *(but for this subsection) be taken into account under*
3 *subsection (a) for the taxable year shall be reduced*
4 *(but not below zero) by the amount determined under*
5 *paragraph (2).*

6 “(2) *AMOUNT OF REDUCTION.*—*The amount de-*
7 *termined under this paragraph is the amount which*
8 *bears the same ratio to the amount which would be*
9 *so taken into account as—*

10 “(A) *the excess of—*

11 “(i) *the taxpayer’s modified adjusted*
12 *gross income for such taxable year, over*

13 “(ii) *\$40,000 (\$80,000 in the case of a*
14 *joint return), bears to*

15 “(B) *\$10,000 (\$20,000 in the case of a joint*
16 *return).*

17 “(3) *MODIFIED ADJUSTED GROSS INCOME.*—*The*
18 *term ‘modified adjusted gross income’ means the ad-*
19 *justed gross income of the taxpayer for the taxable*
20 *year increased by any amount excluded from gross*
21 *income under section 911, 931, or 933.*

22 “(d) *DEFINITIONS.*—*For purposes of this section—*

23 “(1) *QUALIFIED TUITION AND RELATED EX-*
24 *PENSES.*—

1 “(A) *IN GENERAL.*—The term ‘qualified tuition and related expenses’ means tuition and fees
2 required for the enrollment or attendance of—
3

4 “(i) the taxpayer,

5 “(ii) the taxpayer’s spouse, or

6 “(iii) any dependent of the taxpayer
7 with respect to whom the taxpayer is allowed a deduction under section 151,
8

9 at an eligible educational institution and books required for courses of instruction of such individual at such institution.
10
11

12 “(B) *EXCEPTION FOR EDUCATION INVOLVING SPORTS, ETC.*—Such term does not include
13 expenses with respect to any course or other education involving sports, games, or hobbies, unless
14 such course or other education is part of the individual’s degree program.
15
16
17

18 “(C) *EXCEPTION FOR NONACADEMIC FEES.*—Such term does not include student activity fees, athletic fees, insurance expenses, or
19 other expenses unrelated to an individual’s academic course of instruction.
20
21
22

23 “(2) *ELIGIBLE EDUCATIONAL INSTITUTION.*—The
24 term ‘eligible educational institution’ means an institution—
25

1 “(A) which is described in section 481 of the
2 *Higher Education Act of 1965 (20 U.S.C. 1088)*,
3 *as in effect on the date of the enactment of this*
4 *section, and*

5 “(B) which is eligible to participate in a
6 *program under title IV of such Act.*

7 “(3) *ELIGIBLE STUDENT.*—*The term ‘eligible*
8 *student’ means, with respect to any academic period,*
9 *a student who—*

10 “(A) *meets the requirements of section*
11 *484(a)(1) of the Higher Education Act of 1965*
12 *(20 U.S.C. 1091(a)(1)), as in effect on the date*
13 *of the enactment of this section, and*

14 “(B) *is carrying at least 1/2 the normal full-*
15 *time work load for the course of study the stu-*
16 *dent is pursuing.*

17 “(4) *COMMUNITY COLLEGE.*—*The term ‘commu-*
18 *nity college’ means any institution of higher edu-*
19 *cation (as defined in section 1201 of the Higher Edu-*
20 *cation Act of 1965 (20 U.S.C. 1141)) that awards an*
21 *associate’s degree.*

22 “(5) *VOCATIONAL SCHOOL.*—*The term ‘voca-*
23 *tional school’ means a postsecondary vocational insti-*
24 *tution (as defined in section 481 of such Act (20*
25 *U.S.C. 1088)).*

1 “(e) *TREATMENT OF EXPENSES PAID BY DEPEND-*
2 *ENT.—If a deduction under section 151 with respect to an*
3 *individual is allowed to another taxpayer for a taxable year*
4 *beginning in the calendar year in which such individual’s*
5 *taxable year begins—*

6 “(1) *no credit shall be allowed under subsection*
7 *(a) to such individual for such individual’s taxable*
8 *year, and*

9 “(2) *qualified tuition and related expenses paid*
10 *by such individual during such individual’s taxable*
11 *year shall be treated for purposes of this section as*
12 *paid by such other taxpayer.*

13 “(f) *TREATMENT OF CERTAIN PREPAYMENTS.—If*
14 *qualified tuition and related expenses are paid by the tax-*
15 *payer during a taxable year for an academic period which*
16 *begins during the first 3 months following such taxable*
17 *year, such academic period shall be treated for purposes of*
18 *this section as beginning during such taxable year.*

19 “(g) *SPECIAL RULES.—*

20 “(1) *IDENTIFICATION REQUIREMENT.—No credit*
21 *shall be allowed under subsection (a) to a taxpayer*
22 *with respect to the qualified tuition and related ex-*
23 *penditures of an individual unless the taxpayer includes*
24 *the name and taxpayer identification number of such*
25 *individual on the return of tax for the taxable year.*

1 “(2) *ADJUSTMENT FOR CERTAIN SCHOLARSHIPS,*
2 *ETC.—The amount of qualified tuition and related ex-*
3 *penditures otherwise taken into account under subsection*
4 *(a) with respect to an individual for an academic pe-*
5 *riod shall be reduced (before the application of sub-*
6 *sections (b) and (c)) by the sum of any amounts paid*
7 *for the benefit of such individual which are allocable*
8 *to such period as—*

9 “(A) *a qualified scholarship which is ex-*
10 *cludable from gross income under section 117,*

11 “(B) *an educational assistance allowance*
12 *under chapter 30, 31, 32, 34, or 35 of title 38,*
13 *United States Code, or under chapter 1606 of*
14 *title 10, United States Code, and*

15 “(C) *a payment (other than a gift, bequest,*
16 *devise, or inheritance within the meaning of sec-*
17 *tion 102(a)) for such individual’s educational ex-*
18 *penditures, or attributable to such individual’s en-*
19 *rollment at an eligible educational institution,*
20 *which is excludable from gross income under any*
21 *law of the United States.*

22 “(3) *DENIAL OF CREDIT IF STUDENT CONVICTED*
23 *OF A FELONY DRUG OFFENSE.—No credit shall be al-*
24 *lowed under subsection (a) for qualified tuition and*
25 *related expenses for the enrollment or attendance of a*

1 *student for any academic period if such student has*
2 *been convicted of a Federal or State felony offense*
3 *consisting of the possession or distribution of a con-*
4 *trolled substance before the end of the taxable year*
5 *with or within which such period ends.*

6 *“(4) DENIAL OF CREDIT WHERE NO HIGH*
7 *SCHOOL DEGREE.—No credit shall be allowed under*
8 *subsection (a) for qualified tuition and related ex-*
9 *penses for the enrollment or attendance of a student*
10 *for any academic period if such student has not re-*
11 *ceived a high school degree (or its equivalent) before*
12 *the beginning of such period. This paragraph shall*
13 *not apply to a student if the student did not receive*
14 *such degree by reason of enrollment in an early ad-*
15 *mission program to an eligible educational institu-*
16 *tion.*

17 *“(5) DENIAL OF DOUBLE BENEFIT.—No credit*
18 *shall be allowed under this section for any expense for*
19 *which a deduction is allowed under any other provi-*
20 *sion of this chapter.*

21 *“(6) NO CREDIT FOR MARRIED INDIVIDUALS FIL-*
22 *ING SEPARATE RETURNS.—If the taxpayer is a mar-*
23 *ried individual (within the meaning of section 7703),*
24 *this section shall apply only if the taxpayer and the*

1 taxpayer's spouse file a joint return for the taxable
2 year.

3 “(7) *NONRESIDENT ALIENS.*—If the taxpayer is
4 a nonresident alien individual for any portion of the
5 taxable year, this section shall apply only if such in-
6 dividual is treated as a resident alien of the United
7 States for purposes of this chapter by reason of an
8 election under subsection (g) or (h) of section 6013.

9 “(h) *INFLATION ADJUSTMENTS.*—

10 “(1) *DOLLAR LIMITATION ON AMOUNT OF CRED-*
11 *IT.*—

12 “(A) *IN GENERAL.*—In the case of a taxable
13 year beginning after 1998, the \$1,500 amount in
14 subsection (b)(1) shall be increased by an
15 amount equal to—

16 “(i) such dollar amount, multiplied by

17 “(ii) the cost-of-living adjustment de-
18 termined under section 1(f)(3) for the cal-
19 endar year in which the taxable year be-
20 gins, determined by substituting ‘calendar
21 year 1997’ for ‘calendar year 1992’ in sub-
22 paragraph (B) thereof.

23 “(B) *ROUNDING.*—If any amount as ad-
24 justed under subparagraph (A) is not a multiple

1 of \$50, such amount shall be rounded to the next
2 lowest multiple of \$50.

3 “(2) *INCOME LIMITS.*—

4 “(A) *IN GENERAL.*—In the case of a taxable
5 year beginning after 2000, the \$40,000 and
6 \$80,000 amounts in subsection (c)(2) shall each
7 be increased by an amount equal to—

8 “(i) such dollar amount, multiplied by

9 “(ii) the cost-of-living adjustment de-
10 termined under section 1(f)(3) for the cal-
11 endar year in which the taxable year be-
12 gins, determined by substituting ‘calendar
13 year 1999’ for ‘calendar year 1992’ in sub-
14 paragraph (B) thereof.

15 “(B) *ROUNDING.*—If any amount as ad-
16 justed under subparagraph (A) is not a multiple
17 of \$5,000, such amount shall be rounded to the
18 next lowest multiple of \$5,000.

19 “(i) *REGULATIONS.*—The Secretary may prescribe
20 such regulations as may be necessary or appropriate to
21 carry out this section, including regulations providing for
22 a recapture of credit allowed under this section in cases
23 where there is a refund in a subsequent taxable year of any
24 amount which was taken into account in determining the
25 amount of such credit.”.

1 (b) *EXTENSION OF PROCEDURES APPLICABLE TO*
2 *MATHEMATICAL OR CLERICAL ERRORS.*—Paragraph (2) of
3 section 6213(g) (relating to the definition of mathematical
4 or clerical errors) is amended by striking “and” at the end
5 of subparagraph (G), by striking the period at the end of
6 subparagraph (H) and inserting “, and”, and by inserting
7 after subparagraph (H) the following new subparagraph:

8 “(I) an omission of a correct TIN required
9 under section 25A(g)(1) (relating to higher edu-
10 cation tuition and related expenses) to be in-
11 cluded on a return.”.

12 (c) *RETURNS RELATING TO TUITION AND RELATED*
13 *EXPENSES.*—

14 (1) *IN GENERAL.*—Subpart B of part III of sub-
15 chapter A of chapter 61 (relating to information con-
16 cerning transactions with other persons) is amended
17 by inserting after section 6050R the following new
18 section:

19 **“SEC. 6050S. RETURNS RELATING TO HIGHER EDUCATION**
20 **TUITION AND RELATED EXPENSES.**

21 “(a) *IN GENERAL.*—Any person—

22 “(1) which is an eligible educational institution
23 which receives payments for qualified tuition and re-
24 lated expenses with respect to any individual for any
25 calendar year, or

1 “(2) which is engaged in a trade or business and
2 which, in the course of such trade or business, makes
3 payments during any calendar year to any individ-
4 ual which constitute reimbursements or refunds (or
5 similar amounts) of qualified tuition and related ex-
6 penses of such individual,
7 shall make the return described in subsection (b) with re-
8 spect to the individual at such time as the Secretary may
9 by regulations prescribe.

10 “(b) *FORM AND MANNER OF RETURNS.*—A return is
11 described in this subsection if such return—

12 “(1) is in such form as the Secretary may pre-
13 scribe,

14 “(2) contains—

15 “(A) the name, address, and TIN of the in-
16 dividual with respect to whom payments de-
17 scribed in subsection (a) were received from (or
18 were paid to),

19 “(B) the name, address, and TIN of any in-
20 dividual certified by the individual described in
21 subparagraph (A) as the taxpayer who will
22 claim the individual as a dependent for purposes
23 of the deduction allowable under section 151 for
24 any taxable year ending with or within the cal-
25 endar year, and

1 “(C) *the—*

2 “(i) *aggregate amount of payments for*
3 *qualified tuition and related expenses re-*
4 *ceived with respect to the individual de-*
5 *scribed in subparagraph (A) during the cal-*
6 *endar year, and*

7 “(ii) *aggregate amount of reimburse-*
8 *ments or refunds (or similar amounts) paid*
9 *to such individual during the calendar*
10 *year, and*

11 “(D) *such other information as the Sec-*
12 *retary may prescribe.*

13 “(c) *APPLICATION TO GOVERNMENTAL UNITS.—For*
14 *purposes of this section—*

15 “(1) *a governmental unit or any agency or in-*
16 *strumentality thereof shall be treated as a person, and*

17 “(2) *any return required under subsection (a) by*
18 *such governmental entity shall be made by the officer*
19 *or employee appropriately designated for the purpose*
20 *of making such return.*

21 “(d) *STATEMENTS TO BE FURNISHED TO INDIVID-*
22 *UALS WITH RESPECT TO WHOM INFORMATION IS RE-*
23 *QUIRED.—Every person required to make a return under*
24 *subsection (a) shall furnish to each individual whose name*
25 *is required to be set forth in such return under subpara-*

1 *graph (A) or (B) of subsection (b)(2) a written statement*
2 *showing—*

3 “(1) *the name, address, and phone number of the*
4 *information contact of the person required to make*
5 *such return, and*

6 “(2) *the aggregate amounts described in subpara-*
7 *graph (C) of subsection (b)(2).*

8 *The written statement required under the preceding sen-*
9 *tence shall be furnished on or before January 31 of the year*
10 *following the calendar year for which the return under sub-*
11 *section (a) was required to be made.*

12 “(e) *DEFINITIONS.—For purposes of this section, the*
13 *terms ‘eligible educational institution’ and ‘qualified tui-*
14 *tion and related expenses’ have the meanings given such*
15 *terms by section 25A.*

16 “(f) *RETURNS WHICH WOULD BE REQUIRED TO BE*
17 *MADE BY 2 OR MORE PERSONS.—Except to the extent pro-*
18 *vided in regulations prescribed by the Secretary, in the case*
19 *of any amount received by any person on behalf of another*
20 *person, only the person first receiving such amount shall*
21 *be required to make the return under subsection (a).*

22 “(g) *REGULATIONS.—The Secretary shall prescribe*
23 *such regulations as may be necessary to carry out the provi-*
24 *sions of this section. No penalties shall be imposed under*
25 *section 6724 with respect to any return or statement re-*

1 *quired under this section until such time as such regula-*
 2 *tions are issued.”.*

3 (2) *ASSESSABLE PENALTIES.*—

4 (A) *Subparagraph (B) of section 6724(d)(1)*
 5 *(relating to definitions) is amended by redesign-*
 6 *ating clauses (ix) through (xiv) as clauses (x)*
 7 *through (xv), respectively, and by inserting after*
 8 *clause (viii) the following new clause:*

9 “*(ix) section 6050S (relating to returns*
 10 *relating to payments for qualified tuition*
 11 *and related expenses),”.*

12 (B) *Paragraph (2) of section 6724(d) is*
 13 *amended by striking “or” at the end of the next*
 14 *to last subparagraph, by striking the period at*
 15 *the end of the last subparagraph and inserting*
 16 *“, or”, and by adding at the end the following*
 17 *new subparagraph:*

18 “*(Z) section 6050S(d) (relating to returns*
 19 *relating to qualified tuition and related ex-*
 20 *penses).”.*

21 (3) *CLERICAL AMENDMENT.*—*The table of sec-*
 22 *tions for subpart B of part III of subchapter A of*
 23 *chapter 61 is amended by inserting after the item re-*
 24 *lating to section 6050R the following new item:*

“*Sec. 6050S. Returns relating to higher education tuition and re-*
lated expenses.”.

1 (d) *COORDINATION WITH SECTION 135.*—Subsection
2 (d) of section 135 is amended by redesignating paragraphs
3 (2) and (3) as paragraphs (3) and (4), respectively, and
4 by inserting after paragraph (1) the following new para-
5 graph:

6 “(2) *COORDINATION WITH HIGHER EDUCATION*
7 *CREDIT.*—The amount of the qualified higher edu-
8 cation expenses otherwise taken into account under
9 subsection (a) with respect to the education of an in-
10 dividual shall be reduced (before the application of
11 subsection (b)) by the amount of such expenses which
12 are taken into account in determining the credit al-
13 lowable to the taxpayer or any other person under
14 section 25A with respect to such expenses.”.

15 (e) *CLERICAL AMENDMENT.*—The table of sections for
16 subpart A of part IV of subchapter A of chapter 1 is amend-
17 ed by inserting after the item relating to section 25 the fol-
18 lowing new item:

 “Sec. 25A. *Higher education tuition and related expenses.*”.

19 (f) *EFFECTIVE DATE.*—The amendments made by this
20 section shall apply to expenses paid after December 31,
21 1997 (in taxable years ending after such date), for edu-
22 cation furnished in academic periods beginning after such
23 date.

1 **SEC. 202. DEDUCTION FOR INTEREST ON EDUCATION**
2 **LOANS.**

3 (a) *IN GENERAL.*—Part VII of subchapter B of chapter
4 1 (relating to additional itemized deductions for individ-
5 uals) is amended by redesignating section 221 as section
6 222 and by inserting after section 220 the following new
7 section:

8 **“SEC. 221. INTEREST ON EDUCATION LOANS.**

9 “(a) *ALLOWANCE OF DEDUCTION.*—In the case of an
10 individual, there shall be allowed as a deduction for the tax-
11 able year an amount equal to the interest paid by the tax-
12 payer during the taxable year on any qualified education
13 loan.

14 “(b) *MAXIMUM DEDUCTION.*—

15 “(1) *IN GENERAL.*—Except as provided in para-
16 graph (2), the deduction allowed by subsection (a) for
17 the taxable year shall not exceed \$2,500.

18 “(2) *LIMITATION BASED ON MODIFIED ADJUSTED*
19 *GROSS INCOME.*—

20 “(A) *IN GENERAL.*—The amount which
21 would (but for this paragraph) be allowable as a
22 deduction under this section shall be reduced
23 (but not below zero) by the amount determined
24 under paragraph (2).

25 “(B) *AMOUNT OF REDUCTION.*—The amount
26 determined under this paragraph is the amount

1 *which bears the same ratio to the amount which*
2 *would be so taken into account as—*

3 “(i) *the excess of—*

4 “(I) *the taxpayer’s modified ad-*
5 *justed gross income for such taxable*
6 *year, over*

7 “(II) *\$40,000 (\$80,000 in the case*
8 *of a joint return), bears to*

9 “(ii) *\$10,000 (\$20,000 in the case of a*
10 *joint return).*

11 “(C) *MODIFIED ADJUSTED GROSS IN-*
12 *COME.—The term ‘modified adjusted gross in-*
13 *come’ means adjusted gross income determined—*

14 “(i) *without regard to this section and*
15 *sections 135, 911, 931, and 933, and*

16 “(ii) *after application of sections 86,*
17 *219, and 469.*

18 *For purposes of sections 86, 135, 219, and 469,*
19 *adjusted gross income shall be determined with-*
20 *out regard to the deduction allowed under this*
21 *section.*

22 “(c) *DEPENDENTS NOT ELIGIBLE FOR DEDUCTION.—*

23 *No deduction shall be allowed by this section to an individ-*
24 *ual for the taxable year if a deduction under section 151*
25 *with respect to such individual is allowed to another tax-*

1 payer for the taxable year beginning in the calendar year
2 in which such individual's taxable year begins.

3 “(d) *LIMIT ON PERIOD DEDUCTION ALLOWED.*—A de-
4 duction shall be allowed under this section only with respect
5 to interest paid on any qualified education loan during the
6 first 60 months (whether or not consecutive) in which inter-
7 est payments are required. For purposes of this paragraph,
8 any loan and all refinancings of such loan shall be treated
9 as 1 loan.

10 “(e) *DEFINITIONS.*—For purposes of this section—

11 “(1) *QUALIFIED EDUCATION LOAN.*—The term
12 ‘qualified education loan’ means any indebtedness in-
13 curred to pay qualified higher education expenses—

14 “(A) which are incurred on behalf of the
15 taxpayer, the taxpayer’s spouse, or any depend-
16 ent of the taxpayer as of the time the indebted-
17 ness was incurred,

18 “(B) which are paid or incurred within a
19 reasonable period of time before or after the in-
20 debtedness is incurred, and

21 “(C) which are attributable to education
22 furnished during a period during which the re-
23 cipient was an eligible student.

24 Such term includes indebtedness used to refinance in-
25 debtedness which qualifies as a qualified education

1 *loan. The term ‘qualified education loan’ shall not in-*
2 *clude any indebtedness owed to a person who is relat-*
3 *ed (within the meaning of section 267(b) or*
4 *707(b)(1)) to the taxpayer.*

5 *“(2) QUALIFIED HIGHER EDUCATION EX-*
6 *PENSES.—The term ‘qualified higher education ex-*
7 *penses’ means the cost of attendance (as defined in*
8 *section 472 of the Higher Education Act of 1965, 20*
9 *U.S.C. 1087ll, as in effect on the day before the date*
10 *of the enactment of this Act) at an eligible edu-*
11 *cational institution, reduced by the sum of—*

12 *“(A) the amount excluded from gross in-*
13 *come under section 135, 529, or 530 by reason*
14 *of such expenses, and*

15 *“(B) the amount of any scholarship, allow-*
16 *ance, or payment described in section 25A(g)(2).*

17 *For purposes of the preceding sentence, the term ‘eli-*
18 *gible educational institution’ has the same meaning*
19 *given such term by section 25A(d)(2), except that such*
20 *term shall also include an institution conducting an*
21 *internship or residency program leading to a degree*
22 *or certificate awarded by an institution of higher edu-*
23 *cation, a hospital, or a health care facility which of-*
24 *fers postgraduate training.*

1 “(3) *ELIGIBLE STUDENT.*—*The term ‘eligible*
2 *student’ has the meaning given such term by section*
3 *25A(d)(3).*

4 “(4) *DEPENDENT.*—*The term ‘dependent’ has the*
5 *meaning given such term by section 152.*

6 “(f) *SPECIAL RULES.*—

7 “(1) *DENIAL OF DOUBLE BENEFIT.*—*No deduc-*
8 *tion shall be allowed under this section for any*
9 *amount for which a deduction is allowable under any*
10 *other provision of this chapter.*

11 “(2) *MARRIED COUPLES MUST FILE JOINT RE-*
12 *TURN.*—*If the taxpayer is married at the close of the*
13 *taxable year, the deduction shall be allowed under*
14 *subsection (a) only if the taxpayer and the taxpayer’s*
15 *spouse file a joint return for the taxable year.*

16 “(3) *MARITAL STATUS.*—*Marital status shall be*
17 *determined in accordance with section 7703.*

18 “(g) *INFLATION ADJUSTMENTS.*—

19 “(1) *DOLLAR LIMITATION ON AMOUNT OF CRED-*
20 *IT.*—

21 “(A) *IN GENERAL.*—*In the case of a taxable*
22 *year beginning after 1998, the \$2,500 amount in*
23 *subsection (b)(1) shall be increased by an*
24 *amount equal to—*

25 “(i) *such dollar amount, multiplied by*

1 “(ii) the cost-of-living adjustment de-
2 termined under section 1(f)(3) for the cal-
3 endar year in which the taxable year be-
4 gins, determined by substituting ‘calendar
5 year 1997’ for ‘calendar year 1992’ in sub-
6 paragraph (B) thereof.

7 “(B) ROUNDING.—If any amount as ad-
8 justed under subparagraph (A) is not a multiple
9 of \$50, such amount shall be rounded to the next
10 lowest multiple of \$50.

11 “(2) INCOME LIMITS.—In the case of a taxable
12 year beginning in a calendar year after 2000, the
13 \$40,000 and \$80,000 amounts in subsection (b)(2)
14 shall each be increased by the amount the \$40,000
15 and \$80,000 amounts under section 25A(c)(2) are in-
16 creased for taxable years beginning in such calendar
17 year.”.

18 (b) DEDUCTION ALLOWED WHETHER OR NOT TAX-
19 PAYER ITEMIZES OTHER DEDUCTIONS.—Subsection (a) of
20 section 62 is amended by inserting after paragraph (16)
21 the following new paragraph:

22 “(17) INTEREST ON EDUCATION LOANS.—The de-
23 duction allowed by section 221.”.

24 (c) REPORTING REQUIREMENT.—

1 (1) *IN GENERAL.*—Section 6050S(a)(2) (relating
2 to returns relating to higher education tuition and re-
3 lated expenses) is amended to read as follows:

4 “(2) which is engaged in a trade or business and
5 which, in the course of such trade or business—

6 “(A) makes payments during any calendar
7 year to any individual which constitutes reim-
8 bursements or refunds (or similar amounts) of
9 qualified tuition and related expenses of such in-
10 dividual, or

11 “(B) except as provided in regulations, re-
12 ceives from any individual interest aggregating
13 \$600 or more for any calendar year on 1 or
14 more qualified education loans,”.

15 (2) *INFORMATION.*—Section 6050S(b)(2) is
16 amended—

17 (A) by inserting “or interest” after “pay-
18 ments” in subparagraph (A), and

19 (B) in subparagraph (C), by striking “and”
20 at the end of clause (i), by inserting “and” at
21 the end of clause (ii), and by inserting after
22 clause (ii) the following:

23 “(iii) aggregate amount of interest re-
24 ceived for the calendar year from such indi-
25 vidual,”.

1 (3) *DEFINITION.*—Section 6050S(e) is amended
2 by inserting “, and except as provided in regulations,
3 the term ‘qualified education loan’ has the meaning
4 given such term by section 221(e)(1)” after “section
5 25A”.

6 (d) *CLERICAL AMENDMENT.*—The table of sections for
7 part VII of subchapter B of chapter 1 is amended by strik-
8 ing the last item and inserting the following new items:

 “Sec. 221. Interest on education loans.

 “Sec. 222. Cross reference.”.

9 (e) *EFFECTIVE DATE.*—The amendments made by this
10 section shall apply to any qualified education loan (as de-
11 fined in section 221(e)(1) of the Internal Revenue Code of
12 1986, as added by this section) incurred on, before, or after
13 the date of the enactment of this Act, but only with respect
14 to—

15 (1) any loan interest payment due after Decem-
16 ber 31, 1996, and

17 (2) the portion of the 60-month period referred
18 to in section 221(d) of the Internal Revenue Code of
19 1986 (as added by this section) after December 31,
20 1996.

1 **SEC. 203. PENALTY-FREE WITHDRAWALS FROM INDIVIDUAL**
 2 **RETIREMENT PLANS FOR HIGHER EDU-**
 3 **CATION EXPENSES.**

4 (a) *IN GENERAL.*—Paragraph (2) of section 72(t) (re-
 5 lating to exceptions to 10-percent additional tax on early
 6 distributions from qualified retirement plans) is amended
 7 by adding at the end the following new subparagraph:

8 “(E) *DISTRIBUTIONS FROM INDIVIDUAL RE-*
 9 *TIREMENT PLANS FOR HIGHER EDUCATION EX-*
 10 *PENSES.*—Distributions to an individual from
 11 an individual retirement plan to the extent such
 12 distributions do not exceed the qualified higher
 13 education expenses (as defined in paragraph (7))
 14 of the taxpayer for the taxable year. Distribu-
 15 tions shall not be taken into account under the
 16 preceding sentence if such distributions are de-
 17 scribed in subparagraph (A), (C), or (D) or to
 18 the extent paragraph (1) does not apply to such
 19 distributions by reason of subparagraph (B).”.

20 (b) *DEFINITION.*—Section 72(t) is amended by adding
 21 at the end the following new paragraph:

22 “(7) *QUALIFIED HIGHER EDUCATION EX-*
 23 *PENSES.*—For purposes of paragraph (2)(E)—

24 “(A) *IN GENERAL.*—The term ‘qualified
 25 higher education expenses’ means qualified high-

1 *er education expenses (as defined in section*
2 *529(e)(3)) for education furnished to—*

3 *“(i) the taxpayer,*

4 *“(ii) the taxpayer’s spouse, or*

5 *“(iii) any child (as defined in section*
6 *151(c)(3)) or grandchild of the taxpayer or*
7 *the taxpayer’s spouse,*

8 *at an eligible educational institution (as defined*
9 *in section 529(e)(5)).*

10 *“(B) COORDINATION WITH OTHER BENE-*
11 *FITS.—The amount of qualified higher education*
12 *expenses for any taxable year shall be reduced as*
13 *provided in section 25A(g)(2).”.*

14 *(c) EFFECTIVE DATE.—The amendments made by this*
15 *section shall apply to distributions after December 31, 1997,*
16 *with respect to expenses paid after such date (in taxable*
17 *years ending after such date), for education furnished in*
18 *academic periods beginning after such date.*

1 ***Subtitle B—Expanded Education***
2 ***Investment Savings Opportunities***

3 ***PART I—QUALIFIED TUITION PROGRAMS***

4 ***SEC. 211. EXCLUSION FROM GROSS INCOME OF EDUCATION***
5 ***DISTRIBUTIONS FROM QUALIFIED TUITION***
6 ***PROGRAMS.***

7 *(a) IN GENERAL.—Subparagraph (B) of section*
8 *529(c)(3) (relating to distributions) is amended to read as*
9 *follows:*

10 ***“(B) DISTRIBUTIONS FOR QUALIFIED HIGH-***
11 ***ER EDUCATION EXPENSES.—If a distributee***
12 ***elects the application of this subparagraph for***
13 ***any taxable year—***

14 ***“(i) no amount shall be includible in***
15 ***gross income by reason of a distribution***
16 ***which consists of providing a benefit to the***
17 ***distributee which, if paid for by the dis-***
18 ***tributee, would constitute payment of a***
19 ***qualified higher education expense, and***

20 ***“(ii) the amount which (but for the***
21 ***election) would be includible in gross in-***
22 ***come by reason of any other distribution***
23 ***shall not be so includible in an amount***
24 ***which bears the same ratio to the amount***
25 ***which would be so includible as the amount***

1 of the qualified higher education expenses of
2 the distributee bears to the amount of the
3 distribution.”.

4 (b) *EFFECTIVE DATE.*—The amendments made by this
5 section shall apply to distributions after December 31, 1997,
6 for education furnished in academic periods beginning after
7 such date.

8 **SEC. 212. ELIGIBLE EDUCATIONAL INSTITUTIONS PER-**
9 **MITTED TO MAINTAIN QUALIFIED TUITION**
10 **PROGRAMS; OTHER MODIFICATIONS OF**
11 **QUALIFIED STATE TUITION PROGRAMS.**

12 (a) *ELIGIBLE EDUCATIONAL INSTITUTIONS PER-*
13 *MITTED TO MAINTAIN QUALIFIED TUITION PROGRAMS.*—
14 Paragraph (1) of section 529(b) (defining qualified State
15 tuition program) is amended by inserting “or by one or
16 more eligible educational institutions” after “maintained
17 by a State or agency or instrumentality thereof”.

18 (b) *QUALIFIED HIGHER EDUCATION EXPENSES TO IN-*
19 *CLUDE ROOM AND BOARD.*—Paragraph (3) of section
20 529(e) (defining qualified higher education expenses) is
21 amended to read as follows:

22 “(3) *QUALIFIED HIGHER EDUCATION EX-*
23 *PENSES.*—

24 “(A) *IN GENERAL.*—The term ‘qualified
25 higher education expenses’ means tuition, fees,

1 *books, supplies, and equipment required for the*
2 *enrollment or attendance of a designated bene-*
3 *ficiary at an eligible education institution.*

4 “(B) *ROOM AND BOARD INCLUDED FOR*
5 *STUDENTS WHO ARE AT LEAST HALF-TIME.—In*
6 *the case of an individual who is an eligible stu-*
7 *dent (as defined in section 25A(d)(3)) for any*
8 *academic period, such term shall also include*
9 *reasonable costs for such period (as determined*
10 *under the qualified tuition program) incurred by*
11 *the designated beneficiary for room and board*
12 *while attending such institution. The amount*
13 *treated as qualified higher education expenses by*
14 *reason of the preceding sentence shall not exceed*
15 *the minimum amount (applicable to the student)*
16 *included for room and board for such period in*
17 *the cost of attendance (as defined in section 472*
18 *of the Higher Education Act of 1965, 20 U.S.C.*
19 *1087ll, as in effect on the date of the enactment*
20 *of this paragraph) for the eligible educational in-*
21 *stitution for such period.”.*

22 *(c) ADDITIONAL MODIFICATIONS.—*

23 *(1) MEMBER OF FAMILY.—Paragraph (2) of sec-*
24 *tion 529(e) (relating to other definitions and special*
25 *rules) is amended to read as follows:*

1 “(2) *MEMBER OF FAMILY.*—*The term ‘member of*
2 *the family’ means—*

3 “(A) *an individual who bears a relationship*
4 *to another individual which is a relationship de-*
5 *scribed in paragraphs (1) through (8) of section*
6 *152(a), and*

7 “(B) *the spouse of any individual described*
8 *in subparagraph (A).”.*

9 “(2) *ELIGIBLE EDUCATIONAL INSTITUTION.*—*Sec-*
10 *tion 529(e) is amended by adding at the end the fol-*
11 *lowing:*

12 “(5) *ELIGIBLE EDUCATIONAL INSTITUTION.*—*The*
13 *term ‘eligible educational institution’ means an insti-*
14 *tution—*

15 “(A) *which is described in section 481 of the*
16 *Higher Education Act of 1965 (20 U.S.C. 1088),*
17 *as in effect on the date of the enactment of this*
18 *paragraph, and*

19 “(B) *which is eligible to participate in a*
20 *program under title IV of such Act.”.*

21 “(3) *NO CONTRIBUTIONS AFTER BENEFICIARY AT-*
22 *TAINS AGE 18; DISTRIBUTIONS REQUIRED IN CERTAIN*
23 *CASES.—*

1 (A) *IN GENERAL.*—Subsection (b) of section
2 529 is amended by adding at the end the follow-
3 ing new paragraph:

4 “(8) *RESTRICTIONS RELATING TO AGE OF BENE-*
5 *FICIARY; COMPLETION OF EDUCATION.*—

6 “(A) *IN GENERAL.*—A program shall be
7 treated as a qualified tuition program only if—

8 “(i) no contribution is accepted on be-
9 half of a designated beneficiary after the
10 date on which such beneficiary attains age
11 18, and

12 “(ii) any balance to the credit of a des-
13 ignated beneficiary (if any) on the account
14 termination date shall be distributed within
15 30 days after such date to such beneficiary
16 (or in the case of death, the estate of the
17 beneficiary).

18 “(B) *ACCOUNT TERMINATION DATE.*—For
19 purposes of subparagraph (A), the term ‘account
20 termination date’ means whichever of the follow-
21 ing dates is the earliest:

22 “(i) The date on which the designated
23 beneficiary attains age 30.

24 “(ii) The date on which the designated
25 beneficiary dies.”.

1 (B) *ROLLOVERS.*—Section 529(c)(3) is
2 amended by adding at the end the following:

3 “(E) *ROLLOVERS TO IRA PLUS ACCOUNTS*
4 *AT AGE 30.*—Subparagraph (A) shall not apply
5 to any distribution to the designated beneficiary
6 required under subsection (b)(8) by reason of the
7 beneficiary attaining age 30 to the extent the
8 beneficiary, within 60 days of the distribution,
9 transfers such distribution to an *IRA Plus ac-*
10 *count established on the individual’s behalf.*”.

11 (C) *CONFORMING AMENDMENTS.*—

12 (i) Section 408(a)(1) is amended by
13 striking “or 403(b)(8)” and inserting
14 “403(b)(8), or 529(c)(3)(E)”.

15 (ii) Subparagraph (A) of section
16 4973(b)(1) is amended by striking “or
17 408(b)(3)” and inserting “408(b)(3), or
18 529(c)(3)(E)”.

19 (4) *ESTATE AND GIFT TAX TREATMENT.*—

20 (A) *GIFT TAX TREATMENT.*—

21 (i) Paragraph (2) of section 529(c) is
22 amended to read as follows:

23 “(2) *GIFT TAX TREATMENT OF CONTRIBU-*
24 *TIONS.*—For purposes of chapters 12 and 13, any
25 contribution to a qualified tuition program on behalf

1 of any designated beneficiary shall not be treated as
2 a taxable gift.”.

3 (ii) Paragraph (5) of section 529(c) is
4 amended to read as follows:

5 “(5) *OTHER GIFT TAX RULES.*—For purposes of
6 chapters 12 and 13—

7 “(A) *TREATMENT OF DISTRIBUTIONS.*—In
8 no event shall a distribution from a qualified
9 tuition program be treated as a taxable gift.

10 “(B) *TREATMENT OF DESIGNATION OF NEW*
11 *BENEFICIARY.*—The taxes imposed by chapters
12 12 and 13 shall apply to a transfer by reason of
13 a change in the designated beneficiary under the
14 program (or a rollover to the account of a new
15 beneficiary) only if the new beneficiary is a gen-
16 eration below the generation of the old bene-
17 ficiary (determined in accordance with section
18 2651).”.

19 (B) *ESTATE TAX TREATMENT.*—Paragraph
20 (4) of section 529(c) is amended to read as fol-
21 lows:

22 “(4) *ESTATE TAX TREATMENT.*—

23 “(A) *IN GENERAL.*—No amount shall be in-
24 cludible in the gross estate of any individual for

1 *purposes of chapter 11 by reason of an interest*
2 *in a qualified tuition program.*

3 “(B) AMOUNTS INCLUDIBLE IN ESTATE OF
4 DESIGNATED BENEFICIARY IN CERTAIN CASES.—
5 Subparagraph (A) shall not apply to amounts
6 distributed on account of the death of a bene-
7 ficiary.”.

8 (5) LIMITATION ON CONTRIBUTIONS TO QUALI-
9 FIED TUITION PROGRAMS NOT MAINTAINED BY A
10 STATE.—Subsection (b) of section 529 is amended by
11 adding at the end the following new paragraph:

12 “(9) LIMITATION ON CONTRIBUTIONS TO QUALI-
13 FIED TUITION PROGRAMS NOT MAINTAINED BY A
14 STATE.—In the case of a program not maintained by
15 a State or agency or instrumentality thereof, such
16 program shall not be treated as a qualified tuition
17 program unless it limits the annual contribution to
18 the program on behalf of a designated beneficiary to
19 the sum of \$2,000 plus the amount of the credit allow-
20 able under section 25A for 1 qualifying child.”.

21 (d) ADDITIONAL TAX ON AMOUNTS NOT USED FOR
22 HIGHER EDUCATION EXPENSES.—Section 529 is amended
23 by adding at the end the following new subsection:

24 “(f) IMPOSITION OF ADDITIONAL TAX.—

1 “(1) *IN GENERAL.*—*In the case of a qualified*
2 *tuition program not maintained by a State or any*
3 *agency or instrumentality thereof, the tax imposed by*
4 *this chapter for any taxable year on any taxpayer*
5 *who receives a payment or distribution from such*
6 *program which is includible in gross income shall be*
7 *increased by 10 percent of the amount which is so in-*
8 *cludible.*

9 “(2) *EXCEPTIONS.*—*Paragraph (1) shall not*
10 *apply if the payment or distribution is—*

11 “(A) *made to a beneficiary (or to the estate*
12 *of the designated beneficiary) on or after the*
13 *death of the designated beneficiary,*

14 “(B) *attributable to the designated bene-*
15 *ficiary’s being disabled (within the meaning of*
16 *section 72(m)(7)), or*

17 “(C) *made on account of a scholarship, al-*
18 *lowance, or payment described in section*
19 *25A(g)(2) received by the account holder to the*
20 *extent the amount of the payment or distribution*
21 *does not exceed the amount of the scholarship, al-*
22 *lowance, or payment.*

23 “(3) *EXCESS CONTRIBUTIONS RETURNED BE-*
24 *FORE DUE DATE OF RETURN.*—*In the case of a quali-*
25 *fied tuition program not maintained by a State or*

1 *any agency or instrumentality thereof, paragraph (1)*
2 *shall not apply to the distribution to a contributor of*
3 *any contribution made during a taxable year on be-*
4 *half of a designated beneficiary to the extent that such*
5 *contribution exceeds the limitation in section 4973(e)*
6 *if—*

7 *“(A) such distribution is received on or be-*
8 *fore the day prescribed by law (including exten-*
9 *sions of time) for filing such contributor’s return*
10 *for such taxable year, and*

11 *“(B) such distribution is accompanied by*
12 *the amount of net income attributable to such ex-*
13 *cess contribution.*

14 *Any net income described in subparagraph (B) shall*
15 *be included in the gross income of the contributor for*
16 *the taxable year in which such excess contribution*
17 *was made.”.*

18 *(e) COORDINATION WITH EDUCATION SAVINGS*
19 *BOND.—Section 135(c)(2) (defining qualified higher edu-*
20 *cation expenses) is amended by adding at the end the fol-*
21 *lowing:*

22 *“(C) CONTRIBUTIONS TO QUALIFIED TUI-*
23 *TION PROGRAM.—Such term shall include any*
24 *contribution to a qualified tuition program (as*
25 *defined in section 529) on behalf of a designated*

1 *beneficiary (as defined in such section) who is*
2 *an individual described in subparagraph (A);*
3 *but there shall be no increase in the investment*
4 *in the contract for purposes of applying section*
5 *72 by reason of any portion of such contribution*
6 *which is not includible in gross income by reason*
7 *of this subparagraph.”.*

8 (f) *TAX ON EXCESS CONTRIBUTIONS.—*

9 (1) *IN GENERAL.—Subsection (a) of section 4973*
10 *is amended by striking “or” at the end of paragraph*
11 *(2) and by inserting after paragraph (3) the following*
12 *new paragraphs:*

13 “(4) *a qualified tuition program (as defined in*
14 *section 529) not maintained by a State or any agency*
15 *or instrumentality thereof, or*

16 “(5) *an education individual retirement account*
17 *(as defined in section 530),”.*

18 (2) *EXCESS CONTRIBUTIONS DEFINED.—Section*
19 *4973 is amended by adding at the end the following*
20 *new subsection:*

21 “(e) *EXCESS CONTRIBUTIONS TO PRIVATE QUALIFIED*
22 *TUITION PROGRAM AND EDUCATION INDIVIDUAL RETIRE-*
23 *MENT ACCOUNTS.—For purposes of this section—*

24 “(1) *IN GENERAL.—In the case of private edu-*
25 *cation investment accounts maintained for the benefit*

1 of any 1 beneficiary, the term ‘excess contributions’
2 means the amount by which the amount contributed
3 for the taxable year to such accounts exceeds the sum
4 of \$2,000 plus the amount of the credit allowed under
5 section 25A for such beneficiary for such taxable year.

6 “(2) *PRIVATE EDUCATION INVESTMENT AC-*
7 *COUNT.—For purposes of paragraph (1), the term*
8 *‘private education investment account’ means—*

9 “(A) *a qualified tuition program (as de-*
10 *defined in section 529) not maintained by a State*
11 *or any agency or instrumentality thereof, and*

12 “(B) *an education individual retirement ac-*
13 *count (as defined in section 530).*

14 “(3) *SPECIAL RULES.—For purposes of para-*
15 *graph (1), the following contributions shall not be*
16 *taken into account:*

17 “(A) *Any contribution which is distributed*
18 *out of the education individual retirement ac-*
19 *count in a distribution to which section*
20 *530(c)(3)(B) applies.*

21 “(B) *Any contribution to a qualified tuition*
22 *program (as so defined) described in section*
23 *530(b)(2)(B) from any such account.*

24 “(C) *Any rollover contribution.”.*

1 (g) *CLARIFICATION OF TAXATION OF DISTRIBUTIONS.*—Subparagraph (A) of section 529(c)(3) is amended
2 to read as follows:
3

4 “(A) *IN GENERAL.*—Any distribution from
5 a qualified tuition program—

6 “(i) shall be includible in the gross in-
7 come of the distributee to the extent alloca-
8 ble to income under the program, and

9 “(ii) shall not be includible in gross
10 income to the extent allocable to the invest-
11 ment in the contract.

12 For purposes of the preceding sentence, rules
13 similar to the rules of section 72(e)(3) shall
14 apply.”.

15 (h) *TECHNICAL AMENDMENTS.*—

16 (1) Paragraph (2) of section 26(b) is amended by
17 redesignating subparagraphs (E) through (P) as sub-
18 paragraphs (F) through (Q), respectively, and by in-
19 serting after subparagraph (D) the following new sub-
20 paragraph:

21 “(E) section 529(f) (relating to additional
22 tax on certain distributions from qualified tui-
23 tion programs),”.

1 *and furnished to such individuals at such time and in such*
2 *manner as may be required by those regulations.”.*

3 (B) *Paragraph (2) of section 6693(a) (relating to*
4 *failure to provide reports on individual retirement*
5 *accounts or annuities) is amended by striking “and”*
6 *at the end of subparagraph (A), by striking the period*
7 *at the end of subparagraph (B) and inserting “,*
8 *and”, and by adding at the end the following new*
9 *subparagraph:*

10 “(C) *Section 529(d) (relating to qualified*
11 *tuition programs).”.*

12 (C) *The section heading for section 6693 is*
13 *amended by striking “**INDIVIDUAL RETIREMENT**”*
14 *and inserting “**CERTAIN TAX-FAVORED**”.*

15 (D) *The item relating to section 6693 in the*
16 *table of sections for part I of subchapter B of chapter*
17 *68 is amended by striking “individual retirement”*
18 *and inserting “certain tax-favored”.*

19 (i) *EFFECTIVE DATES.—*

20 (1) *IN GENERAL.—Except as otherwise provided*
21 *in this subsection, the amendments made by this sec-*
22 *tion shall take effect on January 1, 1998.*

23 (2) *EXPENSES TO INCLUDE ROOM AND BOARD,*
24 *ETC.—The amendments made by subsection (b) and*
25 *(c)(2) shall apply to distributions after December 31,*

1 1997, with respect to expenses paid after such date
2 (in taxable years ending after such date), for edu-
3 cation furnished in academic periods beginning after
4 such date.

5 (3) *COORDINATION WITH EDUCATION SAVINGS*
6 *BONDS.*—The amendment made by subsection (e) shall
7 apply to taxable years beginning after December 31,
8 1997.

9 (4) *ESTATE AND GIFT TAX CHANGES.*—

10 (A) *GIFT TAX CHANGES.*—Paragraphs (2)
11 and (5) of section 529(c) of the Internal Revenue
12 Code of 1986, as amended by this section, shall
13 apply to transfers (including designations of new
14 beneficiaries) made after the date of the enact-
15 ment of this Act.

16 (B) *ESTATE TAX CHANGES.*—Paragraph (4)
17 of such section 529(c) shall apply to estates of de-
18 cedents dying after June 8, 1997.

19 (5) *REPORTING.*—The amendments made by sub-
20 section (g) shall apply after June 16, 1997.

1 **PART II—EDUCATION INDIVIDUAL RETIREMENT**

2 **ACCOUNTS**

3 **SEC. 213. EDUCATION INDIVIDUAL RETIREMENT AC-**
 4 **COUNTS.**

5 (a) *IN GENERAL.*—Part VIII of subchapter F of chap-
 6 ter 1 (relating to qualified State tuition programs) is
 7 amended by adding at the end the following new section:

8 **“SEC. 530. EDUCATION INDIVIDUAL RETIREMENT AC-**
 9 **COUNTS.**

10 “(a) *GENERAL RULE.*—An education individual re-
 11 tirement account shall be exempt from taxation under this
 12 subtitle. Notwithstanding the preceding sentence, the edu-
 13 cation individual retirement account shall be subject to the
 14 taxes imposed by section 511 (relating to imposition of tax
 15 on unrelated business income of charitable organizations).

16 “(b) *DEFINITIONS AND SPECIAL RULES.*—For pur-
 17 poses of this section—

18 “(1) *EDUCATION INDIVIDUAL RETIREMENT AC-*
 19 *COUNT.*—The term ‘education individual retirement
 20 account’ means a trust created or organized in the
 21 United States exclusively for the purpose of paying
 22 the qualified education expenses of the account holder,
 23 but only if the written governing instrument creating
 24 the trust meets the following requirements:

25 “(A) No contribution will be accepted—

26 “(i) unless it is in cash,

1 “(ii) after the date on which the ac-
2 count holder attains age 18, or

3 “(iii) except in the case of rollover con-
4 tributions, if such contribution would result
5 in aggregate contributions for the taxable
6 year exceeding the sum of—

7 “(I) \$2,000, plus

8 “(II) the amount of the credit al-
9 lowable under section 25A for the tax-
10 able year for 1 qualifying child.

11 “(B) The trustee is a bank (as defined in
12 section 408(n)) or another person who dem-
13 onstrates to the satisfaction of the Secretary that
14 the manner in which that person will administer
15 the trust will be consistent with the requirements
16 of this section.

17 “(C) No part of the trust assets will be in-
18 vested in life insurance contracts.

19 “(D) The assets of the trust shall not be
20 commingled with other property except in a com-
21 mon trust fund or common investment fund.

22 “(E) Upon the death of the account holder,
23 any balance in the account will be distributed as
24 required under section 529(b)(8) (as if such ac-
25 count were a qualified tuition program).

1 “(F) *The account becomes an IRA Plus as*
2 *of the date the account holder attains age 30*
3 *(and meets all requirements for an IRA Plus on*
4 *and after such date), unless the account holder*
5 *elects to have sections 529(b)(8) apply as of such*
6 *date (as if such account were a qualified tuition*
7 *program).*

8 “(2) *QUALIFIED EDUCATION EXPENSES.—*

9 “(A) *IN GENERAL.—The term ‘qualified*
10 *education expenses’ means—*

11 “(i) *qualified higher education ex-*
12 *penses (as defined in section 529(e)(3), and*

13 “(ii) *in the case of taxable years begin-*
14 *ning after December 31, 2000, qualified ele-*
15 *mentary and secondary education expenses*
16 *(as defined in paragraph (5)).*

17 “(B) *QUALIFIED TUITION PROGRAMS.—*

18 *Such term shall include amounts paid or in-*
19 *curring to purchase tuition credits or certificates,*
20 *or to make contributions to an account, under a*
21 *qualified tuition program (as defined in section*
22 *529(b)) for the benefit of the account holder.*

23 “(3) *ELIGIBLE EDUCATIONAL INSTITUTION.—The*
24 *term ‘eligible educational institution’ has the mean-*
25 *ing given such term by section 529(e)(5).*

1 “(4) *ACCOUNT HOLDER.*—The term ‘account
2 holder’ means the individual for whose benefit the
3 education individual retirement account is estab-
4 lished.

5 “(5) *QUALIFIED ELEMENTARY AND SECONDARY*
6 *EDUCATION EXPENSES.*—

7 “(A) *IN GENERAL.*—The term ‘qualified ele-
8 mentary and secondary education expenses’
9 means tuition, fees, tutoring, special needs serv-
10 ices, books, supplies, equipment, transportation,
11 and supplementary expenses required for the en-
12 rollment or attendance at a public, private, or
13 sectarian school of any dependent of the taxpayer
14 with respect to whom the taxpayer is allowed a
15 deduction under section 151.

16 “(B) *SPECIAL RULE FOR*
17 *HOMESCHOOLING.*—Such term shall include ex-
18 penses described in subparagraph (A) required
19 for education provided for homeschooling if the
20 requirements of any applicable State or local law
21 are met with respect to such education.

22 “(C) *SCHOOL.*—The term ‘school’ means
23 any school which provides elementary education
24 or secondary education (through grade 12), as
25 determined under State law.

1 “(c) *TAX TREATMENT OF DISTRIBUTIONS.*—

2 “(1) *IN GENERAL.*—Any amount paid or distrib-
3 uted shall be includible in gross income to the extent
4 required by section 529(c)(3) (determined as if such
5 account were a qualified tuition program and as if
6 qualified higher education expenses include qualified
7 education expenses).

8 “(2) *SPECIAL RULES FOR APPLYING ESTATE AND*
9 *GIFT TAXES WITH RESPECT TO ACCOUNT.*—Rules
10 similar to the rules of paragraphs (2), (4), and (5)
11 of section 529(c) shall apply for purposes of this sec-
12 tion.

13 “(3) *ADDITIONAL TAX FOR DISTRIBUTIONS NOT*
14 *USED FOR EDUCATIONAL EXPENSES.*—

15 “(A) *IN GENERAL.*—The tax imposed by sec-
16 tion 529(f) shall apply to payments and dis-
17 tributions from an education individual retire-
18 ment account in the same manner as such tax
19 applies to qualified tuition programs (as defined
20 in section 529), except that section 529(f) shall
21 be applied by reference to qualified education ex-
22 penses.

23 “(B) *EXCESS CONTRIBUTIONS RETURNED*
24 *BEFORE DUE DATE OF RETURN.*—Subparagraph
25 (A) shall not apply to the distribution to a con-

1 *tributor of any contribution paid during a tax-*
2 *able year to an education individual retirement*
3 *account to the extent that such contribution ex-*
4 *ceeds the limitation in section 4973(e) if such*
5 *distribution (and the net income with respect to*
6 *such excess contribution) meet requirements com-*
7 *parable to the requirements of section 529(f)(3).*

8 *“(4) ROLLOVER CONTRIBUTIONS.—Paragraph*
9 *(1) shall not apply to any amount paid or distributed*
10 *from an education individual retirement account to*
11 *the extent that the amount received is paid into an-*
12 *other education individual retirement account for the*
13 *benefit of the account holder or a member of the fam-*
14 *ily (within the meaning of section 529(e)(2)) of the*
15 *account holder not later than the 60th day after the*
16 *date of such payment or distribution. The preceding*
17 *sentence shall not apply to any payment or distribu-*
18 *tion if it applied to any prior payment or distribu-*
19 *tion during the 12-month period ending on the date*
20 *of the payment or distribution.*

21 *“(5) CHANGE IN ACCOUNT HOLDER.—Any*
22 *change in the account holder of an education individ-*
23 *ual retirement account shall not be treated as a dis-*
24 *tribution for purposes of paragraph (1) if the new ac-*

1 *count holder is a member of the family (as so defined)*
2 *of the old account holder.*

3 “(6) *SPECIAL RULES FOR DEATH AND DI-*
4 *VORCE.—Rules similar to the rules of paragraphs (7)*
5 *and (8) of section 220(f) shall apply.*

6 “(d) *TAX TREATMENT OF ACCOUNTS.—Rules similar*
7 *to the rules of paragraphs (2) and (4) of section 408(e) shall*
8 *apply to any education individual retirement account.*

9 “(e) *COMMUNITY PROPERTY LAWS.—This section shall*
10 *be applied without regard to any community property laws.*

11 “(f) *CUSTODIAL ACCOUNTS.—For purposes of this sec-*
12 *tion, a custodial account shall be treated as a trust if the*
13 *assets of such account are held by a bank (as defined in*
14 *section 408(n)) or another person who demonstrates, to the*
15 *satisfaction of the Secretary, that the manner in which he*
16 *will administer the account will be consistent with the re-*
17 *quirements of this section, and if the custodial account*
18 *would, except for the fact that it is not a trust, constitute*
19 *an account described in subsection (b)(1). For purposes of*
20 *this title, in the case of a custodial account treated as a*
21 *trust by reason of the preceding sentence, the custodian of*
22 *such account shall be treated as the trustee thereof.*

23 “(g) *REPORTS.—The trustee of an education individ-*
24 *ual retirement account shall make such reports regarding*
25 *such account to the Secretary and to the account holder with*

1 *respect to contributions, distributions, and such other mat-*
2 *ters as the Secretary may require under regulations. The*
3 *reports required by this subsection shall be filed at such*
4 *time and in such manner and furnished to such individuals*
5 *at such time and in such manner as may be required by*
6 *those regulations.”.*

7 *(b) TAX ON PROHIBITED TRANSACTIONS.—*

8 *(1) IN GENERAL.—Paragraph (1) of section*
9 *4975(e) (relating to prohibited transactions) is*
10 *amended by striking “or” at the end of subparagraph*
11 *(D), by redesignating subparagraph (E) as subpara-*
12 *graph (F), and by inserting after subparagraph (D)*
13 *the following new subparagraph:*

14 *“(E) an education individual retirement ac-*
15 *count described in section 530, or”.*

16 *(2) SPECIAL RULE.—Subsection (c) of section*
17 *4975 is amended by adding at the end of subsection*
18 *(c) the following new paragraph:*

19 *“(5) SPECIAL RULE FOR EDUCATION INDIVIDUAL*
20 *RETIREMENT ACCOUNTS.—An individual for whose*
21 *benefit an education individual retirement account is*
22 *established and any contributor to such account shall*
23 *be exempt from the tax imposed by this section with*
24 *respect to any transaction concerning such account*
25 *(which would otherwise be taxable under this section)*

1 *if section 530(d) applies with respect to such trans-*
2 *action.”.*

3 (c) *FAILURE TO PROVIDE REPORTS ON EDUCATION*
4 *INDIVIDUAL RETIREMENT ACCOUNTS.—Paragraph (2) of*
5 *section 6693(a) (relating to failure to provide reports on*
6 *individual retirement accounts or annuities) is amended by*
7 *striking “and” at the end of subparagraph (B), by striking*
8 *the period at the end of subparagraph (C) and inserting*
9 *“, and”, and by adding at the end the following new sub-*
10 *paragraph:*

11 *“(D) Section 530(g) (relating to education*
12 *individual retirement accounts).”.*

13 (d) *TECHNICAL AMENDMENTS.—*

14 (1) *Subparagraph (F) of section 26(b)(2), as*
15 *added by the preceding section, is amended by insert-*
16 *ing before the comma “and section 530(c)(3) (relating*
17 *to additional tax on certain distributions from edu-*
18 *cation individual retirement accounts)”.*

19 (2) *Subparagraph (C) of section 135(c)(2), as*
20 *added by the preceding section, is amended by insert-*
21 *ing “, or to an education individual retirement ac-*
22 *count (as defined in section 530) on behalf of an ac-*
23 *count holder (as defined in such section),” after “(as*
24 *defined in such section)”.*

1 (3) *The table of sections for part VIII of sub-*
 2 *chapter F of chapter 1 is amended by adding at the*
 3 *end the following new item:*

“Sec. 530. Education individual retirement accounts.”.

4 (e) *EFFECTIVE DATE.*—*The amendments made by this*
 5 *section shall apply to taxable years beginning after Decem-*
 6 *ber 31, 1997.*

7 ***Subtitle C—Other Education***
 8 ***Initiatives***

9 ***SEC. 221. EXTENSION OF EXCLUSION FOR EMPLOYER-PRO-***
 10 ***VIDED EDUCATIONAL ASSISTANCE.***

11 (a) *IN GENERAL.*—*Section 127 (relating to edu-*
 12 *cational assistance programs) is amended by striking sub-*
 13 *section (d) and by redesignating subsection (e) as subsection*
 14 *(d).*

15 (b) *REPEAL OF LIMITATION ON GRADUATE EDU-*
 16 *CATION.*—*The last sentence of section 127(c)(1) is amended*
 17 *by striking “, and such term also does not include any pay-*
 18 *ment for, or the provision of any benefits with respect to,*
 19 *any graduate level course of a kind normally taken by an*
 20 *individual pursuing a program leading to a law, business,*
 21 *medical, or other advanced academic or professional de-*
 22 *gree”.*

23 (c) *EFFECTIVE DATES.*—

1 (1) *EXTENSION.*—*The amendments made by sub-*
2 *section (a) shall apply to taxable years beginning*
3 *after December 31, 1996.*

4 (2) *GRADUATE EDUCATION.*—*The amendment*
5 *made by subsection (b) shall apply with respect to ex-*
6 *penses relating to courses beginning after December*
7 *31, 1996.*

8 **SEC. 222. REPEAL OF LIMITATION ON QUALIFIED 501(c)(3)**
9 **BONDS OTHER THAN HOSPITAL BONDS.**

10 *Section 145(b) (relating to qualified 501(c)(3) bond)*
11 *is amended by adding at the end the following new para-*
12 *graph:*

13 “(5) *TERMINATION OF LIMITATION.*—*This sub-*
14 *section shall not apply with respect to bonds issued*
15 *after the date of the enactment of this paragraph to*
16 *finance capital expenditures incurred after such*
17 *date.”.*

18 **SEC. 223. INCREASE IN ARBITRAGE REBATE EXCEPTION**
19 **FOR GOVERNMENTAL BONDS USED TO FI-**
20 **NANCE EDUCATION FACILITIES.**

21 (a) *IN GENERAL.*—*Section 148(f)(4)(D) (relating to*
22 *exception for governmental units issuing \$5,000,000 or less*
23 *of bonds) is amended by adding at the end the following*
24 *new clause:*

1 “(vii) *INCREASE IN EXCEPTION FOR*
2 *BONDS FINANCING PUBLIC SCHOOL CAPITAL*
3 *EXPENDITURES.—Each of the \$5,000,000*
4 *amounts in the preceding provisions of this*
5 *subparagraph shall be increased by the less-*
6 *er of \$5,000,000 or so much of the aggregate*
7 *face amount of the bonds as are attributable*
8 *to financing the construction (within the*
9 *meaning of subparagraph (C)(iv)) of public*
10 *school facilities.”.*

11 (b) *EFFECTIVE DATE.—The amendments made by this*
12 *section shall apply to bonds issued after December 31, 1997.*

13 ***SEC. 224. 2-PERCENT FLOOR ON MISCELLANEOUS ITEMIZED***
14 ***DEDUCTIONS NOT TO APPLY TO CERTAIN***
15 ***CONTINUING EDUCATION EXPENSES OF ELE-***
16 ***MENTARY AND SECONDARY SCHOOL TEACH-***
17 ***ERS.***

18 (a) *IN GENERAL.—Section 67(b) (defining miscellane-*
19 *ous itemized deductions) is amended by striking “and” at*
20 *the end of paragraph (11), by striking the period at the*
21 *end of paragraph (12) and inserting “, and”, and by add-*
22 *ing at the end the following:*

23 “(13) *any deduction allowable for the qualified*
24 *professional development expenses of an eligible teach-*
25 *er.”.*

1 (b) *DEFINITIONS.*—Section 67 is amended by adding
2 at the end the following new subsection:

3 “(g) *QUALIFIED PROFESSIONAL DEVELOPMENT EX-*
4 *PENSES OF ELIGIBLE TEACHERS.*—For purposes of sub-
5 section (b)(13)—

6 “(1) *QUALIFIED PROFESSIONAL DEVELOPMENT*
7 *EXPENSES.*—

8 “(A) *IN GENERAL.*—The term ‘qualified
9 professional development expenses’ means ex-
10 penses—

11 “(i) for tuition, fees, books, supplies,
12 equipment, and transportation required for
13 the enrollment or attendance of an individ-
14 ual in a qualified course of instruction, and

15 “(ii) with respect to which a deduction
16 is allowable under section 162 (determined
17 without regard to this section).

18 “(B) *QUALIFIED COURSE OF INSTRUC-*
19 *TION.*—The term ‘qualified course of instruction’
20 means a course of instruction which—

21 “(i) is at an institution of higher edu-
22 cation (as defined in section 481 of the
23 Higher Education Act of 1965 (20 U.S.C.
24 1088), as in effect on the date of the enact-
25 ment of this subsection), and

1 “(ii) is part of a program of profes-
2 sional development which is approved and
3 certified by the appropriate local edu-
4 cational agency as directly related to—

5 “(I) an increase in the individ-
6 ual’s knowledge of content areas the in-
7 dividual is required to teach,

8 “(II) the improvement of the indi-
9 vidual’s capacity to teach students to
10 the standards of the local educational
11 agency, or

12 “(III) the improvement of the in-
13 dividual’s capacity to use learning
14 technology in teaching.

15 “(C) LOCAL EDUCATIONAL AGENCY.—The term
16 ‘local educational agency’ has the meaning given such
17 term by section 14101 of the *Elementary and Second-*
18 *ary Education Act of 1965, as so in effect.*

19 “(2) ELIGIBLE TEACHER.—

20 “(A) IN GENERAL.—The term ‘eligible
21 teacher’ means an individual who—

22 “(i) is a kindergarten through grade 12
23 teacher in an elementary or secondary
24 school, and

1 “(ii) has completed at least 2 academic
2 years as a teacher described in subpara-
3 graph (A) before the qualified professional
4 development expenses of the individual have
5 been incurred.

6 “(B) ELEMENTARY OR SECONDARY
7 SCHOOL.—The terms ‘elementary school’ and
8 ‘secondary school’ have the meanings given such
9 terms by section 14101 of the Elementary and
10 Secondary Education Act of 1965 (20 U.S.C.
11 8801), as so in effect.”

12 (c) *EFFECTIVE DATE.*—The amendments made by this
13 section shall apply to taxable years beginning after Decem-
14 ber 31, 1997.

15 **SEC. 225. TREATMENT OF CANCELLATION OF CERTAIN STU-**
16 **DENT LOANS.**

17 (a) *CERTAIN LOANS BY EXEMPT ORGANIZATIONS.*—

18 (1) *IN GENERAL.*—Paragraph (2) of section
19 108(f) (defining student loan) is amended by striking
20 “or” at the end of subparagraph (B) and by striking
21 subparagraph (D) and inserting the following:

22 “(D) any educational organization de-
23 scribed in section 170(b)(1)(A)(ii) if such loan is
24 made—

1 “(i) pursuant to an agreement with
2 any entity described in subparagraph (A),
3 (B), or (C) under which the funds from
4 which the loan was made were provided to
5 such educational organization, or

6 “(ii) pursuant to a program of such
7 educational organization which is designed
8 to encourage its students to serve in occupa-
9 tions with unmet needs or in areas with
10 unmet needs and under which the services
11 provided by the students (or former stu-
12 dents) are for or under the direction of a
13 governmental unit or an organization de-
14 scribed in section 501(c)(3) and exempt
15 from tax under section 501(a).

16 *The term ‘student loan’ includes any loan made by*
17 *an educational organization so described or by an or-*
18 *ganization exempt from tax under section 501(a) to*
19 *refinance a loan meeting the requirements of the pre-*
20 *ceding sentence.”.*

21 (2) *EXCEPTION FOR DISCHARGES ON ACCOUNT*
22 *OF SERVICES PERFORMED FOR CERTAIN LENDERS.—*
23 *Subsection (f) of section 108 is amended by adding at*
24 *the end the following new paragraph:*

1 “(3) *EXCEPTION FOR DISCHARGES ON ACCOUNT*
2 *OF SERVICES PERFORMED FOR CERTAIN LENDERS.—*
3 *Paragraph (1) shall not apply to the discharge of a*
4 *loan made by an organization described in paragraph*
5 *(2)(D) (or by an organization described in paragraph*
6 *(2)(E) from funds provided by an organization de-*
7 *scribed in paragraph (2)(D)) if the discharge is on*
8 *account of services performed for either such organiza-*
9 *tion.”.*

10 **(b) CERTAIN STUDENT LOANS THE REPAYMENT OF**
11 **WHICH IS INCOME CONTINGENT.—***Paragraph (1) of section*
12 *108(f) is amended by striking “any student loan if” and*
13 *all that follows and inserting “any student loan if—*

14 *“(A) such discharge was pursuant to a pro-*
15 *vision of such loan under which all or part of the*
16 *indebtedness of the individual would be dis-*
17 *charged if the individual worked for a certain*
18 *period of time in certain professions for any of*
19 *a broad class of employers, or*

20 *“(B) in the case of a loan made under part*
21 *D of title IV of the Higher Education Act of*
22 *1965 which has a repayment schedule established*
23 *under section 455(e)(4) of such Act (relating to*
24 *income contingent repayments), such discharge is*

1 *after the maximum repayment period under such*
 2 *loan (as prescribed under such part).”.*

3 (c) *EFFECTIVE DATE.*—*The amendments made by this*
 4 *section shall apply to discharges of indebtedness after the*
 5 *date of the enactment of this Act.*

6 **TITLE III—SAVINGS AND**
 7 **INVESTMENT INCENTIVES**
 8 **Subtitle A—Retirement Savings**

9 **SEC. 301. RESTORATION OF IRA DEDUCTION FOR CERTAIN**
 10 **TAXPAYERS.**

11 (a) *INCREASE IN INCOME LIMITS APPLICABLE TO AC-*
 12 *TIVE PARTICIPANTS.*—

13 (1) *IN GENERAL.*—*Subparagraph (B) of section*
 14 *219(g)(3) (relating to applicable dollar amount) is*
 15 *amended to read as follows:*

16 “(B) *APPLICABLE DOLLAR AMOUNT.*—*The*
 17 *term ‘applicable dollar amount’ means the fol-*
 18 *lowing:*

19 “(i) *In the case of a taxpayer filing a*
 20 *joint return:*

“For taxable years beginning in:	The applicable dollar amount is:
1998 or 1999	\$50,000
2000 or 2001	\$60,000
2002 or 2003	\$70,000
2004 and thereafter	\$80,000.

1 “(ii) In the case of any other taxpayer
 2 (other than a married individual filing a
 3 separate return):

“For taxable years beginning in:	The applicable dollar amount is:
1998 or 1999	\$30,000
2000 or 2001	\$35,000
2002 or 2003	\$40,000
2004 and thereafter	\$50,000.

4 “(iii) In the case of a married individ-
 5 ual filing a separate return, zero.”.

6 (2) **INCREASE IN PHASE-OUT RANGE FOR JOINT**
 7 **RETURNS.**—Clause (ii) of section 219(g)(2)(A) is
 8 amended by inserting “(\$20,000 in the case of a joint
 9 return for a taxable year beginning after December
 10 31, 2003)”.

11 (b) **LIMITATIONS FOR ACTIVE PARTICIPATION NOT**
 12 **BASED ON SPOUSE’S PARTICIPATION.**—Paragraph (1) of
 13 section 219(g) (relating to limitation on deduction for ac-
 14 tive participants in certain pension plans) is amended by
 15 striking “or the individual’s spouse”.

16 (c) **EFFECTIVE DATE.**—The amendments made by this
 17 section shall apply to taxable years beginning after Decem-
 18 ber 31, 1997.

19 **SEC. 302. ESTABLISHMENT OF NONDEDUCTIBLE TAX-FREE**
 20 **INDIVIDUAL RETIREMENT ACCOUNTS.**

21 (a) **IN GENERAL.**—Subpart A of part I of subchapter
 22 D of chapter 1 (relating to pension, profit-sharing, stock

1 *bonus plans, etc.) is amended by inserting after section 408*
2 *the following new section:*

3 **“SEC. 408A. IRA PLUS ACCOUNTS.**

4 “(a) *GENERAL RULE.*—*Except as provided in this sec-*
5 *tion, an IRA Plus account shall be treated for purposes of*
6 *this title in the same manner as an individual retirement*
7 *plan.*

8 “(b) *IRA PLUS ACCOUNT.*—*For purposes of this title,*
9 *the term ‘IRA Plus account’ means an individual retire-*
10 *ment plan (as defined in section 7701(a)(37)) which is des-*
11 *ignated (in such manner as the Secretary may prescribe)*
12 *at the time of establishment of the plan as an IRA Plus*
13 *account. Such designation shall be made in such manner*
14 *as the Secretary may prescribe.*

15 “(c) *TREATMENT OF CONTRIBUTIONS.*—

16 “(1) *NO DEDUCTION ALLOWED.*—*No deduction*
17 *shall be allowed under section 219 for a contribution*
18 *to an IRA Plus account.*

19 “(2) *CONTRIBUTION LIMIT.*—*The aggregate*
20 *amount of contributions for any taxable year to all*
21 *IRA Plus accounts maintained for the benefit of an*
22 *individual shall not exceed the excess (if any) of—*

23 “(A) *the maximum amount allowable as a*
24 *deduction under section 219 with respect to such*

1 *individual for such taxable year (computed with-*
2 *out regard to subsection (g) of such section), over*

3 *“(B) the amount so allowed.*

4 *“(3) CONTRIBUTIONS PERMITTED AFTER AGE*
5 *70^{1/2}.—Contributions to an IRA Plus account may be*
6 *made even after the individual for whom the account*
7 *is maintained has attained age 70^{1/2}.*

8 *“(4) MANDATORY DISTRIBUTION RULES NOT TO*
9 *APPLY, ETC.—*

10 *“(A) IN GENERAL.—Except as provided in*
11 *subparagraph (B), subsections (a)(6) and (b)(3)*
12 *of section 408 (relating to required distributions)*
13 *and section 4974 (relating to excise tax on cer-*
14 *tain accumulations in qualified retirement*
15 *plans) shall not apply to any IRA Plus account.*

16 *“(B) POST-DEATH DISTRIBUTIONS.—Rules*
17 *similar to the rules of section 401(a)(9) (other*
18 *than subparagraph (A) thereof) shall apply for*
19 *purposes of this section.*

20 *“(5) ROLLOVER CONTRIBUTIONS.—*

21 *“(A) IN GENERAL.—No rollover contribu-*
22 *tion may be made to an IRA Plus account unless*
23 *it is a qualified rollover contribution.*

1 “(B) *COORDINATION WITH LIMIT.*—A quali-
2 *fied rollover contribution shall not be taken into*
3 *account for purposes of paragraph (2).*

4 “(6) *TIME WHEN CONTRIBUTIONS MADE.*—For
5 *purposes of this section, the rule of section 219(f)(3)*
6 *shall apply.*

7 “(d) *DISTRIBUTION RULES.*—For purposes of this
8 *title—*

9 “(1) *GENERAL RULES.*—

10 “(A) *EXCLUSIONS FROM GROSS INCOME.*—
11 *Any qualified distribution from an IRA Plus ac-*
12 *count shall not be includible in gross income.*

13 “(B) *NONQUALIFIED DISTRIBUTIONS.*—In
14 *applying section 72 to any distribution from an*
15 *IRA Plus account which is not a qualified dis-*
16 *tribution, such distribution shall be treated as*
17 *made from contributions to the IRA Plus ac-*
18 *count to the extent that such distribution, when*
19 *added to all previous distributions from the IRA*
20 *Plus account, does not exceed the aggregate*
21 *amount of contributions to the IRA Plus ac-*
22 *count. For purposes of the preceding sentence, all*
23 *IRA Plus accounts maintained for the benefit of*
24 *an individual shall be treated as 1 account.*

1 “(2) *QUALIFIED DISTRIBUTION.*—*For purposes*
2 *of this subsection—*

3 “(A) *IN GENERAL.*—*The term ‘qualified dis-*
4 *tribution’ means any payment or distribution—*

5 “(i) *made on or after the date on*
6 *which the individual attains age 59½,*

7 “(ii) *made to a beneficiary (or to the*
8 *estate of the individual) on or after the*
9 *death of the individual,*

10 “(iii) *attributable to the individual’s*
11 *being disabled (within the meaning of sec-*
12 *tion 72(m)(7)), or*

13 “(iv) *which is a qualified special pur-*
14 *pose distribution.*

15 “(B) *CERTAIN DISTRIBUTIONS WITHIN 5*
16 *YEARS.*—*A payment or distribution shall not be*
17 *treated as a qualified distribution under sub-*
18 *paragraph (A) if—*

19 “(i) *it is made within the 5-taxable*
20 *year period beginning with the 1st taxable*
21 *year for which the individual made a con-*
22 *tribution to an IRA Plus account (or such*
23 *individual’s spouse made a contribution to*
24 *an IRA Plus account) established for such*
25 *individual, or*

1 “(ii) in the case of a payment or dis-
2 tribution properly allocable (as determined
3 in the manner prescribed by the Secretary)
4 to a qualified rollover contribution (or in-
5 come allocable thereto), it is made within
6 the 5-taxable year period beginning with the
7 taxable year in which the rollover contribu-
8 tion was made.

9 Clause (ii) shall not apply to a qualified rollover
10 contribution from an IRA plus account.

11 “(3) ROLLOVERS.—

12 “(A) IN GENERAL.—Any distribution which
13 is transferred in a qualified rollover contribution
14 to an IRA Plus account shall not be included in
15 gross income.

16 “(B) INCOME INCLUSION FOR ROLLOVERS
17 FROM NON-PLUS IRAS.—

18 “(i) IN GENERAL.—In the case of any
19 distribution to which this subparagraph ap-
20 plies—

21 “(I) sections 72(t) and 408(d)(3)
22 shall not apply, and

23 “(II) any amount required to be
24 included in gross income by reason of
25 this paragraph shall be so included

1 *ratably over the 4-taxable year period*
2 *beginning with the taxable year in*
3 *which the payment or distribution is*
4 *made.*

5 “(ii) *DISTRIBUTIONS TO WHICH SUB-*
6 *PARAGRAPH APPLIES.—This subparagraph*
7 *shall apply to a distribution from an indi-*
8 *vidual retirement plan (other than an IRA*
9 *Plus account) maintained for the benefit of*
10 *an individual to an IRA Plus account*
11 *maintained for the benefit of such individ-*
12 *ual if such distribution would be a qualified*
13 *rollover contribution were such individual*
14 *retirement plan an IRA Plus account.*
15 *Clause (i)(II) shall only apply to distribu-*
16 *tions before January 1, 1999.*

17 “(iii) *CONVERSIONS.—The conversion*
18 *of an individual retirement plan (other*
19 *than an IRA Plus account) to an IRA Plus*
20 *account shall be treated for purposes of this*
21 *subparagraph as a distribution from such*
22 *plan to such IRA Plus account.*

23 “(C) *ADDITIONAL REPORTING REQUIRE-*
24 *MENTS.—The Secretary shall require that trust-*
25 *ees of IRA Plus accounts, trustees of individual*

1 retirement plans, or both, whichever is appro-
2 priate, shall include such additional information
3 in reports required under section 408(i) as is
4 necessary to ensure that amounts required to be
5 included in gross income under subparagraph
6 (B) are so included.

7 “(4) COORDINATION WITH INDIVIDUAL RETIRE-
8 MENT ACCOUNTS.—Section 408(d)(2) shall not apply
9 to IRA Plus accounts.

10 “(5) QUALIFIED SPECIAL PURPOSE DISTRIBUTION.—For purposes of this section, the term ‘quali-
11 fied special purpose distribution’ means any distribu-
12 tion to which subparagraph (D) or (F) of section
13 72(t)(2) applies.

14 “(e) QUALIFIED ROLLOVER CONTRIBUTION.—For pur-
15 poses of this section, the term ‘qualified rollover contribu-
16 tion’ means a rollover contribution to an IRA Plus account
17 from another such account, or from an individual retire-
18 ment plan, but only if such rollover contribution meets the
19 requirements of section 408(d)(3). For purposes of section
20 408(d)(3)(B), there shall be disregarded any qualified roll-
21 over contribution from an individual retirement plan (other
22 than an IRA Plus account) to an IRA Plus account.”.

23 (b) EXCESS CONTRIBUTIONS.—

1 (1) *Section 4973 is amended by adding at the*
2 *end the following new subsection:*

3 “(f) *EXCESS CONTRIBUTIONS TO IRA PLUS AC-*
4 *COUNTS.—For purposes of this section, in the case of IRA*
5 *Plus accounts, the term ‘excess contributions’ means the*
6 *amount by which the amount contributed for the taxable*
7 *year to such accounts exceeds the limitation in section*
8 *408A(c)(2).”.*

9 (2) *Subsection (b) of section 4973 is amended by*
10 *adding at the end the following new sentence: “For*
11 *purposes of this subsection, an IRA Plus account shall*
12 *not be treated as an individual retirement plan.”.*

13 (c) *SPOUSAL IRA.—Clause (ii) of section 219(c)(1)(B)*
14 *is amended to read as follows:*

15 “(ii) *the compensation includible in*
16 *the gross income of such individual’s spouse*
17 *for the taxable year reduced by—*

18 “(I) *the amount allowed as a de-*
19 *duction under subsection (a) to such*
20 *spouse for such taxable year, and*

21 “(II) *the amount of any contribu-*
22 *tion on behalf of such spouse to an IRA*
23 *Plus account under section 408A for*
24 *such taxable year.”.*

25 (d) *REPEAL OF NONDEDUCTIBLE CONTRIBUTIONS.—*

1 (1) *Subsection (f) of section 219 is amended by*
2 *striking paragraph (7).*

3 (2) *Paragraph (5) of section 408(d) is amended*
4 *by striking the last sentence.*

5 (3) *Section 408(o) is amended by adding at the*
6 *end the following new paragraph:*

7 “(5) *TERMINATION.—This subsection shall not*
8 *apply to any designated nondeductible contribution*
9 *for any taxable year beginning after December 31,*
10 *1997.”.*

11 (4) *Section 4973(b) is amended by striking the*
12 *last sentence.*

13 (e) *CONFORMING AMENDMENT.—The table of sections*
14 *for subpart A of part I of subchapter D of chapter 1 is*
15 *amended by inserting after the item relating to section 408*
16 *the following new item:*

 “*Sec. 408A. IRA Plus accounts.*”.

17 (f) *EFFECTIVE DATE.—The amendments made by this*
18 *section shall apply to taxable years beginning after Decem-*
19 *ber 31, 1997.*

20 **SEC. 303. DISTRIBUTIONS FROM CERTAIN PLANS MAY BE**
21 **USED WITHOUT PENALTY TO PURCHASE**
22 **FIRST HOMES AND WHEN UNEMPLOYED.**

23 (a) *FIRST HOMES.—*

24 (1) *IN GENERAL.—Paragraph (2) of section 72(t)*
25 *(relating to exceptions to 10-percent additional tax on*

1 *early distributions from qualified retirement plans),*
2 *as amended by section 203, is amended by adding at*
3 *the end the following new subparagraph:*

4 *“(F) DISTRIBUTIONS FROM CERTAIN PLANS*
5 *FOR FIRST HOME PURCHASES.—Distributions to*
6 *an individual from an individual retirement*
7 *plan which are qualified first-time homebuyer*
8 *distributions (as defined in paragraph (8)). Dis-*
9 *tributions shall not be taken into account under*
10 *the preceding sentence if such distributions are*
11 *described in subparagraph (A), (C), (D), or (E)*
12 *or to the extent paragraph (1) does not apply to*
13 *such distributions by reason of subparagraph*
14 *(B).”.*

15 *(2) DEFINITIONS.—Section 72(t), as amended by*
16 *section 203, is amended by adding at the end the fol-*
17 *lowing new paragraphs:*

18 *“(8) QUALIFIED FIRST-TIME HOMEBUYER DIS-*
19 *TRIBUTIONS.—For purposes of paragraph (2)(F)—*

20 *“(A) IN GENERAL.—The term ‘qualified*
21 *first-time homebuyer distribution’ means any*
22 *payment or distribution received by an individ-*
23 *ual to the extent such payment or distribution is*
24 *used by the individual before the close of the*
25 *120th day after the day on which such payment*

1 *or distribution is received to pay qualified acqui-*
2 *sition costs with respect to a principal residence*
3 *of a first-time homebuyer who is such individual,*
4 *the spouse of such individual, or any child,*
5 *grandchild, or ancestor of such individual or the*
6 *individual's spouse.*

7 “(B) *LIFETIME DOLLAR LIMITATION.*—*The*
8 *aggregate amount of payments or distributions*
9 *received by an individual which may be treated*
10 *as qualified first-time homebuyer distributions*
11 *for any taxable year shall not exceed the excess*
12 *(if any) of—*

13 “(i) \$10,000, over

14 “(ii) *the aggregate amounts treated as*
15 *qualified first-time homebuyer distributions*
16 *with respect to such individual for all prior*
17 *taxable years.*

18 “(C) *QUALIFIED ACQUISITION COSTS.*—*For*
19 *purposes of this paragraph, the term ‘qualified*
20 *acquisition costs’ means the costs of acquiring,*
21 *constructing, or reconstructing a residence. Such*
22 *term includes any usual or reasonable settlement,*
23 *financing, or other closing costs.*

1 “(D) *FIRST-TIME HOMEBUYER; OTHER*
2 *DEFINITIONS.—For purposes of this para-*
3 *graph—*

4 “(i) *FIRST-TIME HOMEBUYER.—The*
5 *term ‘first-time homebuyer’ means any in-*
6 *dividual if—*

7 “(I) *such individual (and if mar-*
8 *ried, such individual’s spouse) had no*
9 *present ownership interest in a prin-*
10 *cipal residence during the 2-year pe-*
11 *riod ending on the date of acquisition*
12 *of the principal residence to which this*
13 *paragraph applies, and*

14 “(II) *subsection (h) or (k) of sec-*
15 *tion 1034 (as in effect on the day be-*
16 *fore the date of the enactment of this*
17 *paragraph) did not suspend the run-*
18 *ning of any period of time specified in*
19 *section 1034 (as so in effect) with re-*
20 *spect to such individual on the day be-*
21 *fore the date the distribution is applied*
22 *pursuant to subparagraph (A).*

23 “(ii) *PRINCIPAL RESIDENCE.—The*
24 *term ‘principal residence’ has the same*
25 *meaning as when used in section 121.*

1 “(iii) *DATE OF ACQUISITION.*—*The*
2 *term ‘date of acquisition’ means the date—*

3 “(I) *on which a binding contract*
4 *to acquire the principal residence to*
5 *which subparagraph (A) applies is en-*
6 *tered into, or*

7 “(II) *on which construction or re-*
8 *construction of such a principal resi-*
9 *dence is commenced.*

10 “(E) *SPECIAL RULE WHERE DELAY IN AC-*
11 *QUISITION.*—*If any distribution from any indi-*
12 *vidual retirement plan fails to meet the require-*
13 *ments of subparagraph (A) solely by reason of a*
14 *delay or cancellation of the purchase or construc-*
15 *tion of the residence, the amount of the distribu-*
16 *tion may be contributed to an individual retire-*
17 *ment plan as provided in section 408(d)(3)(A)(i)*
18 *(determined by substituting ‘120 days’ for ‘60*
19 *days’ in such section), except that—*

20 “(i) *section 408(d)(3)(B) shall not be*
21 *applied to such contribution, and*

22 “(ii) *such amount shall not be taken*
23 *into account in determining whether section*
24 *408(d)(3)(A)(i) applies to any other*
25 *amount.”.*

1 (b) *PENALTY-FREE DISTRIBUTIONS FOR CERTAIN UN-*
2 *EMPLOYED INDIVIDUALS.*—Subparagraph (D) of section
3 72(t)(2) is amended—

4 (1) in clause (i), by inserting “and” at the end
5 of subclause (I), by striking “, and” at the end of sub-
6 clause (II) and inserting a period, and by striking
7 subclause (III), and

8 (2) by striking “FOR HEALTH INSURANCE PRE-
9 MIUMS” in the heading thereof.

10 (c) *EFFECTIVE DATE.*—The amendments made by this
11 section shall apply to payments and distributions in tax-
12 able years beginning after December 31, 1997.

13 **SEC. 304. CERTAIN BULLION NOT TREATED AS COLLECT-**
14 **IBLES.**

15 (a) *IN GENERAL.*—Paragraph (3) of section 408(m)
16 (relating to exception for certain coins) is amended to read
17 as follows:

18 “(3) *EXCEPTION FOR CERTAIN COINS AND BUL-*
19 *LION.*—For purposes of this subsection, the term ‘col-
20 lectible’ shall not include—

21 “(A) any coin which is—

22 “(i) a gold coin described in paragraph
23 (7), (8), (9), or (10) of section 5112(a) of
24 title 31, United States Code,

1 “(ii) a silver coin described in section
2 5112(e) of title 31, United States Code,

3 “(iii) a platinum coin described in sec-
4 tion 5112(k) of title 31, United States Code,
5 or

6 “(iv) a coin issued under the laws of
7 any State, or

8 “(B) any gold, silver, platinum, or palla-
9 dium bullion of a fineness equal to or exceeding
10 the minimum fineness required for metals which
11 may be delivered in satisfaction of a regulated
12 futures contract subject to regulation by the
13 Commodity Futures Trading Commission under
14 the Commodity Exchange Act,
15 if such bullion is in the physical possession of a trust-
16 ee described under subsection (a) of this section.”.

17 (b) *EFFECTIVE DATE.*—The amendment made by this
18 section shall apply to taxable years beginning after Decem-
19 ber 31, 1997.

20 **Subtitle B—Capital Gains**

21 **SEC. 311. 20-PERCENT MAXIMUM CAPITAL GAINS RATE FOR** 22 **INDIVIDUALS.**

23 (a) *IN GENERAL.*—Subsection (h) of section 1 (relating
24 to maximum capital gains rate) is amended to read as fol-
25 lows:

1 “(h) *MAXIMUM CAPITAL GAINS RATE.*—

2 “(1) *IN GENERAL.*—*If a taxpayer has a net cap-*
3 *ital gain for any taxable year, the tax imposed by*
4 *this section for such taxable year shall not exceed the*
5 *sum of—*

6 “(A) *a tax computed at the rates and in the*
7 *same manner as if this subsection had not been*
8 *enacted on the greater of—*

9 “(i) *taxable income reduced by the net*
10 *capital gain, or*

11 “(ii) *the amount of taxable income*
12 *taxed at a rate below 28 percent, plus*

13 “(B) *24 percent of the lesser of—*

14 “(i) *the unrecaptured section 1250*
15 *gain, or*

16 “(ii) *the amount of taxable income in*
17 *excess of the sum of the amount on which*
18 *tax is determined under subparagraph (A)*
19 *plus the net capital gain determined with-*
20 *out regard to unrecaptured section 1250*
21 *gain, plus*

22 “(C) *28 percent of the amount of taxable in-*
23 *come in excess of the sum of—*

24 “(i) *the adjusted net capital gain, plus*

1 “(ii) the sum of the amounts on which
2 tax is determined under subparagraphs (A)
3 and (B), plus

4 “(D) 10 percent of so much of the tax-
5 payer’s adjusted net capital gain (or, if less, tax-
6 able income) as does not exceed the excess (if
7 any) of—

8 “(i) the amount of taxable income
9 which would (without regard to this para-
10 graph) be taxed at a rate of 15 percent or
11 less, over

12 “(ii) the taxable income reduced by the
13 adjusted net capital gain, plus

14 “(E) 20 percent of the taxpayer’s adjusted
15 net capital gain (or, if less, taxable income) in
16 excess of the amount on which a tax is deter-
17 mined under subparagraph (D).

18 “(2) NET CAPITAL GAIN TAKEN INTO ACCOUNT AS
19 INVESTMENT INCOME.—For purposes of this sub-
20 section, the net capital gain for any taxable year
21 shall be reduced (but not below zero) by the amount
22 which the taxpayer takes into account as investment
23 income under section 163(d)(4)(B)(iii).

24 “(3) ADJUSTED NET CAPITAL GAIN.—For pur-
25 poses of this subsection, the term ‘adjusted net capital

1 *gain' means net capital gain determined without re-*
2 *gard to—*

3 “(A) *collectibles gain, and*

4 “(B) *unrecaptured section 1250 gain.*

5 “(4) *COLLECTIBLES GAIN.—For purposes of*
6 *paragraph (3)—*

7 “(A) *IN GENERAL.—The term ‘collectibles*
8 *gain’ means gain from the sale or exchange of a*
9 *collectible (as defined in section 408(m) without*
10 *regard to paragraph (3) thereof) which is a cap-*
11 *ital asset held for more than 1 year but only to*
12 *the extent such gain is taken into account in*
13 *computing gross income.*

14 “(B) *PARTNERSHIPS, ETC.—For purposes of*
15 *subparagraph (A), any gain from the sale of an*
16 *interest in a partnership, S corporation, or trust*
17 *which is attributable to unrealized appreciation*
18 *in the value of collectibles shall be treated as*
19 *gain from the sale or exchange of a collectible.*
20 *Rules similar to the rules of section 751 shall*
21 *apply for purposes of the preceding sentence.*

22 “(5) *UNRECAPTURED SECTION 1250 GAIN.—For*
23 *purposes of this subsection, the term ‘unrecaptured*
24 *section 1250 gain’ means the excess (if any) of—*

1 “(A) *the amount which would be treated as*
2 *ordinary income under section 1245 if all section*
3 *1250 property disposed of by the taxpayer were*
4 *section 1245 property, over*

5 “(B) *the amount treated as ordinary in-*
6 *come under section 1250.*

7 *In the case of a taxable year which includes May 7,*
8 *1997, unrecaptured section 1250 gain shall be deter-*
9 *mined by taking into account only the gain properly*
10 *taken into account for the portion of the taxable year*
11 *after May 6, 1997.*

12 “(6) *PRE-EFFECTIVE DATE GAIN.*—

13 “(A) *IN GENERAL.*—*In the case of a taxable*
14 *year which includes May 7, 1997, adjusted net*
15 *capital gain shall be determined without regard*
16 *to pre-May 7, 1997, gain.*

17 “(B) *PRE-MAY 7, 1997, GAIN.*—*The term*
18 *‘pre-May 7, 1997, gain’ means the amount which*
19 *would be adjusted net capital gain for the tax-*
20 *able year if adjusted net capital gain were deter-*
21 *mined by taking into account only the gain or*
22 *loss properly taken into account for the portion*
23 *of the taxable year before May 7, 1997.*

24 “(C) *SPECIAL RULES FOR PASS-THRU ENTI-*
25 *TIES.*—*In applying subparagraph (A) with re-*

1 *spect to any pass-thru entity, the determination*
 2 *of when gains and loss are properly taken into*
 3 *account shall be made at the entity level.*

4 “(D) *PASS-THRU ENTITY DEFINED.*—*For*
 5 *purposes of subparagraph (C), the term ‘pass-*
 6 *thru entity’ means—*

7 “(i) *a regulated investment company,*

8 “(ii) *a real estate investment trust,*

9 “(iii) *an S corporation,*

10 “(iv) *a partnership,*

11 “(v) *an estate or trust, and*

12 “(vi) *a common trust fund.”.*

13 (b) *MINIMUM TAX.*—

14 (1) *IN GENERAL.*—*Subsection (b) of section 55 is*
 15 *amended by adding at the end the following new*
 16 *paragraph:*

17 “(3) *MAXIMUM RATE OF TAX ON NET CAPITAL*
 18 *GAIN OF NONCORPORATE TAXPAYERS.*—*The amount*
 19 *determined under the first sentence of paragraph*
 20 *(1)(A)(i) shall not exceed the sum of—*

21 “(A) *the amount determined under such*
 22 *first sentence computed at the rates and in the*
 23 *same manner as if this paragraph had not been*
 24 *enacted on the taxable excess reduced by the ex-*
 25 *cess of the net capital gain over the sum of the*

1 collectibles gain (as defined in section 1(h)(4))
2 and the pre-effective date gain (as defined in sec-
3 tion 1(h)(6)), plus

4 “(B) 24 percent of the lesser of—

5 “(i) the unrecaptured section 1250
6 gain (as defined in section 1(h)(5)), or

7 “(ii) the amount of taxable excess in
8 excess of the sum of—

9 “(I) the adjusted net capital gain,
10 plus

11 “(II) the amount on which a tax
12 is determined under subparagraph (A),
13 plus

14 “(C) 10 percent of so much of the taxpayer’s
15 adjusted net capital gain (or, if less, taxable ex-
16 cess) as does not exceed the amount on which a
17 tax is determined under section 1(h)(1)(B), plus

18 “(D) 20 percent of the taxpayer’s adjusted
19 net capital gain (or, if less, taxable excess) in ex-
20 cess of the amount on which tax is determined
21 under subparagraph (C).”.

22 (2) CONFORMING AMENDMENT.—Clause (ii) of
23 section 55(b)(1)(A) is amended by striking “clause
24 (i)” and inserting “this subsection”.

25 (c) OTHER CONFORMING AMENDMENTS.—

1 (1) *Subsection (d) of section 291 is amended by*
2 *inserting at the end the following new sentence: “Any*
3 *capital gain dividend treated as having been paid out*
4 *of such difference to a shareholder which is not a cor-*
5 *poration retains its characters as unrecaptured sec-*
6 *tion 1250 gain for purposes of applying section 1(h)*
7 *to such shareholder.”.*

8 (2) *Paragraph (1) of section 1445(e) is amended*
9 *by striking “28 percent” and inserting “20 percent”.*

10 (3) *The second sentence of section 7518(g)(6)(A),*
11 *and the second sentence of section 607(h)(6)(A) of the*
12 *Merchant Marine Act, 1936, are each amended by*
13 *striking “28 percent” and inserting “20 percent”.*

14 (d) *EFFECTIVE DATES.—*

15 (1) *IN GENERAL.—Except as provided in para-*
16 *graph (2), the amendments made by this section shall*
17 *apply to taxable years ending after May 6, 1997.*

18 (2) *WITHHOLDING.—The amendment made by*
19 *subsection (c)(2) shall apply only to amounts paid*
20 *after the date of the enactment of this Act.*

21 **SEC. 312. MODIFICATIONS TO EXCLUSION OF GAIN ON CER-**
22 **TAIN SMALL BUSINESS STOCK.**

23 (a) *EXCLUSION AVAILABLE TO CORPORATIONS.—*

24 (1) *IN GENERAL.—Subsection (a) of section 1202*
25 *is amended by striking “In the case of a taxpayer*

1 *other than a corporation, gross” and inserting*
2 *“Gross”.*

3 (2) *TECHNICAL AMENDMENT.—Subsection (c) of*
4 *section 1202 is amended by adding at the end the fol-*
5 *lowing new paragraph:*

6 “(4) *STOCK HELD AMONG MEMBERS OF CON-*
7 *TROLLED GROUP NOT ELIGIBLE.—Stock of a member*
8 *of a parent-subsidiary controlled group (as defined in*
9 *subsection (c)(3)) shall not be treated as qualified*
10 *small business stock while held by another member of*
11 *such group.”.*

12 (b) *REPEAL OF MINIMUM TAX PREFERENCE.—*

13 (1) *Subsection (a) of section 57 is amended by*
14 *striking paragraph (7).*

15 (2) *Subclause (II) of section 53(d)(1)(B)(ii) is*
16 *amended by striking “, (5), and (7)” and inserting*
17 *“and (5)”.*

18 (c) *STOCK OF LARGER BUSINESSES ELIGIBLE FOR*
19 *REDUCED RATES.—Paragraph (1) of section 1202(d) is*
20 *amended by striking “\$50,000,000” each place it appears*
21 *and inserting “\$100,000,000”.*

22 (d) *REPEAL OF PER-ISSUER LIMITATION.—Section*
23 *1202 is amended by striking subsection (b).*

24 (e) *OTHER MODIFICATIONS.—*

1 (1) *REPEAL OF WORKING CAPITAL LIMITA-*
2 *TION.—Paragraph (6) of section 1202(e) is amend-*
3 *ed—*

4 (A) *by striking “2 years” in subparagraph*

5 (B) *and inserting “5 years”, and*

6 (B) *by striking the last sentence.*

7 (2) *EXCEPTION FROM REDEMPTION RULES*
8 *WHERE BUSINESS PURPOSE.—Paragraph (3) of sec-*
9 *tion 1202(c) is amended by adding at the end the fol-*
10 *lowing new subparagraph:*

11 “(D) *WAIVER WHERE BUSINESS PUR-*

12 *POSE.—A purchase of stock by the issuing cor-*

13 *poration shall be disregarded for purposes of sub-*

14 *paragraph (B) if the issuing corporation estab-*

15 *lishes that there was a business purpose for such*

16 *purchase and one of the principal purposes of the*

17 *purchase was not to avoid the limitations of this*

18 *section.”.*

19 (f) *CONFORMING AMENDMENTS.—*

20 (1) *Subsection (c) of section 1202 is amended by*

21 *striking “subsections (f) and (h)” and inserting “sub-*

22 *sections (e) and (g)”.*

23 (2) *Paragraph (2) of section 1202(c) is amend-*

24 *ed—*

1 (A) by striking “subsection (e)” each place
2 it appears and inserting “subsection (d)”, and

3 (B) by striking “subsection (e)(4)” in sub-
4 paragraph (B)(ii) and inserting “subsection
5 (d)(4)”.

6 (3) Paragraph (1) of section 1202(e) is amended
7 by striking “subsection (c)(2)” and inserting “sub-
8 section (b)(2)”.

9 (4) Paragraph (1) of section 1202(g) is amended
10 to read as follows:

11 “(1) *IN GENERAL.*—If any amount included in
12 gross income by reason of holding an interest in a
13 pass-thru entity meets the requirements of paragraph
14 (2), such amount shall be treated as gain from the
15 sale or exchange of any qualified small business stock
16 held for more than 5 years.”.

17 (5) Section 1202, as amended by the preceding
18 provisions of this section, is amended by redesignat-
19 ing subsections (c) through (k) as subsections (b)
20 through (j), respectively.

21 (6) So much of paragraph (2) of section 172(d)
22 as precedes subparagraph (A) thereof is amended to
23 read as follows:

24 “(2) *CAPITAL GAINS AND LOSSES.*—In the case of
25 any taxpayer—”.

1 (g) *EFFECTIVE DATES.*—

2 (1) *IN GENERAL.*—*Except as provided in para-*
3 *graph (2), the amendments made by this section shall*
4 *apply to stock issued after August 10, 1993.*

5 (2) *SUBSECTIONS (a) and (c).*—*The amendments*
6 *made by subsections (a) and (c) shall apply to stock*
7 *issued after the date of the enactment of this Act.*

8 **SEC. 313. ROLLOVER OF GAIN FROM SALE OF QUALIFIED**
9 **STOCK.**

10 (a) *IN GENERAL.*—*Part III of subchapter O of chapter*
11 *1 is amended by adding at the end the following new sec-*
12 *tion:*

13 **“SEC. 1045. ROLLOVER OF GAIN FROM QUALIFIED SMALL**
14 **BUSINESS STOCK TO ANOTHER QUALIFIED**
15 **SMALL BUSINESS STOCK.**

16 “(a) *NONRECOGNITION OF GAIN.*—*In the case of any*
17 *sale of qualified small business stock with respect to which*
18 *the taxpayer elects the application of this section, eligible*
19 *gain from such sale shall be recognized only to the extent*
20 *that the amount realized on such sale exceeds—*

21 “(1) *the cost of any qualified small business*
22 *stock purchased by the taxpayer during the 60-day*
23 *period beginning on the date of such sale, reduced by*

24 “(2) *any portion of such cost previously taken*
25 *into account under this section.*

1 *This section shall not apply to any gain which is treated*
2 *as ordinary income for purposes of this title.*

3 “(b) *DEFINITIONS AND SPECIAL RULES.—For pur-*
4 *poses of this section—*

5 “(1) *QUALIFIED SMALL BUSINESS STOCK.—The*
6 *term ‘qualified small business stock’ has the meaning*
7 *given such term by section 1202(b).*

8 “(2) *ELIGIBLE GAIN.—The term ‘eligible gain’*
9 *means any gain from the sale or exchange of qualified*
10 *small business stock held for more than 5 years.*

11 “(3) *PURCHASE.—A taxpayer shall be treated as*
12 *having purchased any property if, but for paragraph*
13 *(4), the unadjusted basis of such property in the*
14 *hands of the taxpayer would be its cost (within the*
15 *meaning of section 1012).*

16 “(4) *BASIS ADJUSTMENTS.—If gain from any*
17 *sale is not recognized by reason of subsection (a), such*
18 *gain shall be applied to reduce (in the order acquired)*
19 *the basis for determining gain or loss of any qualified*
20 *small business stock which is purchased by the tax-*
21 *payer during the 60-day period described in sub-*
22 *section (a).*

23 “(c) *SPECIAL RULES FOR TREATMENT OF REPLACE-*
24 *MENT STOCK.—*

1 “(1) *HOLDING PERIOD FOR ACCRUED GAIN.*—For
2 purposes of this chapter, gain from the disposition of
3 any replacement qualified small business stock shall
4 be treated as gain from the sale or exchange of quali-
5 fied small business stock held more than 5 years to the
6 extent that the amount of such gain does not exceed
7 the amount of the reduction in the basis of such stock
8 by reason of subsection (b)(4).

9 “(2) *TACKING OF HOLDING PERIOD FOR PUR-*
10 *POSES OF DEFERRAL.*—Solely for purposes of apply-
11 ing this section, if any replacement qualified small
12 business stock is disposed of before the taxpayer has
13 held such stock for more than 5 years, gain from such
14 stock shall be treated eligible gain for purposes of sub-
15 section (a).

16 “(3) *REPLACEMENT QUALIFIED SMALL BUSINESS*
17 *STOCK.*—For purposes of this subsection, the term ‘re-
18 placement qualified small business stock’ means any
19 qualified small business stock the basis of which was
20 reduced under subsection (b)(4).”.

21 (b) *CONFORMING AMENDMENTS.*—

22 (1) Section 1016(a)(23) is amended—

23 (A) by striking “or 1044” and inserting “,
24 1044, or 1045”, and

1 (B) by striking “or 1044(d)” and inserting
2 “, 1044(d), or 1045(b)(4)”.

3 (2) *The table of sections for part III of sub-*
4 *chapter O of chapter 1 is amended by adding at the*
5 *end the following new item:*

*“Sec. 1045. Rollover of gain from qualified small business stock to
another qualified small business stock.”.*

6 (c) *EFFECTIVE DATES.—*

7 (1) *IN GENERAL.—Except as provided in para-*
8 *graph (2), the amendments made by this section shall*
9 *apply to stock issued after August 10, 1993.*

10 (2) *STOCK HELD BY A CORPORATION.—In the*
11 *case of stock held by a corporation, the amendments*
12 *made by this section shall apply to stock issued after*
13 *the date of the enactment of this Act.*

14 **SEC. 314. EXEMPTION FROM TAX FOR GAIN ON SALE OF**
15 **PRINCIPAL RESIDENCE.**

16 (a) *IN GENERAL.—Section 121 (relating to one-time*
17 *exclusion of gain from sale of principal residence by indi-*
18 *vidual who has attained age 55) is amended to read as fol-*
19 *lows:*

20 **“SEC. 121. EXCLUSION OF GAIN FROM SALE OF PRINCIPAL**
21 **RESIDENCE.**

22 “(a) *EXCLUSION.—Gross income shall not include*
23 *gain from the sale or exchange of property if, during the*
24 *5-year period ending on the date of the sale or exchange,*

1 *such property has been owned and used by the taxpayer*
2 *as the taxpayer's principal residence for periods aggregat-*
3 *ing 2 years or more.*

4 “(b) *LIMITATIONS.—*

5 “(1) *IN GENERAL.—The amount of gain excluded*
6 *from gross income under subsection (a) with respect*
7 *to any sale or exchange shall not exceed \$250,000.*

8 “(2) *\$500,000 LIMITATION FOR CERTAIN JOINT*
9 *RETURNS.—Paragraph (1) shall be applied by sub-*
10 *stituting ‘\$500,000’ for ‘\$250,000’ if—*

11 “(A) *a husband and wife make a joint re-*
12 *turn for the taxable year of the sale or exchange*
13 *of the property,*

14 “(B) *either spouse meets the ownership re-*
15 *quirements of subsection (a) with respect to such*
16 *property,*

17 “(C) *both spouses meet the use requirements*
18 *of subsection (a) with respect to such property,*
19 *and*

20 “(D) *neither spouse is ineligible for the ben-*
21 *efits of subsection (a) with respect to such prop-*
22 *erty by reason of paragraph (3).*

23 “(3) *APPLICATION TO ONLY 1 SALE OR EX-*
24 *CHANGE EVERY 2 YEARS.—*

1 “(A) *IN GENERAL.*—*Subsection (a) shall not*
2 *apply to any sale or exchange by the taxpayer*
3 *if, during the 2-year period ending on the date*
4 *of such sale or exchange, there was any other sale*
5 *or exchange by the taxpayer to which subsection*
6 *(a) applied.*

7 “(B) *PRE-MAY 7, 1997, SALES NOT TAKEN*
8 *INTO ACCOUNT.*—*Subparagraph (A) shall be ap-*
9 *plied without regard to any sale or exchange be-*
10 *fore May 7, 1997.*

11 “(c) *EXCLUSION FOR TAXPAYERS FAILING TO MEET*
12 *CERTAIN REQUIREMENTS.*—

13 “(1) *IN GENERAL.*—*In the case of a sale or ex-*
14 *change to which this subsection applies, the ownership*
15 *and use requirements of subsection (a) shall not apply*
16 *and subsection (b)(3) shall not apply; but the amount*
17 *of gain excluded from gross income under subsection*
18 *(a) with respect to such sale or exchange shall not ex-*
19 *ceed—*

20 “(A) *the amount which bears the same ratio*
21 *to the amount which would be so excluded if such*
22 *requirements had been met, as*

23 “(B) *the shorter of—*

24 “(i) *the aggregate periods, during the*
25 *5-year period ending on the date of such*

1 *sale or exchange, such property has been*
2 *owned and used by the taxpayer as the tax-*
3 *payer's principal residence, or*

4 *“(ii) the period after the date of the*
5 *most recent prior sale or exchange by the*
6 *taxpayer to which subsection (a) applied*
7 *and before the date of such sale or exchange,*
8 *bears to 2 years.*

9 “(2) SALES AND EXCHANGES TO WHICH SUB-
10 SECTION APPLIES.—*This subsection shall apply to*
11 *any sale or exchange if—*

12 “(A) subsection (a) would not (but for this
13 subsection) apply to such sale or exchange by
14 reason of—

15 “(i) a failure to meet the ownership
16 and use requirements of subsection (a), or

17 “(ii) subsection (b)(3), and

18 “(B) such sale or exchange is by reason of
19 a change in place of employment, health, or, to
20 the extent provided in regulations, unforeseen
21 circumstances.

22 “(d) SPECIAL RULES.—

23 “(1) PROPERTY OF DECEASED SPOUSE.—*For*
24 *purposes of this section, in the case of an unmarried*
25 *individual whose spouse is deceased on the date of the*

1 *sale or exchange of property, the period such unmar-*
2 *ried individual owned such property shall include the*
3 *period such deceased spouse owned such property be-*
4 *fore death.*

5 “(2) *PROPERTY OWNED BY SPOUSE OR FORMER*
6 *SPOUSE.—For purposes of this section—*

7 “(A) *PROPERTY TRANSFERRED TO INDIVID-*
8 *UAL FROM SPOUSE OR FORMER SPOUSE.—In the*
9 *case of an individual holding property trans-*
10 *ferred to such individual in a transaction de-*
11 *scribed in section 1041(a), the period such indi-*
12 *vidual owns such property shall include the pe-*
13 *riod the transferor owned the property.*

14 “(B) *PROPERTY USED BY FORMER SPOUSE*
15 *PURSUANT TO DIVORCE DECREE, ETC.—Solely*
16 *for purposes of this section, an individual shall*
17 *be treated as using property as such individual’s*
18 *principal residence during any period of owner-*
19 *ship while such individual’s spouse or former*
20 *spouse is granted use of the property under a di-*
21 *vorce or separation instrument (as defined in*
22 *section 71(b)(2)).*

23 “(3) *TENANT-STOCKHOLDER IN COOPERATIVE*
24 *HOUSING CORPORATION.—For purposes of this sec-*
25 *tion, if the taxpayer holds stock as a tenant-stock-*

1 holder (as defined in section 216) in a cooperative
2 housing corporation (as defined in such section),
3 then—

4 “(A) the holding requirements of subsection
5 (a) shall be applied to the holding of such stock,
6 and

7 “(B) the use requirements of subsection (a)
8 shall be applied to the house or apartment which
9 the taxpayer was entitled to occupy as such
10 stockholder.

11 “(4) INVOLUNTARY CONVERSIONS.—

12 “(A) IN GENERAL.—For purposes of this
13 section, the destruction, theft, seizure, requisition,
14 or condemnation of property shall be treated as
15 the sale of such property.

16 “(B) APPLICATION OF SECTION 1033.—In
17 applying section 1033 (relating to involuntary
18 conversions), the amount realized from the sale
19 or exchange of property shall be treated as being
20 the amount determined without regard to this
21 section, reduced by the amount of gain not in-
22 cluded in gross income pursuant to this section.

23 “(C) PROPERTY ACQUIRED AFTER INVOLUN-
24 TARY CONVERSION.—If the basis of the property
25 sold or exchanged is determined (in whole or in

1 *part) under section 1033(b) (relating to basis of*
2 *property acquired through involuntary conver-*
3 *sion), then the holding and use by the taxpayer*
4 *of the converted property shall be treated as hold-*
5 *ing and use by the taxpayer of the property sold*
6 *or exchanged.*

7 “(5) *RECOGNITION OF GAIN ATTRIBUTABLE TO*
8 *DEPRECIATION.—Subsection (a) shall not apply to so*
9 *much of the gain from the sale of any property as*
10 *does not exceed the portion of the depreciation adjust-*
11 *ments (as defined in section 1250(b)(3)) attributable*
12 *to periods after May 6, 1997, in respect of such prop-*
13 *erty.*

14 “(6) *DETERMINATION OF USE DURING PERIODS*
15 *OF OUT-OF-RESIDENCE CARE.—In the case of a tax-*
16 *payer who—*

17 “(A) *becomes physically or mentally in-*
18 *capable of self-care, and*

19 “(B) *owns property and uses such property*
20 *as the taxpayer’s principal residence during the*
21 *5-year period described in subsection (a) for pe-*
22 *riods aggregating at least 1 year,*

23 *then the taxpayer shall be treated as using such prop-*
24 *erty as the taxpayer’s principal residence during any*
25 *time during such 5-year period in which the taxpayer*

1 *owns the property and resides in any facility (includ-*
2 *ing a nursing home) licensed by a State or political*
3 *subdivision to care for an individual in the tax-*
4 *payer's condition.*

5 *“(7) DETERMINATION OF MARITAL STATUS.—In*
6 *the case of any sale or exchange, for purposes of this*
7 *section—*

8 *“(A) the determination of whether an indi-*
9 *vidual is married shall be made as of the date*
10 *of the sale or exchange, and*

11 *“(B) an individual legally separated from*
12 *his spouse under a decree of divorce or of sepa-*
13 *rate maintenance shall not be considered as mar-*
14 *ried.*

15 *“(8) SALES OF REMAINDER INTERESTS.—For*
16 *purposes of this section—*

17 *“(A) IN GENERAL.—At the election of the*
18 *taxpayer, this section shall not fail to apply to*
19 *the sale or exchange of an interest in a principal*
20 *residence by reason of such interest being a re-*
21 *mainder interest in such residence, but this sec-*
22 *tion shall not apply to any other interest in such*
23 *residence which is sold or exchanged separately.*

24 *“(B) EXCEPTION FOR SALES TO RELATED*
25 *PARTIES.—Subparagraph (A) shall not apply to*

1 any sale to, or exchange with, any person who
2 bears a relationship to the taxpayer which is de-
3 scribed in section 267(b) or 707(b).

4 “(e) *DENIAL OF EXCLUSION FOR EXPATRIATES.*—This
5 section shall not apply to any sale or exchange by an indi-
6 vidual if the treatment provided by section 877(a)(1) ap-
7 plies to such individual.

8 “(f) *ELECTION TO HAVE SECTION NOT APPLY.*—This
9 section shall not apply to any sale or exchange with respect
10 to which the taxpayer elects not to have this section apply.

11 “(g) *RESIDENCES ACQUIRED IN ROLLOVERS UNDER*
12 *SECTION 1034.*—For purposes of this section, in the case
13 of property the acquisition of which by the taxpayer re-
14 sulted under section 1034 (as in effect on the day before
15 the date of the enactment of this section) in the nonrecog-
16 nition of any part of the gain realized on the sale or exchange
17 of another residence, in determining the period for which
18 the taxpayer has owned and used such property as the tax-
19 payer’s principal residence, there shall be included the ag-
20 gregate periods for which such other residence (and each
21 prior residence taken into account under section 1223(7)
22 in determining the holding period of such property) had
23 been so owned and used.”.

24 “(b) *REPEAL OF NONRECOGNITION OF GAIN ON ROLL-*
25 *OVER OF PRINCIPAL RESIDENCE.*—Section 1034 (relating

1 *to rollover of gain on sale of principal residence) is hereby*
2 *repealed.*

3 (c) *EXCEPTION FROM REPORTING.*—Subsection (e) of
4 *section 6045 (relating to return required in the case of real*
5 *estate transactions) is amended by adding at the end the*
6 *following new paragraph:*

7 “(5) *EXCEPTION FOR SALES OR EXCHANGES OF*
8 *CERTAIN PRINCIPAL RESIDENCES.*—

9 “(A) *IN GENERAL.*—Paragraph (1) shall
10 *not apply to any sale or exchange of a residence*
11 *for \$250,000 or less if the person referred to in*
12 *paragraph (2) receives written assurance in a*
13 *form acceptable to the Secretary from the seller*
14 *that—*

15 “(i) *such residence is the principal res-*
16 *idence (within the meaning of section 121)*
17 *of the seller,*

18 “(ii) *if the Secretary requires the in-*
19 *clusion on the return under subsection (a)*
20 *of information as to whether there is feder-*
21 *ally subsidized mortgage financing assist-*
22 *ance with respect to the mortgage on resi-*
23 *dences, that there is no such assistance with*
24 *respect to the mortgage on such residence,*
25 *and*

1 “(iii) the full amount of the gain on
2 such sale or exchange is excludable from
3 gross income under section 121.

4 If such assurance includes an assurance that the
5 seller is married, the preceding sentence shall be
6 applied by substituting ‘\$500,000’ for ‘\$250,000’.

7 “(B) SELLER.—For purposes of this para-
8 graph, the term ‘seller’ includes the person relin-
9 quishing the residence in an exchange.”.

10 (d) CONFORMING AMENDMENTS.—

11 (1) The following provisions of the Internal Rev-
12 enue Code of 1986 are each amended by striking “sec-
13 tion 1034” and inserting “section 121”: sections
14 25(e)(7), 56(e)(1)(A), 56(e)(3)(B)(i),
15 143(i)(1)(C)(i)(I), 163(h)(4)(A)(i)(I), 280A(d)(4)(A),
16 464(f)(3)(B)(i), 1033(h)(4), 1274(c)(3)(B),
17 6334(a)(13), and 7872(f)(11)(A).

18 (2) Paragraph (4) of section 32(c) is amended by
19 striking “(as defined in section 1034(h)(3))” and by
20 adding at the end the following new sentence: “For
21 purposes of the preceding sentence, the term ‘extended
22 active duty’ means any period of active duty pursu-
23 ant to a call or order to such duty for a period in
24 excess of 90 days or for an indefinite period.”.

1 (3) Subparagraph (A) of 143(m)(6) is amended
2 by inserting “(as in effect on the day before the date
3 of the enactment of the Revenue Reconciliation Act of
4 1997)” after “1034(e)”.

5 (4) Subsection (e) of section 216 is amended by
6 striking “such exchange qualifies for nonrecognition
7 of gain under section 1034(f)” and inserting “such
8 dwelling unit is used as his principal residence (with-
9 in the meaning of section 121)”.

10 (5) Section 512(a)(3)(D) is amended by insert-
11 ing “(as in effect on the day before the date of the en-
12 actment of the Revenue Reconciliation Act of 1997)”
13 after “1034”.

14 (6) Paragraph (7) of section 1016(a) is amended
15 by inserting “(as in effect on the day before the date
16 of the enactment of the Revenue Reconciliation Act of
17 1997)” after “1034” and by inserting “(as so in ef-
18 fect)” after “1034(e)”.

19 (7) Paragraph (3) of section 1033(k) is amended
20 to read as follows:

21 “(3) For exclusion from gross income of gain
22 from involuntary conversion of principal residence,
23 see section 121.”.

24 (8) Subsection (e) of section 1038 is amended to
25 read as follows:

1 “(e) *PRINCIPAL RESIDENCES.*—If—

2 “(1) subsection (a) applies to a reacquisition of
3 *real property with respect to the sale of which gain*
4 *was not recognized under section 121 (relating to*
5 *gain on sale of principal residence); and*

6 “(2) within 1 year after the date of the reacqui-
7 *sition of such property by the seller, such property is*
8 *resold by him,*

9 *then, under regulations prescribed by the Secretary, sub-*
10 *sections (b), (c), and (d) of this section shall not apply to*
11 *the reacquisition of such property and, for purposes of ap-*
12 *plying section 121, the resale of such property shall be treat-*
13 *ed as a part of the transaction constituting the original*
14 *sale of such property.”.*

15 (9) Paragraph (7) of section 1223 is amended by
16 *inserting “(as in effect on the day before the date of*
17 *the enactment of the Revenue Reconciliation Act of*
18 *1997)” after “1034”.*

19 (10)(A) Subsection (d) of section 1250 is amend-
20 *ed by striking paragraph (7) and by redesignating*
21 *paragraphs (9) and (10) as paragraphs (7) and (8),*
22 *respectively.*

23 (B) Subsection (e) of section 1250 is amended by
24 *striking paragraph (3).*

1 (11) *Subsection (c) of section 6012 is amended*
2 *by striking “(relating to one-time exclusion of gain*
3 *from sale of principal residence by individual who*
4 *has attained age 55)” and inserting “(relating to*
5 *gain from sale of principal residence)”.*

6 (12) *Paragraph (2) of section 6212(c) is amend-*
7 *ed by striking subparagraph (C) and by redesignating*
8 *the succeeding subparagraphs accordingly.*

9 (13) *Section 6504 is amended by striking para-*
10 *graph (4) and by redesignating the succeeding para-*
11 *graphs accordingly.*

12 (14) *The item relating to section 121 in the table*
13 *of sections for part III of subchapter B of chapter 1*
14 *is amended to read as follows:*

“Sec. 121. Exclusion of gain from sale of principal residence.”.

15 (15) *The table of sections for part III of sub-*
16 *chapter O of chapter 1 of such Code is amended by*
17 *striking the item relating to section 1034.*

18 (d) *EFFECTIVE DATE.—*

19 (1) *IN GENERAL.—The amendments made by*
20 *this section shall apply to sales and exchanges after*
21 *May 6, 1997.*

22 (2) *SALES BEFORE DATE OF ENACTMENT.—At*
23 *the election of the taxpayer, the amendments made by*

1 *this section shall not apply to any sale or exchange*
2 *before the date of the enactment of this Act.*

3 (3) *BINDING CONTRACTS.*—*At the election of the*
4 *taxpayer, the amendments made by this section shall*
5 *not apply to a sale or exchange after the date of the*
6 *enactment of this Act, if—*

7 (A) *such sale or exchange is pursuant to a*
8 *contract which was binding on such date, or*

9 (B) *without regard to such amendments,*
10 *gain would not be recognized under section 1034*
11 *of the Internal Revenue Code of 1986 (as in ef-*
12 *fect on the day before the date of the enactment*
13 *of this Act) on such sale or exchange by reason*
14 *of a new residence acquired on or before such*
15 *date or with respect to the acquisition of which*
16 *by the taxpayer a binding contract was in effect*
17 *on such date.*

18 *This paragraph shall not apply to any sale or ex-*
19 *change by an individual if the treatment provided by*
20 *section 877(a)(1) of the Internal Revenue Code of*
21 *1986 applies to such individual.*

1 **TITLE IV—ESTATE, GIFT, AND**
2 **GENERATION-SKIPPING TAX**
3 **PROVISIONS**

4 **SEC. 401. COST-OF-LIVING ADJUSTMENTS RELATING TO ES-**
5 **TATE AND GIFT TAX PROVISIONS.**

6 (a) *INCREASE IN UNIFIED ESTATE AND GIFT TAX*
7 *CREDIT.*—

8 (1) *ESTATE TAX CREDIT.*—

9 (A) *IN GENERAL.*—*Subsection (a) of section*
10 *2010 (relating to unified credit against estate*
11 *tax) is amended by striking “\$192,800” and in-*
12 *serting “the applicable credit amount”.*

13 (B) *APPLICABLE CREDIT AMOUNT.*—*Section*
14 *2010 is amended by redesignating subsection (c)*
15 *as subsection (d) and by inserting after sub-*
16 *section (b) the following new subsection:*

17 “(c) *APPLICABLE CREDIT AMOUNT.*—*For purposes of*
18 *this section—*

19 “(1) *IN GENERAL.*—*For purposes of this section,*
20 *the applicable credit amount is the amount of the ten-*
21 *tative tax which would be determined under the rate*
22 *schedule set forth in section 2001(c) if the amount*
23 *with respect to which such tentative tax is to be com-*
24 *puted were the applicable exclusion amount deter-*
25 *mined in accordance with the following table:*

<i>“In the case of estates of decedents dying, and gifts made, during:</i>	<i>The applicable exclusion amount is:</i>
1998	\$ 625,000
1999	\$ 640,000
2000	\$ 660,000
2001	\$ 675,000
2002	\$ 725,000
2003	\$ 750,000
2004	\$ 800,000
2005	\$ 900,000
2006 or thereafter	\$1,000,000.

1 “(2) *COST-OF-LIVING ADJUSTMENT.*—*In the case*
2 *of any decedent dying, and gift made, in a calendar*
3 *year after 2006, the \$1,000,000 amount set forth in*
4 *paragraph (1) shall be increased by an amount equal*
5 *to—*

6 “(A) \$1,000,000, multiplied by
7 “(B) the cost-of-living adjustment deter-
8 mined under section 1(f)(3) for such calendar
9 year by substituting ‘calendar year 2005’ for
10 ‘calendar year 1992’ in subparagraph (B) there-
11 of.

12 *If any amount as adjusted under the preceding sen-*
13 *tence is not a multiple of \$10,000, such amount shall*
14 *be rounded to the next lowest multiple of \$10,000.”.*

15 (C) *ESTATE TAX RETURNS.*—*Paragraph (1)*
16 *of section 6018(a) is amended by striking*
17 *“\$600,000” and inserting “the applicable exclu-*
18 *sion amount in effect under section 2010(c) for*
19 *the calendar year which includes the date of*
20 *death”.*

1 (D) *PHASEOUT OF GRADUATED RATES AND*
2 *UNIFIED CREDIT.*—Paragraph (2) of section
3 2001(c) is amended by striking “\$21,040,000”
4 and inserting “the amount at which the average
5 tax rate under this section is 55 percent”.

6 (E) *ESTATES OF NONRESIDENTS NOT CITI-*
7 *ZENS.*—Subparagraph (A) of section 2102(c)(3)
8 is amended by striking “\$192,800” and inserting
9 “the applicable credit amount in effect under sec-
10 tion 2010(c) for the calendar year which includes
11 the date of death”.

12 (2) *UNIFIED GIFT TAX CREDIT.*—Paragraph (1)
13 of section 2505(a) is amended by striking “\$192,800”
14 and inserting “the applicable credit amount in effect
15 under section 2010(c) for such calendar year”.

16 (b) *ALTERNATE VALUATION OF CERTAIN FARM, ETC.,*
17 *REAL PROPERTY.*—Subsection (a) of section 2032A is
18 amended by adding at the end the following new paragraph:

19 “(3) *INFLATION ADJUSTMENT.*—In the case of es-
20 tates of decedents dying in a calendar year after
21 1998, the \$750,000 amount contained in paragraph
22 (2) shall be increased by an amount equal to—

23 “(A) \$750,000, multiplied by

24 “(B) the cost-of-living adjustment deter-
25 mined under section 1(f)(3) for such calendar

1 year by substituting ‘calendar year 1997’ for
2 ‘calendar year 1992’ in subparagraph (B) there-
3 of.

4 If any amount as adjusted under the preceding sen-
5 tence is not a multiple of \$10,000, such amount shall
6 be rounded to the next lowest multiple of \$10,000.”.

7 (c) *ANNUAL GIFT TAX EXCLUSION.*—Subsection (b) of
8 section 2503 is amended—

9 (1) by striking the subsection heading and in-
10 serting the following:

11 “(b) *EXCLUSIONS FROM GIFTS.*—

12 “(1) *IN GENERAL.*—”,

13 (2) by moving the text 2 ems to the right, and

14 (3) by adding at the end the following new para-
15 graph:

16 “(2) *INFLATION ADJUSTMENT.*—In the case of
17 gifts made in a calendar year after 1998, the \$10,000
18 amount contained in paragraph (1) shall be increased
19 by an amount equal to—

20 “(A) \$10,000, multiplied by

21 “(B) the cost-of-living adjustment deter-
22 mined under section 1(f)(3) for such calendar
23 year by substituting ‘calendar year 1997’ for
24 ‘calendar year 1992’ in subparagraph (B) there-
25 of.

1 *If any amount as adjusted under the preceding sen-*
2 *tence is not a multiple of \$1,000, such amount shall*
3 *be rounded to the next lowest multiple of \$1,000.”.*

4 *(d) EXEMPTION FROM GENERATION-SKIPPING TAX.—*
5 *Section 2631 (relating to GST exemption) is amended by*
6 *adding at the end the following new subsection:*

7 *“(c) INFLATION ADJUSTMENT.—In the case of an indi-*
8 *vidual who dies in any calendar year after 1998, the*
9 *\$1,000,000 amount contained in subsection (a) shall be in-*
10 *creased by an amount equal to—*

11 *“(1) \$1,000,000, multiplied by*

12 *“(2) the cost-of-living adjustment determined*
13 *under section 1(f)(3) for such calendar year by sub-*
14 *stituting ‘calendar year 1997’ for ‘calendar year*
15 *1992’ in subparagraph (B) thereof.*

16 *If any amount as adjusted under the preceding sentence is*
17 *not a multiple of \$10,000, such amount shall be rounded*
18 *to the next lowest multiple of \$10,000.”.*

19 *(e) AMOUNT SUBJECT TO REDUCED RATE WHERE EX-*
20 *TENSION OF TIME FOR PAYMENT OF ESTATE TAX ON*
21 *CLOSELY HELD BUSINESS.—Subsection (j) of section 6601*
22 *is amended by redesignating paragraph (3) as paragraph*
23 *(4) and by inserting after paragraph (2) the following new*
24 *paragraph:*

1 “(3) *INFLATION ADJUSTMENT.*—*In the case of es-*
2 *tates of decedents dying in a calendar year after*
3 *1998, the \$1,000,000 amount contained in paragraph*
4 *(2)(A) shall be increased by an amount equal to—*

5 “(A) \$1,000,000, multiplied by

6 “(B) the cost-of-living adjustment deter-
7 *mined under section 1(f)(3) for such calendar*
8 *year by substituting ‘calendar year 1997’ for*
9 *‘calendar year 1992’ in subparagraph (B) there-*
10 *of.*

11 *If any amount as adjusted under the preceding sen-*
12 *tence is not a multiple of \$10,000, such amount shall*
13 *be rounded to the next lowest multiple of \$10,000.”.*

14 “(f) *EFFECTIVE DATE.*—*The amendments made by this*
15 *section shall apply to the estates of decedents dying, and*
16 *gifts made, after December 31, 1997.*

17 **SEC. 402. FAMILY-OWNED BUSINESS EXCLUSION.**

18 “(a) *IN GENERAL.*—*Part III of subchapter A of chapter*
19 *11 (relating to gross estate) is amended by inserting after*
20 *section 2033 the following new section:*

21 **“SEC. 2033A. FAMILY-OWNED BUSINESS EXCLUSION.**

22 “(a) *IN GENERAL.*—*In the case of an estate of a dece-*
23 *dent to which this section applies, the value of the gross*
24 *estate shall not include the lesser of—*

1 “(1) *the adjusted value of the qualified family-*
2 *owned business interests of the decedent otherwise in-*
3 *cludible in the estate, or*

4 “(2) *\$1,000,000.*

5 “(b) *ESTATES TO WHICH SECTION APPLIES.—*

6 “(1) *IN GENERAL.—This section shall apply to*
7 *an estate if—*

8 “(A) *the decedent was (at the date of the de-*
9 *cedent’s death) a citizen or resident of the United*
10 *States,*

11 “(B) *the executor elects the application of*
12 *this section and files the agreement referred to in*
13 *subsection (h),*

14 “(C) *the sum of—*

15 “(i) *the adjusted value of the qualified*
16 *family-owned business interests described in*
17 *paragraph (2), plus*

18 “(ii) *the amount of the gifts of such in-*
19 *terests determined under paragraph (3),*
20 *exceeds 50 percent of the adjusted gross estate,*
21 *and*

22 “(D) *during the 8-year period ending on the*
23 *date of the decedent’s death there have been peri-*
24 *ods aggregating 5 years or more during which—*

1 “(i) such interests were owned by the
2 decedent or a member of the decedent’s fam-
3 ily, and

4 “(ii) there was material participation
5 (within the meaning of section 2032A(e)(6))
6 by the decedent or a member of the dece-
7 dent’s family in the operation of the busi-
8 ness to which such interests relate.

9 “(2) *INCLUDIBLE QUALIFIED FAMILY-OWNED*
10 *BUSINESS INTERESTS.*—The qualified family-owned
11 business interests described in this paragraph are the
12 interests which—

13 “(A) are included in determining the value
14 of the gross estate (without regard to this sec-
15 tion), and

16 “(B) are acquired by any qualified heir
17 from, or passed to any qualified heir from, the
18 decedent (within the meaning of section
19 2032A(e)(9)).

20 “(3) *INCLUDIBLE GIFTS OF INTERESTS.*—The
21 amount of the gifts of qualified family-owned business
22 interests determined under this paragraph is the ex-
23 cess of—

24 “(A) the sum of—

1 “(i) the amount of such gifts from the
2 decedent to members of the decedent’s family
3 taken into account under subsection
4 2001(b)(1)(B), plus

5 “(ii) the amount of such gifts otherwise
6 excluded under section 2503(b),
7 to the extent such interests are continuously held
8 by members of such family (other than the dece-
9 dent’s spouse) between the date of the gift and the
10 date of the decedent’s death, over

11 “(B) the amount of such gifts from the dece-
12 dent to members of the decedent’s family other-
13 wise included in the gross estate.

14 “(c) *ADJUSTED GROSS ESTATE*.—For purposes of this
15 section, the term ‘adjusted gross estate’ means the value of
16 the gross estate (determined without regard to this sec-
17 tion)—

18 “(1) reduced by any amount deductible under
19 paragraph (3) or (4) of section 2053(a), and

20 “(2) increased by the excess of—

21 “(A) the sum of—

22 “(i) the amount of gifts determined
23 under subsection (b)(3), plus

24 “(ii) the amount (if more than de-
25 minimis) of other transfers from the dece-

1 *dent to the decedent's spouse (at the time of*
2 *the transfer) within 10 years of the date of*
3 *the decedent's death, plus*

4 *“(iii) the amount of other gifts (not in-*
5 *cluded under clause (i) or (ii)) from the de-*
6 *cedent within 3 years of such date, other*
7 *than gifts to members of the decedent's fam-*
8 *ily otherwise excluded under section*
9 *2503(b), over*

10 *“(B) the sum of the amounts described in*
11 *clauses (i), (ii), and (iii) of subparagraph (A)*
12 *which are otherwise includible in the gross estate.*

13 *For purposes of the preceding sentence, the Secretary may*
14 *provide that de minimis gifts to persons other than members*
15 *of the decedent's family shall not be taken into account.*

16 *“(d) ADJUSTED VALUE OF THE QUALIFIED FAMILY-*
17 *OWNED BUSINESS INTERESTS.—For purposes of this sec-*
18 *tion, the adjusted value of any qualified family-owned busi-*
19 *ness interest is the value of such interest for purposes of*
20 *this chapter (determined without regard to this section), re-*
21 *duced by the excess of—*

22 *“(1) any amount deductible under paragraph (3)*
23 *or (4) of section 2053(a), over*

24 *“(2) the sum of—*

1 “(A) any indebtedness on any qualified res-
2 idence of the decedent the interest on which is de-
3 ductible under section 163(h)(3), plus

4 “(B) any indebtedness to the extent the tax-
5 payer establishes that the proceeds of such in-
6 debtedness were used for the payment of edu-
7 cational and medical expenses of the decedent,
8 the decedent’s spouse, or the decedent’s depend-
9 ents (within the meaning of section 152), plus

10 “(C) any indebtedness not described in sub-
11 paragraph (A) or (B), to the extent such indebt-
12 edness does not exceed \$10,000.

13 “(e) *QUALIFIED FAMILY-OWNED BUSINESS INTER-*
14 *EST.—*

15 “(1) *IN GENERAL.—*For purposes of this section,
16 the term ‘qualified family-owned business interest’
17 means—

18 “(A) an interest as a proprietor in a trade
19 or business carried on as a proprietorship, or

20 “(B) an interest in an entity carrying on
21 a trade or business, if—

22 “(i) at least—

23 “(I) 50 percent of such entity is
24 owned (directly or indirectly) by the

1 *decedent and members of the decedent's*
2 *family,*

3 “(II) 70 percent of such entity is
4 so owned by members of 2 families, or

5 “(III) 90 percent of such entity is
6 so owned by members of 3 families,
7 and

8 “(ii) for purposes of subclause (II) or
9 (III) of clause (i), at least 30 percent of
10 such entity is so owned by the decedent and
11 members of the decedent's family.

12 “(2) *LIMITATION.*—Such term shall not in-
13 clude—

14 “(A) any interest in a trade or business the
15 principal place of business of which is not lo-
16 cated in the United States,

17 “(B) any interest in an entity, if the stock
18 or debt of such entity or a controlled group (as
19 defined in section 267(f)(1)) of which such entity
20 was a member was readily tradable on an estab-
21 lished securities market or secondary market (as
22 defined by the Secretary) at any time within 3
23 years of the date of the decedent's death,

24 “(C) any interest in a trade or business not
25 described in section 542(c)(2), if more than 35

1 *percent of the adjusted ordinary gross income of*
2 *such trade or business for the taxable year which*
3 *includes the date of the decedent's death would*
4 *qualify as personal holding company income (as*
5 *defined in section 543(a)),*

6 “(D) *that portion of an interest in a trade*
7 *or business that is attributable to—*

8 “(i) *cash or marketable securities, or*
9 *both, in excess of the reasonably expected*
10 *day-to-day working capital needs of such*
11 *trade or business, and*

12 “(ii) *any other assets of the trade or*
13 *business (other than assets used in the ac-*
14 *tive conduct of a trade or business described*
15 *in section 542(c)(2)), which produce, or are*
16 *held for the production of, income of which*
17 *is described in section 543(a) or in section*
18 *954(c)(1) (determined without regard to*
19 *subparagraph (A) thereof and by substitut-*
20 *ing ‘trade or business’ for ‘controlled foreign*
21 *corporation’).*

22 “(3) *RULES REGARDING OWNERSHIP.—*

23 “(A) *OWNERSHIP OF ENTITIES.—For pur-*
24 *poses of paragraph (1)(B)—*

1 “(i) *CORPORATIONS.*—Ownership of a
2 *corporation shall be determined by the hold-*
3 *ing of stock possessing the appropriate per-*
4 *centage of the total combined voting power*
5 *of all classes of stock entitled to vote and the*
6 *appropriate percentage of the total value of*
7 *shares of all classes of stock.*

8 “(ii) *PARTNERSHIPS.*—Ownership of a
9 *partnership shall be determined by the own-*
10 *ing of the appropriate percentage of the*
11 *capital interest in such partnership.*

12 “(B) *OWNERSHIP OF TIERED ENTITIES.*—
13 *For purposes of this section, if by reason of hold-*
14 *ing an interest in a trade or business, a dece-*
15 *dent, any member of the decedent’s family, any*
16 *qualified heir, or any member of any qualified*
17 *heir’s family is treated as holding an interest in*
18 *any other trade or business—*

19 “(i) *such ownership interest in the*
20 *other trade or business shall be disregarded*
21 *in determining if the ownership interest in*
22 *the first trade or business is a qualified*
23 *family-owned business interest, and*

24 “(ii) *this section shall be applied sepa-*
25 *rately in determining if such interest in*

1 *any other trade or business is a qualified*
2 *family-owned business interest.*

3 “(C) *INDIVIDUAL OWNERSHIP RULES.—For*
4 *purposes of this section, an interest owned, di-*
5 *rectly or indirectly, by or for an entity described*
6 *in paragraph (1)(B) shall be considered as being*
7 *owned proportionately by or for the entity’s*
8 *shareholders, partners, or beneficiaries. A person*
9 *shall be treated as a beneficiary of any trust*
10 *only if such person has a present interest in such*
11 *trust.*

12 “(f) *TAX TREATMENT OF FAILURE TO MATERIALLY*
13 *PARTICIPATE IN BUSINESS OR DISPOSITIONS OF INTER-*
14 *ESTS.—*

15 “(1) *IN GENERAL.—There is imposed an addi-*
16 *tional estate tax if, within 10 years after the date of*
17 *the decedent’s death and before the date of the quali-*
18 *fied heir’s death—*

19 “(A) *the material participation require-*
20 *ments described in section 2032A(c)(6)(B) are*
21 *not met with respect to the qualified family-*
22 *owned business interest which was acquired (or*
23 *passed) from the decedent,*

24 “(B) *the qualified heir disposes of any por-*
25 *tion of a qualified family-owned business interest*

1 *(other than by a disposition to a member of the*
2 *qualified heir's family or through a qualified*
3 *conservation contribution under section 170(h)),*

4 *“(C) the qualified heir loses United States*
5 *citizenship (within the meaning of section 877)*
6 *or with respect to whom an event described in*
7 *subparagraph (A) or (B) of section 877(e)(1) oc-*
8 *curs, and such heir does not comply with the re-*
9 *quirements of subsection (g), or*

10 *“(D) the principal place of business of a*
11 *trade or business of the qualified family-owned*
12 *business interest ceases to be located in the Unit-*
13 *ed States.*

14 *“(2) ADDITIONAL ESTATE TAX.—*

15 *“(A) IN GENERAL.—The amount of the ad-*
16 *ditional estate tax imposed by paragraph (1)*
17 *shall be equal to—*

18 *“(i) the applicable percentage of the*
19 *adjusted tax difference attributable to the*
20 *qualified family-owned business interest (as*
21 *determined under rules similar to the rules*
22 *of section 2032A(c)(2)(B)), plus*

23 *“(ii) interest on the amount deter-*
24 *mined under clause (i) at the underpay-*
25 *ment rate established under section 6621 for*

1 the period beginning on the date the estate
2 tax liability was due under this chapter
3 and ending on the date such additional es-
4 tate tax is due.

5 “(B) *APPLICABLE PERCENTAGE.*—For pur-
6 poses of this paragraph, the applicable percent-
7 age shall be determined under the following table:

“If the event described in paragraph (1) occurs in the following year of material participation:	The applicable percentage is:
1 through 6	100
7	80
8	60
9	40
10	20.

8 “(g) *SECURITY REQUIREMENTS FOR NONCITIZEN*
9 *QUALIFIED HEIRS.*—

10 “(1) *IN GENERAL.*—Except upon the application
11 of subparagraph (F) or (M) of subsection (i)(3), if a
12 qualified heir is not a citizen of the United States,
13 any interest under this section passing to or acquired
14 by such heir (including any interest held by such heir
15 at a time described in subsection (f)(1)(C)) shall be
16 treated as a qualified family-owned business interest
17 only if the interest passes or is acquired (or is held)
18 in a qualified trust.

19 “(2) *QUALIFIED TRUST.*—The term ‘qualified
20 trust’ means a trust—

1 “(A) which is organized under, and gov-
2 erned by, the laws of the United States or a
3 State, and

4 “(B) except as otherwise provided in regula-
5 tions, with respect to which the trust instrument
6 requires that at least 1 trustee of the trust be an
7 individual citizen of the United States or a do-
8 mestic corporation.

9 “(h) AGREEMENT.—The agreement referred to in this
10 subsection is a written agreement signed by each person in
11 being who has an interest (whether or not in possession)
12 in any property designated in such agreement consenting
13 to the application of subsection (f) with respect to such
14 property.

15 “(i) OTHER DEFINITIONS AND APPLICABLE RULES.—
16 For purposes of this section—

17 “(1) QUALIFIED HEIR.—The term ‘qualified
18 heir’—

19 “(A) has the meaning given to such term by
20 section 2032A(e)(1), and

21 “(B) includes any active employee of the
22 trade or business to which the qualified family-
23 owned business interest relates if such employee
24 has been employed by such trade or business for

1 *a period of at least 10 years before the date of*
2 *the decedent's death.*

3 “(2) *MEMBER OF THE FAMILY.*—*The term ‘mem-*
4 *ber of the family’ has the meaning given to such term*
5 *by section 2032A(e)(2).*

6 “(3) *APPLICABLE RULES.*—*Rules similar to the*
7 *following rules shall apply:*

8 “(A) *Section 2032A(b)(4) (relating to dece-*
9 *dents who are retired or disabled).*

10 “(B) *Section 2032A(b)(5) (relating to spe-*
11 *cial rules for surviving spouses).*

12 “(C) *Section 2032A(c)(2)(D) (relating to*
13 *partial dispositions).*

14 “(D) *Section 2032A(c)(3) (relating to only*
15 *1 additional tax imposed with respect to any 1*
16 *portion).*

17 “(E) *Section 2032A(c)(4) (relating to due*
18 *date).*

19 “(F) *Section 2032A(c)(5) (relating to liabil-*
20 *ity for tax; furnishing of bond).*

21 “(G) *Section 2032A(c)(7) (relating to no*
22 *tax if use begins within 2 years; active manage-*
23 *ment by eligible qualified heir treated as mate-*
24 *rial participation).*

1 “(H) Paragraphs (1) and (3) of section
2 2032A(d) (relating to election; agreement).

3 “(I) Section 2032A(e)(10) (relating to com-
4 munity property).

5 “(J) Section 2032A(e)(14) (relating to
6 treatment of replacement property acquired in
7 section 1031 or 1033 transactions).

8 “(K) Section 2032A(f) (relating to statute of
9 limitations).

10 “(L) Section 6166(b)(3) (relating to farm-
11 houses and certain other structures taken into
12 account).

13 “(M) Subparagraphs (B), (C), and (D) of
14 section 6166(g)(1) (relating to acceleration of
15 payment).

16 “(N) Section 6324B (relating to special lien
17 for additional estate tax).”.

18 (b) *CLERICAL AMENDMENT.*—The table of sections for
19 part III of subchapter A of chapter 11 is amended by insert-
20 ing after the item relating to section 2033 the following new
21 item:

 “Sec. 2033A. Family-owned business exclusion.”.

22 (c) *EFFECTIVE DATE.*—The amendments made by this
23 section shall apply to estates of decedents dying after De-
24 cember 31, 1997.

1 **SEC. 403. TREATMENT OF LAND SUBJECT TO A QUALIFIED**
2 **CONSERVATION EASEMENT.**

3 (a) *ESTATE TAX WITH RESPECT TO LAND SUBJECT*
4 *TO A QUALIFIED CONSERVATION EASEMENT.*—Section 2031
5 (relating to the definition of gross estate) is amended by
6 redesignating subsection (c) as subsection (d) and by insert-
7 ing after subsection (b) the following new subsection:

8 “(c) *ESTATE TAX WITH RESPECT TO LAND SUBJECT*
9 *TO A QUALIFIED CONSERVATION EASEMENT.*—

10 “(1) *IN GENERAL.*—If the executor makes the
11 election described in paragraph (4), then, except as
12 otherwise provided in this subsection, there shall be
13 excluded from the gross estate the lesser of—

14 “(A) the applicable percentage of the value
15 of land subject to a qualified conservation ease-
16 ment, reduced by the amount of any deduction
17 under section 2055(f) with respect to such land,
18 or

19 “(B) the excess (if any) of—

20 “(i) \$1,000,000, over

21 “(ii) the exclusion allowed with respect
22 to the qualified family-owned business in-
23 terests of the decedent under section 2033A.

24 “(2) *APPLICABLE PERCENTAGE.*—For purposes
25 of paragraph (1), the term ‘applicable percentage’
26 means 40 percent reduced (but not below zero) by 2

1 *percentage points for each percentage point (or frac-*
2 *tion thereof) by which the value of the qualified con-*
3 *servation easement is less than 30 percent of the value*
4 *of the land (determined without regard to the value*
5 *of such easement and reduced by the value of any re-*
6 *tained development right (as defined in paragraph*
7 *(4)).*

8 *“(3) TREATMENT OF CERTAIN INDEBTEDNESS.—*

9 *“(A) IN GENERAL.—The exclusion provided*
10 *in paragraph (1) shall not apply to the extent*
11 *that the land is debt-financed property.*

12 *“(B) DEFINITIONS.—For purposes of this*
13 *paragraph—*

14 *“(i) DEBT-FINANCED PROPERTY.—The*
15 *term ‘debt-financed property’ means any*
16 *property with respect to which there is an*
17 *acquisition indebtedness (as defined in*
18 *clause (ii)) on the date of the decedent’s*
19 *death.*

20 *“(ii) ACQUISITION INDEBTEDNESS.—*
21 *The term ‘acquisition indebtedness’ means,*
22 *with respect to debt-financed property, the*
23 *unpaid amount of—*

24 *“(I) the indebtedness incurred by*
25 *the donor in acquiring such property,*

1 “(II) the indebtedness incurred be-
2 fore the acquisition of such property if
3 such indebtedness would not have been
4 incurred but for such acquisition,

5 “(III) the indebtedness incurred
6 after the acquisition of such property if
7 such indebtedness would not have been
8 incurred but for such acquisition and
9 the incurrence of such indebtedness was
10 reasonably foreseeable at the time of
11 such acquisition, and

12 “(IV) the extension, renewal, or
13 refinancing of an acquisition indebted-
14 ness.

15 “(4) *TREATMENT OF RETAINED DEVELOPMENT*
16 *RIGHT.—*

17 “(A) *IN GENERAL.—*Paragraph (1) shall
18 not apply to the value of any development right
19 retained by the donor in the conveyance of a
20 qualified conservation easement.

21 “(B) *TERMINATION OF RETAINED DEVELOP-*
22 *MENT RIGHT.—*If every person in being who has
23 an interest (whether or not in possession) in the
24 land executes an agreement to extinguish perma-
25 nently some or all of any development rights (as

1 *defined in subparagraph (D)) retained by the*
2 *donor on or before the date for filing the return*
3 *of the tax imposed by section 2001, then any tax*
4 *imposed by section 2001 shall be reduced accord-*
5 *ingly. Such agreement shall be filed with the re-*
6 *turn of the tax imposed by section 2001. The*
7 *agreement shall be in such form as the Secretary*
8 *shall prescribe.*

9 “(C) *ADDITIONAL TAX.*—*Any failure to im-*
10 *plement the agreement described in subpara-*
11 *graph (B) not later than the earlier of—*

12 “(i) *the date which is 2 years after the*
13 *date of the decedent’s death, or*

14 “(ii) *the date of the sale of such land*
15 *subject to the qualified conservation ease-*
16 *ment,*

17 *shall result in the imposition of an additional*
18 *tax in the amount of the tax which would have*
19 *been due on the retained development rights sub-*
20 *ject to such agreement. Such additional tax shall*
21 *be due and payable on the last day of the 6th*
22 *month following such date.*

23 “(D) *DEVELOPMENT RIGHT DEFINED.*—*For*
24 *purposes of this paragraph, the term ‘develop-*
25 *ment right’ means any right to use the land sub-*

1 *ject to the qualified conservation easement in*
2 *which such right is retained for any commercial*
3 *purpose which is not subordinate to and directly*
4 *supportive of the use of such land as a farm for*
5 *farming purposes (within the meaning of section*
6 *6420(c)).*

7 “(4) *ELECTION.*—*The election under this sub-*
8 *section shall be made on the return of the tax imposed*
9 *by section 2001. Such an election, once made, shall be*
10 *irrevocable.*

11 “(5) *CALCULATION OF ESTATE TAX DUE.*—*An*
12 *executor making the election described in paragraph*
13 *(4) shall, for purposes of calculating the amount of*
14 *tax imposed by section 2001, include the value of any*
15 *development right (as defined in paragraph (3)) re-*
16 *tained by the donor in the conveyance of such quali-*
17 *fied conservation easement. The computation of tax*
18 *on any retained development right prescribed in this*
19 *paragraph shall be done in such manner and on such*
20 *forms as the Secretary shall prescribe.*

21 “(6) *DEFINITIONS.*—*For purposes of this sub-*
22 *section—*

23 “(A) *LAND SUBJECT TO A QUALIFIED CON-*
24 *SERVATION EASEMENT.*—*The term ‘land subject*

1 to a qualified conservation easement’ means
2 land—

3 “(i) which is located—

4 “(I) in or within 25 miles of an
5 area which, on the date of the dece-
6 dent’s death, is a metropolitan area (as
7 defined by the Office of Management
8 and Budget),

9 “(II) in or within 25 miles of an
10 area which, on the date of the dece-
11 dent’s death, is a national park or wil-
12 derness area designated as part of the
13 National Wilderness Preservation Sys-
14 tem (unless it is determined by the
15 Secretary that land in or within 25
16 miles of such a park or wilderness area
17 is not under significant development
18 pressure), or

19 “(III) in or within 10 miles of an
20 area which, on the date of the dece-
21 dent’s death, is an Urban National
22 Forest (as designated by the Forest
23 Service),

24 “(ii) which was owned by the decedent
25 or a member of the decedent’s family at all

1 *times during the 3-year period ending on*
2 *the date of the decedent's death, and*

3 “(iii) *with respect to which a qualified*
4 *conservation easement has been made by the*
5 *decedent or a member of the decedent's fam-*
6 *ily.*

7 “(B) *QUALIFIED CONSERVATION EASE-*
8 *MENT.—The term ‘qualified conservation ease-*
9 *ment’ means a qualified conservation contribu-*
10 *tion (as defined in section 170(h)(1)) of a quali-*
11 *fied real property interest (as defined in section*
12 *170(h)(2)(C)), except that clause (iv) of section*
13 *170(h)(4)(A) shall not apply, and the restriction*
14 *on the use of such interest described in section*
15 *170(h)(2)(C) shall include a prohibition on com-*
16 *mercial recreational activity.*

17 “(C) *MEMBER OF FAMILY.—The term ‘mem-*
18 *ber of the decedent's family’ means any member*
19 *of the family (as defined in section 2032A(e)(2))*
20 *of the decedent.*

21 “(7) *APPLICATION OF THIS SECTION TO INTER-*
22 *ESTS IN PARTNERSHIPS, CORPORATIONS, AND*
23 *TRUSTS.—This section shall apply to an interest in*
24 *a partnership, corporation, or trust if at least 30 per-*
25 *cent of the entity is owned (directly or indirectly) by*

1 *the decedent, as determined under the rules described*
2 *in section 2033A(e)(3).”.*

3 *(b) CARRYOVER BASIS.—Section 1014(a) (relating to*
4 *basis of property acquired from a decedent), as amended*
5 *by section 502(b), is amended by striking the period at the*
6 *end of paragraph (4) and inserting “, or” and by adding*
7 *at the end the following new paragraph:*

8 *“(5) to the extent of the applicability of the ex-*
9 *clusion described in section 2031(c), the basis in the*
10 *hands of the decedent.”.*

11 *(c) QUALIFIED CONSERVATION CONTRIBUTION IS NOT*
12 *A DISPOSITION.—Subsection (c) of section 2032A (relating*
13 *to alternative valuation method) is amended by adding at*
14 *the end the following new paragraph:*

15 *“(8) QUALIFIED CONSERVATION CONTRIBUTION*
16 *IS NOT A DISPOSITION.—A qualified conservation con-*
17 *tribution (as defined in section 170(h)) by gift or oth-*
18 *erwise shall not be deemed a disposition under sub-*
19 *section (c)(1)(A).”.*

20 *(d) QUALIFIED CONSERVATION CONTRIBUTION WHERE*
21 *SURFACE AND MINERAL RIGHTS ARE SEPARATED.—Sec-*
22 *tion 170(h)(5)(B)(ii) (relating to special rule) is amended*
23 *to read as follows:*

24 *“(i) SPECIAL RULE.—With respect to any con-*
25 *tribution of property in which the ownership of the*

1 *surface estate and mineral interests has been and re-*
2 *mains separated, subparagraph (A) shall be treated as*
3 *met if the probability of surface mining occurring on*
4 *such property is so remote as to be negligible.”.*

5 *(e) EFFECTIVE DATES.—*

6 *(1) EXCLUSION.—The amendments made by sub-*
7 *sections (a) and (b) shall apply to estates of decedents*
8 *dying after December 31, 1997.*

9 *(2) EASEMENTS.—The amendments made by*
10 *subsections (c) and (d) shall apply to easements*
11 *granted after December 31, 1997.*

12 **SEC. 404. 20-YEAR INSTALLMENT PAYMENT WHERE ESTATE**
13 **CONSISTS LARGELY OF INTEREST IN CLOSE-**
14 **LY HELD BUSINESS.**

15 *(a) IN GENERAL.—Section 6166(a) (relating to exten-*
16 *sion of time for payment of estate tax where estate consists*
17 *largely of interest in closely held business) is amended by*
18 *striking “10” in paragraph (1) and the heading thereof and*
19 *inserting “20”.*

20 *(b) EFFECTIVE DATE.—The amendments made by this*
21 *section shall apply to estates of decedents dying after De-*
22 *cember 31, 1997.*

1 **SEC. 405. NO INTEREST ON CERTAIN PORTION OF ESTATE**
2 **TAX EXTENDED UNDER SECTION 6166, RE-**
3 **DEDUCED INTEREST ON REMAINING PORTION,**
4 **AND NO DEDUCTION FOR SUCH REDUCED IN-**
5 **TEREST.**

6 *(a) NO INTEREST AND REDUCED INTEREST.—*

7 *(1) IN GENERAL.—Paragraphs (1) and (2) of*
8 *section 6601(j) (relating to 4-percent rate on certain*
9 *portion of estate tax extended under section 6166), as*
10 *amended by section 501(e), are amended to read as*
11 *follows:*

12 *“(1) IN GENERAL.—If the time for payment of*
13 *an amount of tax imposed by chapter 11 is extended*
14 *as provided in section 6166, then in lieu of the an-*
15 *nuual rate provided by subsection (a)—*

16 *“(A) no interest shall be paid on the no-in-*
17 *terest portion of such amount, and*

18 *“(B) interest on so much of such amount as*
19 *exceeds such no-interest portion shall be paid at*
20 *a rate equal to 45 percent of the annual rate*
21 *provided by subsection (a).*

22 *For purposes of this subsection, the amount of any de-*
23 *ficiency which is prorated to installments payable*
24 *under section 6166 shall be treated as an amount of*
25 *tax payable in installments under such section.*

1 “(2) *NO-INTEREST PORTION.*—*For purposes of*
2 *this section, the term ‘no-interest portion’ means the*
3 *lesser of—*

4 “(A)(i) *the amount of the tentative tax*
5 *which would be determined under the rate sched-*
6 *ule set forth in section 2001(c) if the amount*
7 *with respect to which such tentative tax is to be*
8 *computed were the sum of \$1,000,000 and the*
9 *applicable exclusion amount in effect under sec-*
10 *tion 2010(c), reduced by*

11 “(i) *the applicable credit amount in effect*
12 *under section 2010(c), or*

13 “(B) *the amount of the tax imposed by*
14 *chapter 11 which is extended as provided in sec-*
15 *tion 6166.”.*

16 (2) *CONFORMING AMENDMENTS.*—

17 (A) *Section 6601(j), as amended by section*
18 *501, is amended—*

19 (i) *by striking “4-percent” each place*
20 *it appears in paragraph (3) and inserting*
21 *“no-interest”, and*

22 (ii) *by striking “4-PERCENT RATE ON*
23 *CERTAIN PORTION OF” in the heading and*
24 *inserting “RATE ON”.*

1 (B) Section 6166(b)(7)(A)(iii) is amended
2 to read as follows:

3 “(iii) for purposes of applying section
4 6601(j) (relating to rate on estate tax ex-
5 tended under section 6166), the no-interest
6 portion shall be zero.”.

7 (C) Section 6166(b)(8)(A)(iii) is amended
8 to read as follows:

9 “(iii) NO-INTEREST PORTION NOT TO
10 APPLY.—For purposes of applying section
11 6601(j) (relating to rate on estate tax ex-
12 tended under section 6166), the no-interest
13 portion shall be zero.”.

14 (b) *DISALLOWANCE OF INTEREST DEDUCTION.*—

15 (1) *ESTATE TAX.*—Paragraph (1) of section
16 2053(c) is amended by adding at the end the follow-
17 ing new subparagraph:

18 “(D) *SECTION 6166 INTEREST.*—No deduc-
19 tion shall be allowed under this section for any
20 interest payable under section 6601 on any un-
21 paid portion of the tax imposed by section 2001
22 for the period during which an extension of time
23 for payment of such tax is in effect under section
24 6166.”.

1 (2) *INCOME TAX.*—Subparagraph (E) of section
2 163(h)(2) is amended by striking “or 6166”.

3 (c) *EFFECTIVE DATE.*—The amendments made by this
4 section shall apply to estates of decedents dying after De-
5 cember 31, 1997.

6 **SEC. 406. EXTENSION OF TREATMENT OF CERTAIN RENTS**
7 **UNDER SECTION 2032A TO LINEAL DESCEND-**
8 **ANTS.**

9 (a) *GENERAL RULE.*—Paragraph (7) of section
10 2032A(c) (relating to special rules for tax treatment of dis-
11 positions and failures to use for qualified use) is amended
12 by adding at the end the following new subparagraph:

13 “(E) *CERTAIN RENTS TREATED AS QUALI-*
14 *FIED USE.*—For purposes of this subsection, a
15 surviving spouse or lineal descendant of the dece-
16 dent shall not be treated as failing to use quali-
17 fied real property in a qualified use solely be-
18 cause such spouse or descendant rents such prop-
19 erty to a member of the family of such spouse or
20 descendant on a net cash basis. For purposes of
21 the preceding sentence, a legally adopted child of
22 an individual shall be treated as the child of
23 such individual by blood.”.

24 (b) **CONFORMING AMENDMENT.**—Section
25 2032A(b)(5)(A) is amended by striking the last sentence.

1 (c) *EFFECTIVE DATE.*—*The amendments made by this*
2 *section shall apply with respect to leases entered into after*
3 *December 31, 1976.*

4 **SEC. 407. EXPANSION OF EXCEPTION FROM GENERATION-**
5 **SKIPPING TRANSFER TAX FOR TRANSFERS TO**
6 **INDIVIDUALS WITH DECEASED PARENTS.**

7 (a) *IN GENERAL.*—*Section 2651 (relating to genera-*
8 *tion assignment) is amended by redesignating subsection (e)*
9 *as subsection (f), and by inserting after subsection (d) the*
10 *following new subsection:*

11 “(e) *SPECIAL RULE FOR PERSONS WITH A DECEASED*
12 *PARENT.*—

13 “(1) *IN GENERAL.*—*For purposes of determining*
14 *whether any transfer is a generation-skipping trans-*
15 *fer, if—*

16 “(A) *an individual is a descendant of a*
17 *parent of the transferor (or the transferor’s*
18 *spouse or former spouse), and*

19 “(B) *such individual’s parent who is a lin-*
20 *eal descendant of the parent of the transferor (or*
21 *the transferor’s spouse or former spouse) is dead*
22 *at the time the transfer (from which an interest*
23 *of such individual is established or derived) is*
24 *subject to a tax imposed by chapter 11 or 12*

1 upon the transferor (and if there shall be more
2 than 1 such time, then at the earliest such time),
3 such individual shall be treated as if such individual
4 were a member of the generation which is 1 genera-
5 tion below the lower of the transferor’s generation or
6 the generation assignment of the youngest living an-
7 cestor of such individual who is also a descendant of
8 the parent of the transferor (or the transferor’s spouse
9 or former spouse), and the generation assignment of
10 any descendant of such individual shall be adjusted
11 accordingly.

12 “(2) *LIMITED APPLICATION OF SUBSECTION TO*
13 *COLLATERAL HEIRS.—This subsection shall not apply*
14 *with respect to a transfer to any individual who is*
15 *not a lineal descendant of the transferor (or the trans-*
16 *feror’s spouse or former spouse) if, at the time of the*
17 *transfer, such transferor has any living lineal de-*
18 *scendant.”.*

19 **(b) CONFORMING AMENDMENTS.—**

20 (1) *Section 2612(c) (defining direct skip) is*
21 *amended by striking paragraph (2) and by redesign-*
22 *ating paragraph (3) as paragraph (2).*

23 (2) *Section 2612(c)(2) (as so redesignated) is*
24 *amended by striking “section 2651(e)(2)” and insert-*
25 *ing “section 2651(f)(2)”.*

1 (c) *EFFECTIVE DATE.*—*The amendments made by this*
2 *section shall apply to terminations, distributions, and*
3 *transfers occurring after December 31, 1997.*

4 **TITLE V—EXTENSIONS**

5 **SEC. 501. RESEARCH TAX CREDIT.**

6 (a) *IN GENERAL.*—*Paragraph (1) of section 41(h) (re-*
7 *lating to termination) is amended—*

8 (1) *by striking “May 31, 1997” and inserting*
9 *“May 31, 1999”, and*

10 (2) *by striking in the last sentence “during the*
11 *first 11 months of such taxable year.” and inserting*
12 *“during the 35-month period beginning with the first*
13 *month of such year. The 35 months referred to in the*
14 *preceding sentence shall be reduced by the number of*
15 *full months after June 1996 (and before the first*
16 *month of such first taxable year) during which the*
17 *taxpayer paid or incurred any amount which is*
18 *taken into account in determining the credit under*
19 *this section.”.*

20 (b) *TECHNICAL AMENDMENTS.*—

21 (1) *Subparagraph (B) of section 41(c)(4) is*
22 *amended to read as follows:*

23 “(B) *ELECTION.*—*An election under this*
24 *paragraph shall apply to the taxable year for*

1 *which made and all succeeding taxable years un-*
2 *less revoked with the consent of the Secretary.”.*

3 (2) *Paragraph (1) of section 45C(b) is amended*
4 *by striking “May 31, 1997” and inserting “May 31,*
5 *1999”.*

6 (c) *EFFECTIVE DATE.—The amendments made by this*
7 *section shall apply to amounts paid or incurred after May*
8 *31, 1997.*

9 **SEC. 502. CONTRIBUTIONS OF STOCK TO PRIVATE FOUNDA-**
10 **TIONS.**

11 (a) *IN GENERAL.—Clause (ii) of section 170(e)(5)(D)*
12 *(relating to termination) is amended by striking “May 31,*
13 *1997” and inserting “May 31, 1999”.*

14 (b) *EFFECTIVE DATE.—The amendment made by sub-*
15 *section (a) shall apply to contributions made after May 31,*
16 *1997.*

17 **SEC. 503. WORK OPPORTUNITY TAX CREDIT.**

18 (a) *EXTENSION.—Subparagraph (B) of section*
19 *51(c)(4) (relating to termination) is amended by striking*
20 *“September 30, 1997” and inserting “May 31, 1999”.*

21 (b) *MODIFICATION OF ELIGIBILITY REQUIREMENT*
22 *BASED ON PERIOD ON WELFARE.—*

23 (1) *IN GENERAL.—Subparagraph (A) of section*
24 *51(d)(2) (defining qualified IV–A recipient) is*
25 *amended by striking all that follows “a IV–A pro-*

1 *gram” and inserting “for any 9 months during the*
2 *18-month period ending on the hiring date.”.*

3 (2) *CONFORMING AMENDMENT.—Subparagraph*
4 *(A) of section 51(d)(3) is amended to read as follows:*

5 “(A) *IN GENERAL.—The term ‘qualified vet-*
6 *eran’ means any veteran who is certified by the*
7 *designated local agency as being a member of a*
8 *family receiving assistance under a food stamp*
9 *program under the Food Stamp Act of 1977 for*
10 *at least a 3-month period ending during the 12-*
11 *month period ending on the hiring date.”.*

12 (c) *QUALIFIED SSI RECIPIENTS TREATED AS MEM-*
13 *BERS OF TARGETED GROUPS.—*

14 (1) *IN GENERAL.—Section 51(d)(1) (relating to*
15 *members of targeted groups) is amended by striking*
16 *“or” at the end of subparagraph (F), by striking the*
17 *period at the end of subparagraph (G) and inserting*
18 *“, or”, and by adding at the end the following new*
19 *subparagraph:*

20 “(H) *a qualified SSI recipient.”.*

21 (2) *QUALIFIED SSI RECIPIENTS.—Section 51(d)*
22 *is amended by redesignating paragraphs (9), (10),*
23 *and (11) as paragraphs (10), (11), and (12), respec-*
24 *tively, and by inserting after paragraph (8) the fol-*
25 *lowing new paragraph:*

1 “(9) *QUALIFIED SSI RECIPIENT.*—*The term*
2 *‘qualified SSI recipient’ means any individual who is*
3 *certified by the designated local agency as receiving*
4 *supplemental security income benefits under title XVI*
5 *of the Social Security Act (including supplemental se-*
6 *curity income benefits of the type described in section*
7 *1616 of such Act or section 212 of Public Law 93-*
8 *66) for any month ending within the 60-day period*
9 *ending on the hiring date.”.*

10 (d) *PERCENTAGE OF WAGES ALLOWED AS CREDIT.*—

11 (1) *IN GENERAL.*—*Subsection (a) of section 51*
12 *(relating to determination of amount) is amended by*
13 *striking “35 percent” and inserting “40 percent”.*

14 (2) *APPLICATION OF CREDIT FOR INDIVIDUALS*
15 *PERFORMING FEWER THAN 400 HOURS OF SERV-*
16 *ICES.*—*Paragraph (3) of section 51(i) is amended to*
17 *read as follows:*

18 “(3) *INDIVIDUALS NOT MEETING MINIMUM EM-*
19 *PLOYMENT PERIODS.*—

20 “(A) *REDUCTION OF CREDIT FOR INDIVID-*
21 *UALS PERFORMING FEWER THAN 400 HOURS OF*
22 *SERVICES.*—*In the case of an individual who has*
23 *completed at least 120 hours, but less than 400*
24 *hours, of services performed for the employer,*

1 *subsection (a) shall be applied by substituting*
2 *‘25 percent’ for ‘40 percent’.*

3 *“(B) DENIAL OF CREDIT FOR INDIVIDUALS*
4 *PERFORMING FEWER THAN 120 HOURS OF SERV-*
5 *ICES.—No wages shall be taken into account*
6 *under subsection (a) with respect to any individ-*
7 *ual unless such individual has completed at least*
8 *120 hours of services performed for the em-*
9 *ployer.”.*

10 *(e) EFFECTIVE DATE.—The amendments made by this*
11 *section shall apply to individuals who begin work for the*
12 *employer after September 30, 1997.*

13 **SEC. 504. ORPHAN DRUG TAX CREDIT.**

14 *(a) IN GENERAL.—Section 45C (relating to clinical*
15 *testing expenses for certain drugs for rare diseases or condi-*
16 *tions) is amended by striking subsection (e).*

17 *(b) EFFECTIVE DATE.—The amendment made by sub-*
18 *section (a) shall apply to amounts paid or incurred after*
19 *May 31, 1997.*

1 **TITLE VI—INCENTIVES FOR RE-**
 2 **VITALIZATION OF THE DIS-**
 3 **TRICT OF COLUMBIA**

4 **SEC. 601. TAX INCENTIVES FOR REVITALIZATION OF THE**
 5 **DISTRICT OF COLUMBIA.**

6 (a) *IN GENERAL.*—Chapter 1 is amended by adding
 7 at the end the following new subchapter:

8 **“Subchapter W—Incentives for the**
 9 **Revitalization of the District of Columbia**

“Sec. 1400. *First-time homebuyer credit for District of Columbia.*

“Sec. 1400A. *Credit for equity investments in and loans to District of Columbia businesses.*

“Sec. 1400B. *Zero percent capital gains rate.*

“Sec. 1400C. *Trust Fund for DC schools.*

10 **“SEC. 1400. FIRST-TIME HOMEBUYER CREDIT FOR DISTRICT**
 11 **OF COLUMBIA.**

12 “(a) *ALLOWANCE OF CREDIT.*—In the case of an indi-
 13 vidual who is a first-time homebuyer of a principal resi-
 14 dence in the District of Columbia during any taxable year,
 15 there shall be allowed as a credit against the tax imposed
 16 by this chapter for the taxable year an amount equal to
 17 so much of the purchase price of the residence as does not
 18 exceed \$5,000.

19 “(b) *FIRST-TIME HOMEBUYER.*—For purposes of this
 20 section—

21 “(1) *IN GENERAL.*—The term ‘first-time home-
 22 buyer’ has the same meaning as when used in section

1 72(t)(8)(D)(i), except that ‘principal residence in the
2 District of Columbia during the 1-year period’ shall
3 be substituted for ‘principal residence during the 2-
4 year period’ in subclause (I) thereof.

5 “(2) ONE-TIME ONLY.—If an individual is treat-
6 ed as a first-time homebuyer with respect to any
7 principal residence, such individual may not be treat-
8 ed as a first-time homebuyer with respect to any other
9 principal residence.

10 “(3) PRINCIPAL RESIDENCE.—The term ‘prin-
11 cipal residence’ has the same meaning as when used
12 in section 121.

13 “(4) DATE OF ACQUISITION.—The term ‘date of
14 acquisition’ has the same meaning as when used in
15 section 72t(8)(D)(iii).

16 “(c) CARRYOVER OF CREDIT.—If the credit allowable
17 under subsection (a) exceeds the limitation imposed by sec-
18 tion 26(a) for such taxable year reduced by the sum of the
19 credits allowable under subpart A of part IV of subchapter
20 A (other than this section and section 25), such excess shall
21 be carried to the succeeding taxable year and added to the
22 credit allowable under subsection (a) for such taxable year.

23 “(d) SPECIAL RULES.—For purposes of this section—

24 “(1) ALLOCATION OF DOLLAR LIMITATION.—

1 “(A) *MARRIED INDIVIDUALS FILING JOINT-*
2 *LY.—In the case of a husband and wife who file*
3 *a joint return, the \$5,000 limitation under sub-*
4 *section (a) shall apply to the joint return.*

5 “(B) *MARRIED INDIVIDUALS FILING SEPA-*
6 *RATELY.—In the case of a married individual*
7 *filing a separate return, subsection (a) shall be*
8 *applied by substituting ‘\$2,500’ for ‘\$5,000’.*

9 “(C) *OTHER TAXPAYERS.—If 2 or more in-*
10 *dividuals who are not married purchase a prin-*
11 *cipal residence, the amount of the credit allowed*
12 *under subsection (a) shall be allocated among*
13 *such individuals in such manner as the Sec-*
14 *retary may prescribe, except that the total*
15 *amount of the credits allowed to all such individ-*
16 *uals shall not exceed \$5,000.*

17 “(2) *PURCHASE.—The term ‘purchase’ means*
18 *any acquisition, but only if—*

19 “(A) *the property is not acquired from a*
20 *person whose relationship to the person acquir-*
21 *ing it would result in the disallowance of losses*
22 *under section 267 or 707(b) (but, in applying*
23 *section 267 (b) and (c) for purposes of this sec-*
24 *tion, paragraph (4) of section 267(c) shall be*
25 *treated as providing that the family of an indi-*

1 *vidual shall include only his spouse, ancestors,*
2 *and lineal descendants), and*

3 “(B) *the basis of the property in the hands*
4 *of the person acquiring it is not determined—*

5 “(i) *in whole or in part by reference to*
6 *the adjusted basis of such property in the*
7 *hands of the person from whom acquired, or*

8 “(ii) *under section 1014(a) (relating to*
9 *property acquired from a decedent).*

10 “(3) *PURCHASE PRICE.—The term ‘purchase*
11 *price’ means the adjusted basis of the principal resi-*
12 *dence on the date of acquisition.*

13 “(d) *REPORTING.—If the Secretary requires informa-*
14 *tion reporting under section 6045 to verify the eligibility*
15 *of taxpayers for the credit allowable by this section, the ex-*
16 *ception provided by section 6045(e)(5) shall not apply.*

17 “(e) *CREDIT TREATED AS NONREFUNDABLE PER-*
18 *SONAL CREDIT.—For purposes of this title, the credit al-*
19 *lowed by this section shall be treated as a credit allowable*
20 *under subpart A of part IV of subchapter A of this chapter.*

1 *which is functionally related and subordinate to such*
2 *property) and substantially all of the use of which is*
3 *in the District of Columbia and is in the active con-*
4 *duct of a trade or business in the District of Colum-*
5 *bia. A rule similar to the rule of section 1397C(a)(2)*
6 *shall apply for purposes of the preceding sentence.*

7 *“(c) QUALIFIED EQUITY INVESTMENT CREDIT.—*

8 *“(1) IN GENERAL.—For purposes of this section,*
9 *the qualified equity investment credit determined*
10 *under this section for any taxable year is an amount*
11 *equal to the percentage specified by the Economic De-*
12 *velopment Corporation (but not greater than 25 per-*
13 *cent) of the aggregate amount paid in cash by the*
14 *taxpayer during the taxable year for the purchase of*
15 *District business investments.*

16 *“(2) DISTRICT BUSINESS INVESTMENT.—For*
17 *purposes of this subsection, the term ‘District business*
18 *investment’ means—*

19 *“(A) any District business stock, and*

20 *“(B) any District partnership interest.*

21 *“(3) DISTRICT BUSINESS STOCK.—For purposes*
22 *of this subsection—*

23 *“(A) IN GENERAL.—Except as provided in*
24 *subparagraph (B), the term ‘District business*

1 *stock’ means any stock in a domestic corporation*
2 *if—*

3 “(i) *such stock is acquired by the tax-*
4 *payer at its original issue (directly or*
5 *through an underwriter) solely in exchange*
6 *for cash, and*

7 “(ii) *as of the time such stock was is-*
8 *sued, such corporation was engaged in a*
9 *trade or business in the District of Colum-*
10 *bia (or, in the case of a new corporation,*
11 *such corporation was being organized for*
12 *purposes of engaging in such a trade or*
13 *business).*

14 “(B) *REDEMPTIONS.—A rule similar to the*
15 *rule of section 1202(c)(3) shall apply for pur-*
16 *poses of this paragraph.*

17 “(4) *QUALIFIED DISTRICT PARTNERSHIP INTER-*
18 *EST.—For purposes of this subsection, the term*
19 *‘qualified District partnership interest’ means any*
20 *interest in a partnership if—*

21 “(A) *such interest is acquired by the tax-*
22 *payer from the partnership solely in exchange*
23 *for cash, and*

24 “(B) *as of the time such interest was ac-*
25 *quired, such partnership was engaging in a*

1 *trade or business in the District of Columbia (or,*
2 *in the case of a new partnership, such partner-*
3 *ship was being organized for purposes of engag-*
4 *ing in such a trade or business).*

5 *A rule similar to the rule of paragraph (3)(B) shall*
6 *apply for purposes of this paragraph.*

7 “(5) *RECAPTURE OF CREDIT UPON CERTAIN DIS-*
8 *POSITIONS OF DISTRICT BUSINESS INVESTMENTS.—*

9 “(A) *IN GENERAL.—If a taxpayer disposes*
10 *of any District business investment (or any other*
11 *property the basis of which is determined in*
12 *whole or in part by reference to the adjusted*
13 *basis of such investment) before the end of the 5-*
14 *year period beginning on the date such invest-*
15 *ment was acquired by the taxpayer, the tax-*
16 *payer’s tax imposed by this chapter for the tax-*
17 *able year in which such distribution occurs shall*
18 *be increased by the aggregate decrease in the*
19 *credits allowed under section 38 for all prior*
20 *taxable years which would have resulted solely*
21 *from reducing to zero any credit determined*
22 *under this section with respect to such invest-*
23 *ment.*

24 “(B) *EXCEPTIONS.—Subparagraph (A)*
25 *shall not apply to any gift, transfer, or trans-*

1 *action described in paragraph (1), (2), or (3) of*
2 *section 1245(b).*

3 “(C) *SPECIAL RULE.—Any increase in tax*
4 *under subparagraph (A) shall not be treated as*
5 *a tax imposed by this chapter for purposes of—*

6 “(i) *determining the amount of any*
7 *credit allowable under this chapter, and*

8 “(ii) *determining the amount of the*
9 *tax imposed by section 55.*

10 “(6) *BASIS REDUCTION.—For purposes of this*
11 *title, the basis of any District business investment*
12 *shall be reduced by the amount of the credit deter-*
13 *mined under this section with respect to such invest-*
14 *ment.*

15 “(d) *LIMITATION ON AMOUNT OF CREDIT.—*

16 “(1) *IN GENERAL.—The amount of the DC in-*
17 *vestment credit determined under this section with re-*
18 *spect to any taxpayer for any taxable year shall not*
19 *exceed the credit amount allocated to such taxpayer*
20 *for such taxable year by the Economic Development*
21 *Corporation.*

22 “(2) *OVERALL LIMITATION.—The aggregate cred-*
23 *it amount which may be allocated by the Economic*
24 *Development Corporation under this section shall not*
25 *exceed \$60,000,000.*

1 “(3) *CRITERIA FOR ALLOCATING CREDIT*
2 *AMOUNTS.—The allocation of credit amounts under*
3 *this section shall be made in accordance with criteria*
4 *established by the Economic Development Corpora-*
5 *tion. In establishing such criteria, such Corporation*
6 *shall take into account—*

7 “(A) *the degree to which the business receiv-*
8 *ing the loan or investment will provide job op-*
9 *portunities for low and moderate income resi-*
10 *dents of a targeted area, and*

11 “(B) *whether such business is within a tar-*
12 *geted area.*

13 “(4) *TARGETED AREA.—For purposes of para-*
14 *graph (3), the term ‘targeted area’ means—*

15 “(A) *any census tract located in the District*
16 *of Columbia which is part of an enterprise com-*
17 *munity designated under subchapter U before the*
18 *date of the enactment of this subchapter, and*

19 “(B) *any other census tract which is located*
20 *in the District of Columbia and which has a*
21 *poverty rate of not less than 35 percent.*

22 “(e) *ECONOMIC DEVELOPMENT CORPORATION.—For*
23 *purposes of this section, the term ‘Economic Development*
24 *Corporation’ has the meaning given such term by section*
25 *1400A(b).*

1 “(f) *REGULATIONS.*—*The Secretary shall prescribe*
2 *such regulations as may be appropriate to carry out this*
3 *section.*

4 “(g) *APPLICATION OF SECTION.*—*This section shall*
5 *apply to any credit amount allocated for taxable years be-*
6 *ginning after December 31, 1997, and before January 1,*
7 *2003.*

8 **“SEC. 1400B. ZERO PERCENT CAPITAL GAINS RATE.**

9 “(a) *EXCLUSION.*—

10 “(1) *IN GENERAL.*—*Gross income shall not in-*
11 *clude qualified capital gain from the sale or exchange*
12 *of any DC asset held for more than 5 years.*

13 “(2) *SPECIAL 10 PERCENT RATE FOR DC ASSETS*
14 *ACQUIRED IN 1998.*—

15 “(A) *IN GENERAL.*—*In the case of any DC*
16 *asset acquired during calendar year 1998—*

17 “(i) *paragraph (1) shall not apply to*
18 *any qualified capital gain from the sale or*
19 *exchange of such asset, and*

20 “(ii) *the qualified capital gain de-*
21 *scribed in clause (i) shall be treated as ad-*
22 *justed net capital gain described in section*
23 *1(h)(1)(D) for the taxable year of the sale or*
24 *exchange (and the amount under section*

1 1(h)(1)(D)(i) for such taxable year shall be
2 increased by the amount of such gain).

3 “(B) SPECIAL RULE.—For purposes of sub-
4 paragraph (A), any DC asset the basis of which
5 is determined in whole or in part by reference to
6 the basis of an asset to which subparagraph (A)
7 applies shall be treated as a DC asset acquired
8 during calendar year 1998.

9 “(b) DC ASSET.—For purposes of this section—

10 “(1) IN GENERAL.—The term ‘DC asset’
11 means—

12 “(A) any DC business stock,

13 “(B) any DC partnership interest, and

14 “(C) any DC business property.

15 “(2) DC BUSINESS STOCK.—

16 “(A) IN GENERAL.—The term ‘DC business
17 stock’ means any stock in a domestic corporation
18 which is originally issued after December 31,
19 1997, if—

20 “(i) such stock is acquired by the tax-
21 payer, before January 1, 2003, at its origi-
22 nal issue (directly or through an under-
23 writer) solely in exchange for cash,

24 “(ii) as of the time such stock was is-
25 sued, such corporation was a DC business

1 *(or, in the case of a new corporation, such*
2 *corporation was being organized for pur-*
3 *poses of being a DC business), and*

4 *“(iii) during substantially all of the*
5 *taxpayer’s holding period for such stock,*
6 *such corporation qualified as a DC busi-*
7 *ness.*

8 *“(B) REDEMPTIONS.—A rule similar to the*
9 *rule of section 1202(c)(3) shall apply for pur-*
10 *poses of this paragraph.*

11 *“(3) DC PARTNERSHIP INTEREST.—The term*
12 *‘DC partnership interest’ means any capital or prof-*
13 *its interest in a domestic partnership which is origi-*
14 *nally issued after December 31, 1997, if—*

15 *“(A) such interest is acquired by the tax-*
16 *payer, before January 1, 2003, from the partner-*
17 *ship solely in exchange for cash,*

18 *“(B) as of the time such interest was ac-*
19 *quired, such partnership was a DC business (or,*
20 *in the case of a new partnership, such partner-*
21 *ship was being organized for purposes of being a*
22 *DC business), and*

23 *“(C) during substantially all of the tax-*
24 *payer’s holding period for such interest, such*
25 *partnership qualified as a DC business.*

1 *A rule similar to the rule of paragraph (2)(B) shall*
2 *apply for purposes of this paragraph.*

3 “(4) *DC BUSINESS PROPERTY.—*

4 “(A) *IN GENERAL.—The term ‘DC business*
5 *property’ means tangible property if—*

6 “(i) *such property was acquired by the*
7 *taxpayer by purchase (as defined in section*
8 *179(d)(2)) after December 31, 1997, and be-*
9 *fore January 1, 2003,*

10 “(ii) *the original use of such property*
11 *in the District of Columbia commences with*
12 *the taxpayer, and*

13 “(iii) *during substantially all of the*
14 *taxpayer’s holding period for such property,*
15 *substantially all of the use of such property*
16 *was in a DC business of the taxpayer.*

17 “(B) *SPECIAL RULE FOR BUILDINGS WHICH*
18 *ARE SUBSTANTIALLY IMPROVED.—*

19 “(i) *IN GENERAL.—The requirements*
20 *of clauses (i) and (ii) of subparagraph (A)*
21 *shall be treated as met with respect to—*

22 “(I) *property which is substan-*
23 *tially improved by the taxpayer before*
24 *January 1, 2003, and*

1 “(II) any land on which such
2 property is located.

3 “(ii) *SUBSTANTIAL IMPROVEMENT.*—
4 For purposes of clause (i), property shall be
5 treated as substantially improved by the
6 taxpayer only if, during any 24-month pe-
7 riod beginning after December 31, 1997, ad-
8 ditions to basis with respect to such prop-
9 erty in the hands of the taxpayer exceed the
10 greater of—

11 “(I) an amount equal to the ad-
12 justed basis of such property at the be-
13 ginning of such 24-month period in the
14 hands of the taxpayer, or

15 “(II) \$5,000.

16 “(6) *TREATMENT OF SUBSEQUENT PURCHASERS,*
17 *ETC.*—The term ‘DC asset’ includes any property
18 which would be a DC asset but for paragraph
19 (2)(A)(i), (3)(A), or (4)(A)(ii) in the hands of the tax-
20 payer if such property was a DC asset in the hands
21 of a prior holder.

22 “(7) *5-YEAR SAFE HARBOR.*—If any property
23 ceases to be a DC asset by reason of paragraph
24 (2)(A)(iii), (3)(C), or (4)(A)(iii) after the 5-year pe-
25 riod beginning on the date the taxpayer acquired such

1 *property, such property shall continue to be treated as*
2 *meeting the requirements of such paragraph; except*
3 *that the amount of gain to which subsection (a) ap-*
4 *plies on any sale or exchange of such property shall*
5 *not exceed the amount which would be qualified cap-*
6 *ital gain had such property been sold on the date of*
7 *such cessation.*

8 “(c) *DC BUSINESS.*—*For purposes of this section, the*
9 *term ‘DC business’ means any entity which is an enterprise*
10 *zone business (as defined in section 1397B), determined—*

11 “(1) *by treating the District of Columbia as an*
12 *empowerment zone and as if no other area is an*
13 *empowerment zone or enterprise community, and*

14 “(2) *without regard to subsections (b)(6) and*
15 “(c)(5) *of section 1397B.*

16 “(d) *OTHER DEFINITIONS AND SPECIAL RULES.*—*For*
17 *purposes of this section—*

18 “(1) *QUALIFIED CAPITAL GAIN.*—*Except as oth-*
19 *erwise provided in this subsection, the term ‘qualified*
20 *capital gain’ means any gain recognized on the sale*
21 *or exchange of—*

22 “(A) *a capital asset, or*

23 “(B) *property used in the trade or business*
24 *(as defined in section 1231(b)).*

1 “(2) *GAIN BEFORE 1998 NOT QUALIFIED.*—The
2 term ‘qualified capital gain’ shall not include any
3 gain attributable to periods before January 1, 1998.

4 “(3) *CERTAIN GAIN ON REAL PROPERTY NOT*
5 *QUALIFIED.*—The term ‘qualified capital gain’ shall
6 not include any gain which would be treated as ordi-
7 nary income under section 1250 if section 1250 ap-
8 plied to all depreciation rather than the additional
9 depreciation.

10 “(4) *INTANGIBLES AND LAND NOT INTEGRAL*
11 *PART OF DC BUSINESS.*—The term ‘qualified capital
12 gain’ shall not include any gain which is attributable
13 to real property, or an intangible asset, which is not
14 an integral part of a DC business.

15 “(5) *RELATED PARTY TRANSACTIONS.*—The term
16 ‘qualified capital gain’ shall not include any gain at-
17 tributable, directly or indirectly, in whole or in part,
18 to a transaction with a related person. For purposes
19 of this paragraph, persons are related to each other if
20 such persons are described in section 267(b) or
21 707(b)(1).

22 “(e) *CERTAIN OTHER RULES TO APPLY.*—Rules simi-
23 lar to the rules of subsections (g), (h), (i)(2), and (j) of sec-
24 tion 1202 shall apply for purposes of this section.

1 “(f) *SALES AND EXCHANGES OF INTERESTS IN PART-*
2 *NERSHIPS AND S CORPORATIONS WHICH ARE DC BUSI-*
3 *NESSES.*—*In the case of the sale or exchange of an interest*
4 *in a partnership, or of stock in an S corporation, which*
5 *was a DC business during substantially all of the period*
6 *the taxpayer held such interest or stock, the amount of*
7 *qualified capital gain shall be determined without regard*
8 *to—*

9 “(1) *any gain which is attributable to real prop-*
10 *erty, or an intangible asset, which is not an integral*
11 *part of a DC business, and*

12 “(2) *any gain attributable to periods before Jan-*
13 *uary 1, 1998.*

14 **“SEC. 1400C. TRUST FUND FOR DC SCHOOLS.**

15 “(a) *CREATION OF FUND.*—*There is established in the*
16 *Treasury of the United States a trust fund to be known*
17 *as the ‘Trust Fund for DC Schools’, consisting of such*
18 *amounts as may be appropriated or credited to the Fund*
19 *as provided in this section.*

20 “(b) *TRANSFER TO TRUST FUND OF AMOUNTS EQUIV-*
21 *ALENT TO CERTAIN TAXES.*—

22 “(1) *IN GENERAL.*—*There are hereby appro-*
23 *priated to the Trust Fund for DC Schools amounts*
24 *equivalent to the applicable percentage of revenues re-*
25 *ceived in the Treasury from income taxes imposed by*

1 *this chapter for any taxable year beginning after De-*
2 *cember 31, 1997, and before January 1, 2008, on in-*
3 *dividual taxpayers who are residents of the District*
4 *of Columbia as of the last day of such taxable year.*

5 “(2) *APPLICABLE PERCENTAGE.*—*For purposes*
6 *of paragraph (1), the term ‘applicable percentage’*
7 *means the percentage which the Secretary determines*
8 *necessary to result in \$5,000,000 being appropriated*
9 *to the Trust Fund under paragraph (1) for each of*
10 *the calendar years 1998 through 2007.*

11 “(3) *TRANSFER OF AMOUNTS.*—*The amounts ap-*
12 *propriated by paragraph (1) shall be transferred at*
13 *least monthly from the general fund of the Treasury*
14 *to the Trust Fund for DC Schools on the basis of esti-*
15 *mates made by the Secretary of the amounts referred*
16 *to in such paragraph. Proper adjustments shall be*
17 *made in the amounts subsequently transferred to the*
18 *extent prior estimates were in excess of or less than*
19 *the amounts required to be transferred.*

20 “(c) *EXPENDITURES FROM FUND.*—

21 “(1) *IN GENERAL.*—*Amounts in the Trust Fund*
22 *for DC Schools are hereby appropriated, and shall be*
23 *available without fiscal year limitation, for payment*
24 *by the Secretary of debt service on qualified DC school*
25 *bonds.*

1 “(2) *QUALIFIED DC SCHOOL BONDS.*—*The term*
2 ‘*qualified DC school bonds*’ *means bonds which—*

3 “(A) *are issued after March 31, 1998, by the*
4 *District of Columbia to finance the construction,*
5 *rehabilitation, and repair of schools under the*
6 *jurisdiction of the government of the District of*
7 *Columbia, and*

8 “(B) *are certified by the District of Colum-*
9 *bia Control Board as meeting the requirements*
10 *of subparagraph (A) after giving 60 days notice*
11 *of any proposed certification to the Subcommit-*
12 *tees on the District of Columbia of the Commit-*
13 *tees on Appropriations of the House of Rep-*
14 *resentatives and the Senate.*

15 “(d) *REPORT.*—*It shall be the duty of the Secretary*
16 *to hold the Trust Fund for DC Schools and to report to*
17 *the Congress each year on the financial condition and the*
18 *results of the operations of such Fund during the preceding*
19 *fiscal year and on its expected condition and operations*
20 *during the next fiscal year. Such report shall be printed*
21 *as a House document of the session of the Congress to which*
22 *the report is made.*

23 “(e) *INVESTMENT.*—

24 “(1) *IN GENERAL.*—*It shall be the duty of the*
25 *Secretary to invest such portion of the Trust Fund for*

1 *DC Schools as is not, in the Secretary’s judgment, re-*
2 *quired to meet current withdrawals. Such investments*
3 *may be made only in interest-bearing obligations of*
4 *the United States. For such purpose, such obligations*
5 *may be acquired—*

6 *“(A) on original issue at the issue price, or*

7 *“(B) by purchase of outstanding obligations*
8 *at the market price.*

9 *“(2) SALE OF OBLIGATIONS.—Any obligation ac-*
10 *quired by the Trust Fund for DC Schools may be sold*
11 *by the Secretary at the market price.*

12 *“(3) INTEREST ON CERTAIN PROCEEDS.—The in-*
13 *terest on, and the proceeds from the sale or redemp-*
14 *tion of, any obligations held in the Trust Fund for*
15 *DC Schools shall be credited to and form a part of*
16 *the Trust Fund for DC Schools.”.*

17 *(b) CREDITS MADE PART OF GENERAL BUSINESS*
18 *CREDIT.—*

19 *(1) Subsection (b) of section 38 is amended by*
20 *striking “plus” at the end of paragraph (11), by*
21 *striking the period at the end of paragraph (12) and*
22 *inserting “, plus”, and by adding at the end the fol-*
23 *lowing new paragraph:*

24 *“(13) the DC investment credit determined under*
25 *section 1400A(a).”.*

1 (2) *Subsection (d) of section 39 is amended by*
2 *adding at the end the following new paragraph:*

3 “(8) *NO CARRYBACK OF DC CREDITS BEFORE EF-*
4 *FECTIVE DATE.—No portion of the unused business*
5 *credit for any taxable year which is attributable to*
6 *the credit under section 1400A, or to the credits under*
7 *subchapter U by reason of section 1400, may be car-*
8 *ried back to a taxable year ending before the date of*
9 *the enactment of sections 1400A and 1400.”.*

10 (3) *Subsection (c) of section 196 is amended by*
11 *striking “and” at the end of paragraph (6), by strik-*
12 *ing the period at the end of paragraph (7) and insert-*
13 *ing “, and”, and by adding at the end the following*
14 *new paragraph:*

15 “(8) *the DC investment credit determined under*
16 *section 1400A(a).”.*

17 (c) *CLERICAL AMENDMENT.—The table of subchapters*
18 *for chapter 1 is amended by adding at the end the following*
19 *new item:*

*“Subchapter W. Incentives for the Revitalization of the District of
Columbia.”.*

20 (d) *EFFECTIVE DATE.—This section shall take effect*
21 *on the date of the enactment of this Act.*

1 **TITLE VII—MISCELLANEOUS**
2 **PROVISIONS**
3 **Subtitle A—Provisions Relating to**
4 **Excise Taxes**

5 **SEC. 701. REPEAL OF TAX ON DIESEL FUEL USED IN REC-**
6 **REATIONAL BOATS.**

7 (a) *IN GENERAL.*—Subparagraph (B) of section
8 6421(e)(2) (defining off-highway business use) is amended
9 by striking clauses (iii) and (iv).

10 (b) *CONFORMING AMENDMENTS.*—

11 (1) Subparagraph (A) of section 4041(a)(1) is
12 amended—

13 (A) by striking “, a diesel-powered train, or
14 a diesel-powered boat” each place it appears and
15 inserting “or a diesel-powered train”, and

16 (B) by striking “vehicle, train, or boat” and
17 inserting “vehicle or train”.

18 (2) Paragraph (1) of section 4041(a) is amended
19 by striking subparagraph (D).

20 (c) *EFFECTIVE DATE.*—The amendments made by this
21 section shall take effect on January 1, 1998.

22 **SEC. 702. INTERCITY PASSENGER RAIL FUND.**

23 (a) *ESTABLISHMENT OF FUND.*—The Internal Reve-
24 nue Code of 1986 is amended by adding at the end the fol-
25 lowing new subtitle:

1 **“Subtitle L—Intercity Passenger**
2 **Rail Fund**

“Sec. 9901. Intercity passenger rail fund.

3 **“SEC. 9901. INTERCITY PASSENGER RAIL FUND.**

4 “(a) *CREATION OF FUND.*—*There is established in the*
5 *Treasury of the United States a fund to be known as the*
6 *‘Intercity Passenger Rail Fund’, consisting of such amounts*
7 *as may be appropriated to the Fund as provided in this*
8 *section.*

9 “(b) *TRANSFER TO INTERCITY PASSENGER RAIL FUND*
10 *OF AMOUNTS EQUIVALENT TO CERTAIN TAXES.*—

11 “(1) *IN GENERAL.*—*There are hereby appro-*
12 *priated to the Intercity Passenger Rail Fund amounts*
13 *equivalent to the net revenues received in the Treas-*
14 *ury from the applicable portion of the taxes imposed*
15 *by sections 4041, 4042, 4081, and 4091 after Septem-*
16 *ber 30, 1997, and before April 16, 2001.*

17 “(2) *APPLICABLE PORTION.*—*For purposes of*
18 *paragraph (1), the term ‘applicable portion’ means*
19 *the lesser of—*

20 “(A) *0.5 cent multiplied by the number of*
21 *gallons on which the taxes described in para-*
22 *graph (1) are imposed, or*

1 “(B) the portion of such taxes not otherwise
2 appropriated to a trust fund under subchapter A
3 of chapter 98.

4 “(3) NET REVENUES.—For purposes of para-
5 graph (1), the term ‘net revenues’ means the amount
6 estimated by the Secretary based on the excess of—

7 “(A) the applicable portion of the taxes re-
8 ceived in the Treasury under sections 4041,
9 4042, 4081, and 4091, over

10 “(B) the decrease in the tax imposed by
11 chapter 1 resulting from the applicable portion
12 of the taxes imposed by sections 4041, 4042,
13 4081, and 4091.

14 “(4) TRANSFER OF AMOUNTS.—The amounts ap-
15 propriated by paragraph (1) shall be transferred at
16 least monthly from the general fund of the Treasury
17 to the Intercity Passenger Rail Fund on the basis of
18 estimates made by the Secretary of the amounts re-
19 ferred to in such paragraph. Proper adjustments shall
20 be made in the amounts subsequently transferred to
21 the extent prior estimates were in excess of or less
22 than the amounts required to be transferred.

23 “(c) EXPENDITURES FROM FUND.—

24 “(1) IN GENERAL.—In addition to any amounts
25 appropriated from the general fund of the Treasury

1 *of the United States for fiscal years 1998 through*
2 *2001 to enable the Secretary of Transportation to*
3 *make grants to the National Railroad Passenger Cor-*
4 *poration, amounts in the Intercity Passenger Rail*
5 *Fund shall be available, as provided by appropriation*
6 *Acts, to finance qualified expenses of—*

7 *“(A) the National Railroad Passenger Cor-*
8 *poration, and*

9 *“(B) each non-Amtrak State, to the extent*
10 *determined under paragraph (3).*

11 *The amount available for any fiscal year under the*
12 *preceding sentence shall be the amount dedicated to*
13 *such Fund for such fiscal year (and no other amount)*
14 *and shall remain available until expended.*

15 *“(2) MAXIMUM AMOUNT OF FUNDS TO NON-AM-*
16 *TRAK STATES.—Each non-Amtrak State shall receive*
17 *under this subsection an amount equal to the lesser*
18 *of—*

19 *“(A) the State’s qualified expenses for the*
20 *fiscal year, or*

21 *“(B) the product of—*

22 *“(i) ¹/₁₂ of 1 percent of the aggregate*
23 *amounts appropriated from the Intercity*
24 *Passenger Rail Fund for such fiscal year*
25 *under paragraph (1), and*

1 “(i) the number of months such State
2 is a non-Amtrak State in such fiscal year.
3 If the amount determined under subparagraph (B)
4 exceeds the amount under subparagraph (A) for any
5 fiscal year, the amount under subparagraph (B) for
6 the following fiscal year shall be increased by the
7 amount of such excess.

8 “(3) TRANSFERS FROM FUND FOR CERTAIN RE-
9 PAYMENTS AND CREDITS.—

10 “(A) IN GENERAL.—The Secretary shall pay
11 from time to time from the Intercity Passenger
12 Rail Fund into the general fund of the Treasury
13 amounts equivalent to—

14 “(i) the amounts paid before October 1,
15 2001, under—

16 “(I) section 6420 (relating to
17 amounts paid in respect of gasoline
18 used on farms),

19 “(II) section 6421 (relating to
20 amounts paid in respect of gasoline
21 used for certain nonhighway purposes
22 or by local transit systems), and

23 “(III) section 6427 (relating to
24 fuels not used for taxable purposes),

1 *on the basis of claims filed for periods end-*
2 *ing before April 16, 2001, and*

3 “(ii) *the credits allowed under section*
4 *34 (relating to credit for certain uses of gas-*
5 *oline and special fuels) with respect to gaso-*
6 *line and special fuels used before April 16,*
7 *2001.*

8 *The amounts payable from the Intercity Pas-*
9 *senger Rail Fund under this subparagraph shall*
10 *be determined by taking into account only*
11 *amounts transferred to such Fund.*

12 “(B) *TRANSFERS BASED ON ESTIMATES.—*
13 *Transfers under subparagraph (A) shall be made*
14 *on the basis of estimates by the Secretary, and*
15 *proper adjustments shall be made in amounts*
16 *subsequently transferred to the extent prior esti-*
17 *mates were in excess or less than the amounts re-*
18 *quired to be transferred.*

19 “(d) *DEFINITIONS.—For purposes of this section—*

20 “(1) *QUALIFIED EXPENSES.—The term ‘qualified*
21 *expenses’ means expenses incurred after September 30,*
22 *1997, and before April 16, 2001—*

23 “(A) *for—*

24 “(i) *in the case of the National Rail-*
25 *road Passenger Corporation—*

1 “(I) the acquisition of equipment,
2 rolling stock, and other capital im-
3 provements, the upgrading of mainte-
4 nance facilities, and the maintenance
5 of existing equipment, in intercity pas-
6 senger rail service, and

7 “(II) the payment of interest and
8 principal on obligations incurred for
9 such acquisition, upgrading, and
10 maintenance, and

11 “(ii) in the case of a non-Amtrak
12 State—

13 “(I) the acquisition of equipment,
14 rolling stock, and other capital im-
15 provements, the upgrading of mainte-
16 nance facilities, and the maintenance
17 of existing equipment, in intercity pas-
18 senger rail or bus service,

19 “(II) the purchase of intercity
20 passenger rail services from the Na-
21 tional Railroad Passenger Corporation,

22 “(III) capital expenditures related
23 to rail operations for Class II or Class
24 III rail carriers in the State,

1 “(IV) any project that is eligible
2 to receive funding under section 5309,
3 5310, or 5311 of title 49, United States
4 Code,

5 “(V) any project that is eligible to
6 receive funding under section 130 of
7 title 23, United States Code,

8 “(VI) the upgrading and mainte-
9 nance of intercity primary and rural
10 air service facilities, and the purchase
11 of intercity air service between pri-
12 mary and rural airports and regional
13 hubs, and

14 “(VII) the payment of interest
15 and principal on obligations incurred
16 for such acquisition, upgrading, main-
17 tenance, and purchase, and

18 “(B) certified by the Secretary of Transpor-
19 tation as meeting the requirements of subpara-
20 graph (A).

21 “(2) NON-AMTRAK STATE.—The term ‘non-Am-
22 trak State’ means any State which does not receive
23 intercity passenger rail service from the National
24 Railroad Passenger Corporation.

1 “(e) *TAX TREATMENT OF FUND EXPENDITURES.*—
2 *With respect to any payment of qualified expenses described*
3 *in subsection (d)(1)(A)(i) from the Intercity Passenger Rail*
4 *Fund during any taxable year to a taxpayer—*

5 “(1) *such payment shall not be included in the*
6 *gross income of the taxpayer for such taxable year,*

7 “(2) *no deduction shall be allowed to the tax-*
8 *payer with respect to any amount paid or incurred*
9 *which is attributable to such payment, and*

10 “(3) *the basis of any property shall be reduced*
11 *by the portion of the cost of such property which is*
12 *attributable to such payment.*

13 “(f) *REPORT.*—*It shall be the duty of the Secretary*
14 *to hold the Intercity Passenger Rail Fund and to report*
15 *to the Congress each year on the financial condition and*
16 *the results of the operations of such Fund during the preced-*
17 *ing fiscal year and on its expected condition and operations*
18 *during the next fiscal year. Such report shall be printed*
19 *as a House document of the session of the Congress to which*
20 *the report is made.*

21 “(g) *INVESTMENT.*—

22 “(1) *IN GENERAL.*—*It shall be the duty of the*
23 *Secretary to invest such portion of the Intercity Pas-*
24 *senger Rail Fund as is not, in the Secretary’s judg-*
25 *ment, required to meet current withdrawals. Such in-*

1 (c) *EFFECTIVE DATE.*—*The amendments made by this*
2 *section shall apply with respect to taxes imposed after Sep-*
3 *tember 30, 1997.*

4 (d) *BUDGETARY TREATMENT OF AMOUNTS DEPOSITED*
5 *INTO INTERCITY PASSENGER RAIL FUND.*—*Pursuant to*
6 *section 207 of such H. Con. Res. 84, of the total revenues*
7 *raised by this Act, amounts equal to the amounts deposited*
8 *into the Intercity Passenger Rail Fund for each fiscal year*
9 *are hereby dedicated to finance such Fund.*

10 **SEC. 703. MODIFICATION OF TAX TREATMENT OF HARD**
11 **CIDER.**

12 (a) *HARD CIDER CONTAINING NOT MORE THAN 7*
13 *PERCENT ALCOHOL TAXED AS WINE.*—*Subsection (b) of*
14 *section 5041 (relating to imposition and rate of tax) is*
15 *amended by striking “and” at the end of paragraph (4),*
16 *by striking the period at the end of paragraph (5) and in-*
17 *serting “; and”, and by adding at the end the following*
18 *new paragraph:*

19 “(6) *On hard cider derived primarily from ap-*
20 *ples or apple concentrate and water, containing no*
21 *other fruit product, and containing at least one-half*
22 *of 1 percent and not more than 7 percent of alcohol*
23 *by volume, 22.6 cents per wine gallon.”.*

24 (b) *EXCLUSION FROM SMALL PRODUCER CREDIT.*—
25 *Paragraph (1) of section 5041(c) (relating to credit for*

1 *small domestic producers) is amended by striking “sub-*
2 *section (b)(4)” and inserting “paragraphs (4) and (6) of*
3 *subsection (b)”.*

4 *(c) EFFECTIVE DATE.—The amendments made by this*
5 *section shall take effect on October 1, 1997.*

6 **SEC. 704. GENERAL REVENUE PORTION OF HIGHWAY**
7 **MOTOR FUELS TAXES DEPOSITED INTO HIGH-**
8 **WAY TRUST FUND.**

9 *(a) IN GENERAL.—Paragraph (4) of section 9503(b)*
10 *is amended by striking “and” at the end of subparagraph*
11 *(A), and by striking subparagraph (B) and inserting the*
12 *following new subparagraphs:*

13 *“(B) there shall not be taken into account*
14 *the taxes imposed by sections 4041 and 4081 to*
15 *the extent attributable to—*

16 *“(i) the Leaking Underground Storage*
17 *Tank Trust Fund financing rate, or*

18 *“(ii) fuel used in a train,*

19 *“(C) in the case of fuels used as described*
20 *in paragraph (4)(D), (5)(B), or (6)(D) of sub-*
21 *section (c), there shall not be taken into ac-*
22 *count—*

23 *“(i) in the case of gasoline and special*
24 *motor fuels, so much of the rate of tax as ex-*
25 *ceeds 11.5 cents per gallon, and*

1 “(ii) in the case of diesel fuel, so much
2 of the rate of tax as exceeds 17.5 cents per
3 gallon, and

4 “(D) there shall not be taken into account
5 so much of the rate of the taxes received in the
6 Treasury after June 30, 2000, as exceeds the ex-
7 cess of 4.3 cents per gallon over the portion (if
8 any) of such rate as is taken into account in de-
9 termining the amount appropriated to the Inter-
10 city Passenger Rail Fund under section 9901.”.

11 (b) *LIMITATION ON EXPENDITURES.*—Subsection (c) of
12 section 9503 is amended by adding at the end the following
13 new paragraph:

14 “(7) *LIMITATION ON EXPENDITURES.*—Notwith-
15 standing any other provision of law, in calculating
16 amounts under section 157(a) of title 23, United
17 States Code, and sections 1013(c), 1015(a), and
18 1015(b) of the Intermodal Surface Transportation Ef-
19 ficiency Act of 1991 (Public Law 102–240; 105 Stat.
20 1914), deposits in the Highway Trust Fund resulting
21 from the amendments made by the Revenue Reconcili-
22 ation Act of 1997 shall not be taken into account.”.

23 (c) *TECHNICAL AMENDMENTS.*—

24 (1) Section 9503 is amended by striking sub-
25 section (f).

1 (2) Paragraphs (4)(D), (5)(B), and (6)(D) of sec-
2 tion 9503(c) are each amended by striking “attrib-
3 utable to the Highway Trust Fund financing rate”
4 and inserting “attributable to taxes taken into ac-
5 count in determining transfers under subparagraph
6 (C) of subsection (b)(4)”.

7 (d) *EFFECTIVE DATE.*—The amendments made by this
8 section shall apply to taxes received in the Treasury after
9 September 30, 1997.

10 **SEC. 705. RATE OF TAX ON CERTAIN SPECIAL FUELS DETER-**
11 **MINED ON BASIS OF BTU EQUIVALENCY WITH**
12 **GASOLINE.**

13 (a) *SPECIAL MOTOR FUELS.*—Paragraph (2) of sec-
14 tion 4041(a) (relating to special motor fuels) is amended
15 to read as follows:

16 “(2) *SPECIAL MOTOR FUELS.*—

17 “(A) *IN GENERAL.*—There is hereby im-
18 posed a tax on benzol, benzene, naphtha, lique-
19 fied petroleum gas, casing head and natural gas-
20 oline, or any other liquid (other than kerosene,
21 gas oil, or fuel oil, or any product taxable under
22 section 4081)—

23 “(i) sold by any person to an owner,
24 lessee, or other operator of a motor vehicle

1 or motorboat for use as a fuel in such motor
2 vehicle or motorboat, or

3 “(ii) used by any person as a fuel in
4 a motor vehicle or motorboat unless there
5 was a taxable sale of such liquid under
6 clause (i).

7 “(B) *RATE OF TAX.*—The rate of the tax
8 imposed by this paragraph shall be—

9 “(i) except as otherwise provided in
10 this subparagraph, the rate of tax specified
11 in section 4081(a)(2)(A)(i) which is in ef-
12 fect at the time of such sale or use,

13 “(ii) 13.6 cents per gallon in the case
14 of liquefied petroleum gas, and

15 “(iii) 11.9 cents per gallon in the case
16 of liquefied natural gas.

17 In the case of any sale or use after September 30,
18 1999, clause (ii) shall be applied by substituting
19 ‘3.2 cents’ for ‘13.6 cents’, and clause (iii) shall
20 be applied by substituting ‘2.8 cents’ for ‘11.9
21 cents’.”.

22 (b) *METHANOL FUEL PRODUCED FROM NATURAL*
23 *GAS.*—

1 (1) *IN GENERAL.*—Subparagraph (A) of section
2 4041(m)(1) is amended by striking clause (i) and in-
3 serting the following new clause:

4 “(i) after September 30, 1997, and be-
5 fore October 1, 1999—

6 “(I) in the case of fuel none of the
7 alcohol in which consists of ethanol,
8 9.15 cents per gallon, and

9 “(II) in any other case, 11.3 cents
10 per gallon, and”.

11 (c) *EFFECTIVE DATE.*—The amendments made by this
12 section shall take effect on the date of the enactment of this
13 Act.

14 **SEC. 706. STUDY OF FEASIBILITY OF MOVING COLLECTION**
15 **POINT FOR DISTILLED SPIRITS EXCISE TAX.**

16 (a) *IN GENERAL.*—The Secretary of the Treasury or
17 his delegate shall conduct a study of options for changing
18 the event on which the tax imposed by section 5001 of the
19 Internal Revenue Code of 1986 is determined. One such op-
20 tion which shall be studied is determining such tax on re-
21 moval from registered wholesale warehouses. In studying
22 each such option, such Secretary shall focus on administra-
23 tive issues including—

24 (1) tax compliance,

1 (2) *the number of taxpayers required to pay the*
2 *tax,*

3 (3) *the types of financial responsibility require-*
4 *ments that might be required, and*

5 (4) *special requirements regarding segregation of*
6 *nontax-paid distilled spirits from other products.*

7 *Such study shall review the effects of each such option on*
8 *the Department of the Treasury (including staffing and*
9 *other demands on budgetary resources) and the change in*
10 *the period between the time such tax is currently paid and*
11 *the time such tax would be paid under each such option.*

12 (b) *REPORT.*—*The report of such study shall be sub-*
13 *mitted to the Committee on Finance of the Senate and the*
14 *Committee on Ways and Means of the House of Representa-*
15 *tives not later than January 31, 1998.*

16 **SEC. 707. EXTENSION AND MODIFICATION OF SUBSIDIES**
17 **FOR ALCOHOL FUELS.**

18 (a) *EXTENSIONS.*—

19 (1) *ALCOHOL FUELS CREDIT.*—*Subsection (e) of*
20 *section 40 is amended—*

21 (A) *by striking “December 31, 2000” and*
22 *inserting “December 31, 2007”, and*

23 (B) *by striking “January 1, 2001” and in-*
24 *serting “January 1, 2007”.*

25 (2) *EXCISE TAXES.*—

1 (A) Section 4041(b)(2)(C) is amended by
2 striking “October 1, 2000” and inserting “Octo-
3 ber 1, 2007”.

4 (B) Sections 4041(k)(3), 4081(c)(8),
5 4091(c)(5), and 6427(f)(4) are each amended by
6 striking “September 30, 2000” and inserting
7 “September 30, 2007”.

8 (b) MODIFICATION.—

9 (1) IN GENERAL.—Subsection (h) of section 40 is
10 amended to read as follows:

11 “(h) REDUCED CREDIT FOR ETHANOL BLENDERS.—

12 “(1) IN GENERAL.—In the case of any alcohol
13 mixture credit or alcohol credit with respect to any
14 alcohol which is ethanol—

15 “(A) subsections (b)(1)(A) and (b)(2)(A)
16 shall be applied by substituting ‘the blender
17 amount’ for ‘60 cents’;

18 “(B) subsection (b)(3) shall be applied by
19 substituting ‘the low-proof blender amount’ for
20 ‘45 cents’ and ‘the blender amount’ for ‘60 cents’;
21 and

22 “(C) subparagraphs (A) and (B) of sub-
23 section (d)(3) shall be applied by substituting
24 ‘the blender amount’ for ‘60 cents’ and ‘the low-
25 proof blender amount’ for ‘45 cents’.

1 “(2) AMOUNTS.—For purposes of paragraph (1),
2 the blender amount and the low-proof blender amount
3 shall be determined in accordance with the following
4 table:

<i>In the case of any sale or use during calendar year:</i>	<i>The blender amount is:</i>	<i>The low-proof blender amount is:</i>
<i>2000 or 2001</i>	<i>53 cents</i>	<i>39.26 cents</i>
<i>2003 or 2004</i>	<i>52 cents</i>	<i>38.52 cents</i>
<i>2005 or thereafter</i>	<i>51 cents</i>	<i>37.78 cents.”.</i>

5 (2) Subparagraph (A) of section 4041(b)(2) is
6 amended by striking “5.4 cents” and inserting “the
7 applicable blender rate” and by adding at the end the
8 following flush sentence:

9 “*For purposes of clause (i), the applicable blender*
10 *rate is $\frac{1}{10}$ of the blender amount applicable*
11 *under section 40(h)(2) for the calendar year in*
12 *which the sale or use occurs.”.*

13 (3) Paragraphs (4)(A) and (5) of section 4081(c)
14 are each amended by striking “5.4 cents” each place
15 it appears and inserting “the applicable blender rate
16 (as defined in section 4041(b)(2)(A))”.

17 (4) Paragraph (1) of section 4091(c) is amended
18 by striking “13.4 cents” each place it appears and in-
19 serting “the applicable blender amount” and by add-
20 ing at the end the following new sentence: “*For pur-*
21 *poses of this paragraph, the term ‘applicable blender*
22 *amount’ means 13.3 cents in the case of any sale or*
23 *use during 2001 or 2002, 13.2 cents in the case of any*

1 *sale or use during 2003 or 2004, and 13.1 cents in*
2 *the case of any sale or use during 2005 or there-*
3 *after.”.*

4 *(c) EFFECTIVE DATE.—*

5 *(1) SUBSECTION (a).—The amendments made by*
6 *subsection (a) shall take effect on the date of the en-*
7 *actment of this Act.*

8 *(2) SUBSECTION (b).—The amendments made by*
9 *subsection (b) shall take effect on January 1, 2001.*

10 **SEC. 708. CLARIFICATION OF AUTHORITY TO USE SEMI-GE-**
11 **NERIC DESIGNATIONS ON WINE LABELS.**

12 *(a) IN GENERAL.—Section 5388 (relating to designa-*
13 *tion of wines) is amended by adding at the end the follow-*
14 *ing new subsection:*

15 *“(c) USE OF SEMI-GENERIC DESIGNATIONS.—A name*
16 *of geographic significance, which is also the designation of*
17 *a class or type of wine, shall be deemed to have become semi-*
18 *generic only if so found by the Secretary. Semi-generic des-*
19 *ignations may be used to designate wines of an origin other*
20 *than that indicated by such name only if—*

21 *“(1) there appears in direct conjunction there-*
22 *with an appropriate appellation of origin disclosing*
23 *the true place of origin of the wine, and*

24 *“(2) the wine so designated conforms to the*
25 *standard of identity, if any, for such wine contained*

1 *in the regulations in this section or, if there be no*
2 *such standard, to the trade understanding of such*
3 *class or type.*

4 *Examples of semi-generic names which are also type des-*
5 *ignations for grape wines are Angelica, Burgundy, Claret,*
6 *Chablis, Champagne, Chianti, Malaga, Marsala, Madeira,*
7 *Moselle, Port, Rhine Wine (syn. Hock), Sauterne, Haut*
8 *Sauterne, Sherry, Tokay.”.*

9 (b) *EFFECTIVE DATE.*—*The amendment made by this*
10 *section shall take effect on the date of the enactment of this*
11 *Act.*

12 ***Subtitle B—Provisions Relating to***
13 ***Pensions and Fringe Benefits***

14 ***SEC. 711. TREATMENT OF MULTIEMPLOYER PLANS UNDER***
15 ***SECTION 415.***

16 (a) *IN GENERAL.*—*Section 415(b)(11) is amended—*

17 (1) *by inserting “or a multiemployer plan (as*
18 *defined in section 414(f))” after “section 414(d))”,*

19 *and*

20 (2) *by inserting “AND MULTIEMPLOYER” after*
21 *“GOVERNMENTAL” in the heading thereof.*

22 (b) *EFFECTIVE DATE.*—*The amendments made by this*
23 *section shall apply to years beginning after December 31,*
24 *1997.*

1 **SEC. 712. TECHNICAL CORRECTION RELATING TO PARTIAL**
2 **TERMINATION OF PENSION PLANS.**

3 (a) *IN GENERAL.*—So much of section 552 of the Tax
4 Reform Act of 1984 (Public Law 98–369) as precedes sub-
5 paragraph (A) of paragraph (1) is amended to read as fol-
6 lows:

7 “For purposes of interpreting or applying section
8 411(d)(3) of the Internal Revenue Code of 1986 (relating
9 to minimum vesting standards in the case of partial termi-
10 nation), any other provision of Federal law, and any provi-
11 sion of any plan or trust which directly or indirectly incor-
12 porates, or is determined by reference to, such section
13 411(d)(3), a partial termination shall not have occurred
14 based in whole or in part on a decline in plan participation
15 if—

16 “(1) the decline in plan participation—”.

17 (b) *EFFECTIVE DATE.*—The amendment made by this
18 section shall take effect as if included in the provisions of
19 section 552 of the Tax Reform Act of 1984.

20 **SEC. 713. INCREASE IN CURRENT LIABILITY FUNDING**
21 **LIMIT.**

22 (a) *AMENDMENT TO 1986 CODE.*—Section 412(c)(7)
23 (relating to full-funding limitation) is amended—

24 (A) by striking “150 percent” in subpara-
25 graph (A)(i)(I) and inserting “the applicable
26 percentage”, and

1 (B) by adding at the end the following:

2 “(F) *APPLICABLE PERCENTAGE*.—For pur-
3 poses of subparagraph (A)(i)(I), the applicable
4 percentage shall be determined in accordance
5 with the following table:

**“In the case of any plan year The applicable percentage is—
beginning in—**

1999 or 2000	155
2001 or 2002	160
2003 or 2004	165
2005 and succeeding years	170.”.

6 (b) *AMENDMENT TO ERISA*.—Section 302(c)(7) of the
7 *Employee Retirement Income Security Act of 1974* (29
8 *U.S.C. 1082(c)(7)*) is amended—

9 (A) by striking “150 percent” in subpara-
10 graph (A)(i)(I) and inserting “the applicable
11 percentage”, and

12 (B) by adding at the end the following:

13 “(F) *APPLICABLE PERCENTAGE*.—For purposes
14 of subparagraph (A)(i)(I), the applicable percentage
15 shall be determined in accordance with the following
16 table:

**“In the case of any plan year The applicable percentage is—
beginning in—**

1999 or 2000	155
2001 or 2002	160
2003 or 2004	165
2005 and succeeding years	170.”.

17 (c) *SPECIAL AMORTIZATION RULE*.—

18 (1) *CODE AMENDMENT*.—Section 412(b)(2) is
19 amended by striking “and” at the end of subpara-

1 *graph (C), by striking the period at the end of sub-*
2 *paragraph (D) and inserting “, and”, and by insert-*
3 *ing after subparagraph (D) the following:*

4 *“(E) the amount necessary to amortize in*
5 *equal annual installments (until fully amor-*
6 *tized) over a period of 20 years the contributions*
7 *which would be required to be made under the*
8 *plan but for the provisions of subsection*
9 *(c)(7)(A)(i)(I).”.*

10 *(2) ERISA AMENDMENT.—Section 302(b)(2) of*
11 *the Employee Retirement Income Security Act of*
12 *1974 (29 U.S.C. 1082(b)(2)) is amended by striking*
13 *“and” at the end of subparagraph (C), by striking the*
14 *period at the end of subparagraph (D) and inserting*
15 *“, and”, and by inserting after subparagraph (D) the*
16 *following:*

17 *“(E) the amount necessary to amortize in equal*
18 *annual installments (until fully amortized) over a pe-*
19 *riod of 20 years the contributions which would be re-*
20 *quired to be made under the plan but for the provi-*
21 *sions of subsection (c)(7)(A)(i)(I).”.*

22 *(3) CONFORMING AMENDMENTS.—*

23 *(A) Section 412(c)(7)(D) is amended by*
24 *adding “and” at the end of clause (i), by strik-*

1 ing “, and” at the end of clause (ii) and insert-
2 ing a period, and by striking clause (iii).

3 (B) Section 302(c)(7)(D) of the Employee
4 Retirement Income Security Act of 1974 (29
5 U.S.C. 1082(c)(7)(D)) is amended by adding
6 “and” at the end of clause (i), by striking “,
7 and” at the end of clause (ii) and inserting a pe-
8 riod, and by striking clause (iii).

9 (4) *EFFECTIVE DATES.*—

10 (A) *IN GENERAL.*—The amendments made
11 by this subsection shall apply to plan years be-
12 ginning after December 31, 1998.

13 (B) *SPECIAL RULE FOR 1999.*—In the case
14 of a plan’s first year beginning in 1999, there
15 shall be added to the amount required to be am-
16 ortized under section 412(b)(2)(E) of the Inter-
17 nal Revenue Code of 1986 and section
18 302(b)(2)(E) of the Employee Retirement Income
19 Security Act of 1974 (as added by paragraphs
20 (1) and (2)) over the 20-year period beginning
21 with such year, the unamortized balance (as of
22 the close of the preceding plan year) of any
23 amount required to be amortized under section
24 412(c)(7)(D)(iii) of such Code and section
25 302(c)(7)(D)(iii) of such Act (as repealed by

1 *paragraph (3)) for plan years beginning before*
2 *1999.*

3 **SEC. 714. SPOUSAL CONSENT REQUIRED FOR CERTAIN DIS-**
4 **TRIBUTIONS AND LOANS UNDER QUALIFIED**
5 **CASH OR DEFERRED ARRANGEMENT.**

6 *(a) IN GENERAL.—Section 401(k) is amended by add-*
7 *ing at the end the following new paragraph:*

8 “(13) SPOUSAL CONSENT REQUIRED.—

9 “(A) *IN GENERAL.—An arrangement shall*
10 *not be treated as a qualified cash or deferred ar-*
11 *rangement unless—*

12 “(i) *a distribution under the plan of*
13 *which such arrangement is a part, or*

14 “(ii) *a loan all or part of which is se-*
15 *cured by the participant’s interest in the*
16 *plan of which such arrangement is a part,*
17 *may not be made without the written consent of*
18 *the spouse.*

19 “(B) *EXCEPTIONS.—Subparagraph (A)*
20 *shall not apply—*

21 “(i) *to distributions described in sec-*
22 *tion 402(c)(4)(A) or 411(a)(11), or*

23 “(ii) *in any case described in section*
24 *417(a)(2) (relating to cases where spouse*
25 *cannot be located).*

1 “(C) *OTHER RULES.*—*The Secretary shall*
2 *prescribe rules similar to the rules under section*
3 *417 for the form and timing of any consent re-*
4 *quired by this paragraph.*”.

5 **(b) *EFFECTIVE DATE.***—

6 (1) *IN GENERAL.*—*The amendment made by this*
7 *section shall apply to plan years beginning after De-*
8 *cember 31, 1998.*

9 (2) *PLAN AMENDMENTS.*—*A plan shall not be*
10 *treated as failing to meet the requirements of section*
11 *411(d)(6) of the Internal Revenue Code of 1986 or*
12 *section 204(g) of the Employee Retirement Income Se-*
13 *curity Act of 1974 merely because it is amended to*
14 *meet the requirements of section 401(k)(4)(13) of such*
15 *Code (as added by subsection (a)).*

16 **SEC. 715. SPECIAL RULES FOR CHURCH PLANS.**

17 (a) *IN GENERAL.*—*Section 414(e)(5) relating to spe-*
18 *cial rules for chaplains and self-employed ministers is*
19 *amended—*

20 (1) *by striking “not eligible to participate” in*
21 *subparagraph (C) and inserting “not otherwise par-*
22 *ticipating”, and*

23 (2) *by adding at the end the following new sub-*
24 *paragraph:*

1 **SEC. 717. DIVERSIFICATION IN SECTION 401(k) PLAN IN-**
2 **VESTMENTS.**

3 (a) *LIMITATIONS ON INVESTMENT IN EMPLOYER SE-*
4 *CURITIES AND EMPLOYER REAL PROPERTY BY CASH OR*
5 *DEFERRED ARRANGEMENTS.*—Section 407(d)(3) of the
6 *Employee Retirement Income Security Act of 1974 (29*
7 *U.S.C. 1107(d)(3)) is amended by adding at the end the*
8 *following:*

9 “(D)(i) *The term ‘eligible individual account*
10 *plan’ does not include that portion of an individual*
11 *account plan that consists of elective deferrals (as de-*
12 *finied in section 402(g)(3) of the Internal Revenue*
13 *Code of 1986) pursuant to a qualified cash or deferred*
14 *arrangement as defined in section 401(k) of the Inter-*
15 *nal Revenue Code of 1986 (and earnings allocable*
16 *thereto), if such elective deferrals (or earnings alloca-*
17 *ble thereto) are required to be invested in qualifying*
18 *employer securities or qualifying employer real prop-*
19 *erty or both pursuant to the documents and instru-*
20 *ments governing the plan or at the direction of a per-*
21 *son other than the participant on whose behalf such*
22 *elective deferrals are made to the plan (or the partici-*
23 *pant’s beneficiary).*

24 “(ii) *For purposes of subsection (a), such portion*
25 *shall be treated as a separate plan.*

1 “(iii) This subparagraph shall not apply to an
2 individual account plan if the fair market value of
3 the assets of all individual account plans maintained
4 by the employer equals not more than 10 percent of
5 the fair market value of the assets of all pension plans
6 maintained by the employer.

7 “(iv) This subparagraph shall not apply to an
8 individual account plan that is an employee stock
9 ownership plan as defined in section 409(a) or
10 4975(e)(7) of the Internal Revenue Code.

11 “(v) This subparagraph shall not apply to an
12 individual account plan if not more than 1 percent
13 of an employees eligible compensation deposited to the
14 plan as an elective deferral (as so defined) is required
15 to be invested in the qualifying employer securities.”.

16 (b) *EFFECTIVE DATE.*—

17 (1) *IN GENERAL.*—The amendments made by
18 this section shall apply to employer securities and
19 employer real property acquired after the beginning
20 of the first plan year beginning after the 90th day
21 after the date of enactment of this Act.

22 (2) *SPECIAL RULE FOR CERTAIN ACQUISI-*
23 *TIONS.*—Employer securities and employer real prop-
24 erty acquired pursuant to a binding written contract
25 to acquire such securities and real property in effect

1 on the date of enactment of this Act and at all times
2 thereafter, shall be treated as acquired immediately
3 before such date.

4 ***Subtitle C—Revisions Relating to***
5 ***Disasters***

6 **SEC. 721. TREATMENT OF LIVESTOCK SOLD ON ACCOUNT**
7 **OF WEATHER-RELATED CONDITIONS.**

8 (a) *DEFERRAL OF INCOME INCLUSION.*—Subsection
9 (e) of section 451 (relating to special rules for proceeds from
10 livestock sold on account of drought) is amended—

11 (1) by striking “drought conditions, and that
12 these drought conditions” in paragraph (1) and in-
13 serting “drought, flood, or other weather-related con-
14 ditions, and that such conditions”; and

15 (2) by inserting “, FLOOD, OR OTHER WEATH-
16 ER-RELATED CONDITIONS” after “DROUGHT” in the
17 subsection heading.

18 (b) *INVOLUNTARY CONVERSIONS.*—Subsection (e) of
19 section 1033 (relating to livestock sold on account of
20 drought) is amended—

21 (1) by inserting “, flood, or other weather-related
22 conditions” before the period at the end thereof; and

23 (2) by inserting “, FLOOD, OR OTHER WEATH-
24 ER-RELATED CONDITIONS” after “DROUGHT” in the
25 subsection heading.

1 (c) *EFFECTIVE DATE.*—*The amendments made by this*
2 *section shall apply to sales and exchanges after December*
3 *31, 1996.*

4 **SEC. 722. GAIN OR LOSS FROM SALE OF LIVESTOCK DIS-**
5 **REGARDED FOR PURPOSES OF EARNED IN-**
6 **COME CREDIT.**

7 (a) *IN GENERAL.*—*Section 32(i)(2)(D) (relating to*
8 *disqualified income) is amended by inserting “determined*
9 *without regard to gain or loss from the sale of livestock de-*
10 *scribed in section 1231(b)(3),” after “taxable year,”.*

11 (b) *EFFECTIVE DATE.*—*The amendment made by this*
12 *section shall apply to taxable years beginning after Decem-*
13 *ber 31, 1995.*

14 **SEC. 723. MORTGAGE FINANCING FOR RESIDENCES LO-**
15 **CATED IN DISASTER AREAS.**

16 *Subsection (k) of section 143 (relating to mortgage rev-*
17 *enue bonds; qualified mortgage bond and qualified veteran’s*
18 *mortgage bond) is amended by adding at the end the follow-*
19 *ing new paragraph:*

20 “(11) *SPECIAL RULES FOR RESIDENCES LO-*
21 *CATED IN DISASTER AREAS.*—*In the case of a resi-*
22 *dence located in an area determined by the President*
23 *to warrant assistance from the Federal Government*
24 *under the Disaster Relief and Emergency Assistance*
25 *Act (as in effect on the date of the enactment of the*

1 *Revenue Reconciliation Act of 1997), this section shall*
 2 *be applied with the following modifications to financ-*
 3 *ing provided with respect to such residence within 1*
 4 *year after the date of the disaster declaration:*

5 “(A) Subsection (d) (relating to 3-year re-
 6 quirement) shall not apply.

7 “(B) Subsections (e) and (f) (relating to
 8 purchase price requirement and income require-
 9 ment) shall be applied as if such residence were
 10 a targeted area residence.

11 *The preceding sentence shall apply only with respect*
 12 *to bonds issued after December 31, 1996, and before*
 13 *January 1, 1999.”.*

14 **SEC. 724. DISTRIBUTIONS FROM INDIVIDUAL RETIREMENT**
 15 **ACCOUNTS MAY BE USED WITHOUT PENALTY**
 16 **TO REPLACE OR REPAIR PROPERTY DAM-**
 17 **AGED IN PRESIDENTIALLY DECLARED DISAS-**
 18 **TER AREAS.**

19 (a) *IN GENERAL.*—Section 72(t)(2) (relating to excep-
 20 tions to 10-percent additional tax on early distributions),
 21 as amended by sections 203 and 303, is amended by adding
 22 at the end the following new subparagraph:

23 “(G) **DISTRIBUTIONS FOR DISASTER-RELAT-**
 24 **ED EXPENSES.**—Distributions from an individ-

1 *ual retirement plan which are qualified disaster-*
2 *related distributions.”.*

3 **(b) QUALIFIED DISASTER-RELATED DISTRIBUTU-**
4 **TIONS.—***Section 72(t), as amended by sections 203 and 303,*
5 *is amended by adding at the end the following new para-*
6 *graph:*

7 **“(9) QUALIFIED DISASTER-RELATED DISTRIBUTU-**
8 **TIONS.—***For purposes of paragraph (2)(E)—*

9 **“(A) IN GENERAL.—***The term ‘qualified dis-*
10 *aster-related distribution’ means any payment*
11 *or distribution received by an individual to the*
12 *extent that the payment or distribution is used*
13 *by such individual within 60 days of the pay-*
14 *ment or distribution to pay for the repair or re-*
15 *placement of tangible property which is disaster-*
16 *damaged property.*

17 **“(B) LIMITATIONS.—**

18 **“(i) ONLY DISTRIBUTIONS WITHIN 2**
19 *YEARS.—**The term ‘qualified disaster-related*
20 *distribution’ shall only include any pay-*
21 *ment or distribution which is made during*
22 *the 2-year period beginning on the date of*
23 *the determination referred to in subpara-*
24 *graph (D).*

1 “(ii) *DOLLAR LIMITATION.*—Such term
2 shall not include distributions to the extent
3 the amount of such distributions exceeds
4 \$10,000 during the 2-year period described
5 in clause (i).

6 “(C) *DISASTER-DAMAGED PROPERTY.*—The
7 term ‘disaster-damaged property’ means prop-
8 erty—

9 “(i) which was located in a disaster
10 area on the date of the determination re-
11 ferred to in subparagraph (C), and

12 “(ii) which was destroyed or substan-
13 tially damaged as a result of the disaster
14 occurring in such area.

15 “(D) *DISASTER AREA.*—The term ‘disaster
16 area’ means an area determined by the President
17 during 1997 to warrant assistance by the Fed-
18 eral Government under the Robert T. Stafford
19 Disaster Relief and Emergency Assistance Act.”.

20 (c) *EFFECTIVE DATE.*—The amendments made by this
21 section shall apply to payments and distributions after De-
22 cember 31, 1996, with respect to disasters occurring after
23 such date.

1 **SEC. 725. ELIMINATION OF 10 PERCENT FLOOR FOR DISAS-**
 2 **TER LOSSES.**

3 (a) *GENERAL RULE.*—Section 165(h)(2)(A) (relating
 4 to net casualty loss allowed only to the extent it exceeds
 5 10 percent of adjusted gross income) is amended by striking
 6 clauses (i) and (ii) and inserting the following new clauses:

7 “(i) the amount of the personal cas-
 8 ualty gains for the taxable year,

9 “(ii) the amount of the federally de-
 10 clared disaster losses for the taxable year
 11 (or, if lesser, the net casualty loss), plus

12 “(iii) the portion of the net casualty
 13 loss which is not deductible under clause
 14 (ii) but only to the extent such portion ex-
 15 ceeds 10 percent of the adjusted gross in-
 16 come of the individual.

17 For purposes of the preceding sentence, the term
 18 ‘net casualty loss’ means the excess of personal
 19 casualty losses for the taxable year over personal
 20 casualty gains.”.

21 (b) *FEDERALLY DECLARED DISASTER LOSS DE-*
 22 *FINED.*—Section 165(h)(3) (relating to treatment of cas-
 23 ualty gains and losses) is amended by adding at the end
 24 the following new subparagraph:

25 “(C) *FEDERALLY DECLARED DISASTER*
 26 *LOSS.*—

1 “(i) *IN GENERAL.*—*The term ‘federally*
2 *declared disaster loss’ means any personal*
3 *casualty loss attributable to a disaster oc-*
4 *curing during 1997 in an area subse-*
5 *quently determined by the President of the*
6 *United States to warrant assistance by the*
7 *Federal Government under the Robert T.*
8 *Stafford Disaster Relief and Emergency As-*
9 *stance Act.*

10 “(ii) *DOLLAR LIMITATION.*—*Such term*
11 *shall not include personal casualty losses to*
12 *the extent such losses exceed \$10,000 for the*
13 *taxable year.”.*

14 (c) *CONFORMING AMENDMENT.*—*The heading for sec-*
15 *tion 165(h)(2) is amended by striking “NET CASUALTY*
16 *LOSS” and inserting “NET NONDISASTER CASUALTY LOSS”.*

17 (d) *EFFECTIVE DATE.*—*The amendments made by this*
18 *section shall apply to losses attributable to disasters occur-*
19 *ring after December 31, 1996, including for purposes of de-*
20 *termining the portion of such losses allowable in taxable*
21 *years ending before such date pursuant to an election under*
22 *section 165(i) of the Internal Revenue Code of 1986.*

1 **SEC. 726. ABATEMENT OF INTEREST ON UNDERPAYMENTS**
2 **BY TAXPAYERS IN PRESIDENTIALLY DE-**
3 **CLARED DISASTER AREAS.**

4 (a) *IN GENERAL.*—Section 6404 (relating to abate-
5 ments) is amended by adding at the end the following:

6 “(h) *ABATEMENT OF INTEREST ON UNDERPAYMENTS*
7 *BY TAXPAYERS IN PRESIDENTIALLY DECLARED DISASTER*
8 *AREAS.*—

9 “(1) *IN GENERAL.*—If the Secretary extends for
10 any period the time for filing income tax returns
11 under section 6081 and the time for paying income
12 tax with respect to such returns under section 6161
13 (and waives any penalties relating to the failure to
14 so file or so pay) for any individual located in a
15 *Presidentially declared disaster area*, the Secretary
16 shall abate for such period the assessment of any in-
17 terest prescribed under section 6601 on such income
18 tax.

19 “(2) *PRESIDENTIALLY DECLARED DISASTER*
20 *AREA.*—For purposes of paragraph (1), the term
21 ‘*Presidentially declared disaster area*’ means, with re-
22 spect to any individual, any area which the President
23 has determined during 1997 warrants assistance by
24 the Federal Government under the Robert T. Stafford
25 *Disaster Relief and Emergency Assistance Act*.

1 “(3) *INDIVIDUAL*.—For purposes of this sub-
2 section, the term ‘individual’ shall not include any es-
3 tate or trust.”.

4 (b) *EFFECTIVE DATE*.—The amendment made by this
5 section shall apply to disasters declared after December 31,
6 1996.

7 ***Subtitle D—Provisions Relating to***
8 ***Small Businesses***

9 ***SEC. 731. WAIVER OF PENALTY THROUGH JUNE 30, 1998, ON***
10 ***SMALL BUSINESSES FAILING TO MAKE ELEC-***
11 ***TRONIC FUND TRANSFERS OF TAXES.***

12 *No penalty shall be imposed under the Internal Reve-*
13 *nue Code of 1986 solely by reason of a failure by a person*
14 *to use the electronic fund transfer system established under*
15 *section 6302(h) of such Code if—*

16 (1) *such person is a member of a class of tax-*
17 *payers first required to use such system on or after*
18 *July 1, 1997, and*

19 (2) *such failure occurs before July 1, 1998.*

20 ***SEC. 732. MINIMUM TAX NOT TO APPLY TO FARMERS’ IN-***
21 ***STALLMENT SALES.***

22 (a) *IN GENERAL*.—Subsection (a) of section 56 is
23 amended by striking paragraph (6) (relating to treatment
24 of installment sales).

25 (b) *EFFECTIVE DATES*.—

1 (1) *IN GENERAL.*—*The amendment made by this*
 2 *section shall apply to dispositions in taxable years be-*
 3 *ginning after December 31, 1987.*

4 (2) *SPECIAL RULE FOR 1987.*—*In the case of tax-*
 5 *able years beginning in 1987, the last sentence of sec-*
 6 *tion 56(a)(6) of the Internal Revenue Code of 1986*
 7 *(as in effect for such taxable years) shall be applied*
 8 *by inserting “or in the case of a taxpayer using the*
 9 *cash receipts and disbursements method of accounting,*
 10 *any disposition described in section*
 11 *453C(e)(1)(B)(ii)” after “section 453C(e)(4)”.*

12 **SEC. 733. INCREASE IN DEDUCTION FOR HEALTH INSUR-**
 13 **ANCE COSTS OF SELF-EMPLOYED INDIVID-**
 14 **UALS.**

15 (a) *IN GENERAL.*—*The table contained in section*
 16 *162(l)(1)(B) is amended to read as follows:*

“For taxable years beginning The applicable percentage is—
in calendar year—

1997	50
1998	50
1999 through 2001	60
2002	60
2003	70
2004	80
2005	85
2006	90
2007	100.”.

17 (b) *EFFECTIVE DATE.*—*The amendment made by this*
 18 *section shall apply to taxable years beginning after Decem-*
 19 *ber 31, 1996.*

1 **SEC. 734. SENSE OF THE SENATE WITH RESPECT TO SELF-**
2 **EMPLOYMENT TAX OF LIMITED PARTNERS.**

3 (a) *FINDINGS.—The Senate finds that—*

4 (1) *the Department of the Treasury issued Pro-*
5 *posed Regulation 1.1402(a)–2 in January 1997 relat-*
6 *ing to the definition of a limited partner for self-em-*
7 *ployment tax purposes under section 1402(a)(13) of*
8 *the Internal Revenue Code;*

9 (2) *since 1977, section 1402(a)(13) of such Code*
10 *has provided that—*

11 (A) *a limited partner’s net earnings from*
12 *self-employment include only guaranteed pay-*
13 *ments made to the individual for services actu-*
14 *ally rendered and do not include a limited part-*
15 *ner’s distributive share of the income or loss of*
16 *the partnership, and*

17 (B) *a general partner’s net earnings from*
18 *self-employment include the partner’s distribu-*
19 *tive share;*

20 (3) *the proposed regulations provide generally—*

21 (A) *that a partner will not be treated as a*
22 *limited partner if the individual—*

23 (i) *has personal liability for partner-*
24 *ship debts,*

25 (ii) *has authority to contract on behalf*
26 *of the partnership, or*

1 (iii) participates in the partnership's
2 trade or business for more than 500 hours
3 during the taxable year;

4 (B) that an individual meeting any one of
5 these three criteria will be treated as a general
6 partner, and net earnings from self-employment
7 will include the partner's distributive share of
8 partnership income and loss, resulting in sub-
9 stantial tax liability because there is a 15.3 per-
10 cent tax on self-employment income below
11 \$65,400 in 1997 and a 2.9 percent hospital in-
12 surance tax on self-employment income above
13 that amount;

14 (4) certain types of entities, such as limited li-
15 ability companies and limited liability partnerships,
16 were not widely used at the time the present rule re-
17 lating to limited partners was enacted, and that the
18 proposed regulations attempt to address owners of
19 such entities;

20 (5) the Senate is concerned that the proposed
21 change in the treatment of individuals who are lim-
22 ited partners under applicable State law exceeds the
23 regulatory authority of the Treasury Department and
24 would effectively change the law administratively
25 without congressional action; and

1 (6) *the proposed regulations address and raise*
2 *significant policy issues and the proposed definition*
3 *of a limited partner may have a substantial impact*
4 *on the tax liability of certain individuals and may*
5 *also affect individuals' entitlement to social security*
6 *benefits.*

7 (b) *SENSE OF SENATE.—It is the sense of the Senate*
8 *that—*

9 (1) *the Department of the Treasury and the In-*
10 *ternal Revenue Service should withdraw Proposed*
11 *Regulation 1.1402(a)–2 which imposes a tax on lim-*
12 *ited partners; and*

13 (2) *Congress, not the Department of the Treasury*
14 *or the Internal Revenue Service, should determine the*
15 *tax law governing self-employment income for limited*
16 *partners.*

17 ***Subtitle E—Foreign Provisions***

18 ***PART I—GENERAL PROVISIONS***

19 ***SEC. 741. TREATMENT OF COMPUTER SOFTWARE AS FSC EX-*** 20 ***PORT PROPERTY.***

21 (a) *IN GENERAL.—Subparagraph (B) of section*
22 *927(a)(2) (relating to property excluded from eligibility as*
23 *FSC export property) is amended by inserting “, and other*
24 *than computer software (whether or not patented)” before*
25 *“, for commercial or home use”.*

1 (b) *EFFECTIVE DATE.*—The amendment made by sub-
2 section (a) shall apply to gross receipts attributable to peri-
3 ods after December 31, 1997, in taxable years ending after
4 such date.

5 **SEC. 742. DENIAL OF TREATY BENEFITS FOR CERTAIN PAY-**
6 **MENTS THROUGH HYBRID ENTITIES.**

7 (a) *IN GENERAL.*—Section 894 (relating to income af-
8 fected by treaty) is amended by inserting after subsection
9 (b) the following new subsection:

10 “(c) *DENIAL OF TREATY BENEFITS FOR CERTAIN PAY-*
11 *MENTS THROUGH HYBRID ENTITIES.*—The Secretary shall
12 prescribe such regulations as may be necessary or appro-
13 priate to determine the extent to which a taxpayer shall
14 be denied benefits under any income tax treaty of the Unit-
15 ed States with respect to any payment received by, or in-
16 come attributable to any activities of, an entity organized
17 in any jurisdiction (including the United States) that is
18 treated as a partnership or is otherwise treated as fiscally
19 transparent for United States Federal income tax purposes
20 (including a common investment trust under section 584,
21 a grantor trust, or an entity that is disregarded for United
22 States Federal income tax purposes) and is treated as fis-
23 cally nontransparent for purposes of the tax laws of the ju-
24 risdiction of residence of the taxpayer.”.

1 (b) *EFFECTIVE DATE.*—*The amendments made by this*
2 *section shall apply upon the date of enactment of this Act.*

3 **SEC. 743. UNITED STATES PROPERTY NOT TO INCLUDE**
4 **CERTAIN ASSETS ACQUIRED BY DEALERS IN**
5 **ORDINARY COURSE OF TRADE OR BUSINESS.**

6 (a) *IN GENERAL.*—*Section 956(c)(2) is amended by*
7 *striking “and” at the end of subparagraph (H), by striking*
8 *the period at the end of subparagraph (I) and inserting a*
9 *semicolon, and by adding at the end the following new sub-*
10 *paragraphs:*

11 “(J) *deposits of cash or securities made or*
12 *received on commercial terms in the ordinary*
13 *course of a United States or foreign person’s*
14 *business as a dealer in securities or in commod-*
15 *ities, but only to the extent such deposits are*
16 *made or received as collateral or margin for (i)*
17 *a securities loan, notional principal contract,*
18 *options contract, forward contract, or futures*
19 *contract, or (ii) any other financial transaction*
20 *in which the Secretary determines that it is cus-*
21 *tomary to post collateral or margin; and*

22 “(K) *an obligation of a United States per-*
23 *son to the extent the principal amount of the ob-*
24 *ligation does not exceed the fair market value of*
25 *readily marketable securities sold or purchased*

1 *pursuant to a sale and repurchase agreement or*
2 *otherwise posted or received as collateral for the*
3 *obligation in the ordinary course of its business*
4 *by a United States or foreign person which is a*
5 *dealer in securities or commodities.*

6 *For purposes of subparagraphs (J) and (K), the term*
7 *‘dealer in securities’ has the meaning given such term*
8 *by section 475(c)(1), and the term ‘dealer in commod-*
9 *ities’ means a futures commission merchant or any*
10 *person which would be a dealer in securities if securi-*
11 *ties under section 475(c)(2) included commodities,*
12 *evidences of an interest in commodities, and deriva-*
13 *tive instruments in respect of commodities (other than*
14 *any activity gain or loss from which is described in*
15 *section 1256(a)(3)).”.*

16 ***(b) EFFECTIVE DATE.***—*The amendments made by this*
17 *section shall apply to taxable years of foreign corporations*
18 *beginning after December 31, 1997, and to taxable years*
19 *of United States shareholders with or within which such*
20 *taxable years of foreign corporations end.*

21 **SEC. 744. EXEMPTION FOR ACTIVE FINANCING INCOME.**

22 ***(a) EXEMPTION FROM FOREIGN PERSONAL HOLDING***
23 ***COMPANY INCOME.***—*Subsection (c) of section 954 is amend-*
24 *ed by adding at the end the following new paragraph:*

1 “(4) *CERTAIN INCOME DERIVED IN ACTIVE CON-*
2 *DUCT OF TRADE OR BUSINESS.*—

3 “(A) *IN GENERAL.*—*For purposes of para-*
4 *graph (1), foreign personal holding company in-*
5 *come shall not include income which is—*

6 “(i) *derived in or incident to the active*
7 *conduct by a controlled foreign corporation*
8 *of a banking, financing, or similar business,*
9 *but only if the corporation is predomi-*
10 *nantly engaged in the active conduct of such*
11 *business,*

12 “(ii) *received from a person other than*
13 *a related person (within the meaning of*
14 *subsection (d)(3)) and derived from the in-*
15 *vestments made by a qualifying insurance*
16 *company of its unearned premiums or re-*
17 *serves ordinary and necessary for the proper*
18 *conduct of its insurance business, or*

19 “(iii) *received from a person other*
20 *than a related person (within the meaning*
21 *of subsection (d)(3)) and derived from in-*
22 *vestments made by a qualifying insurance*
23 *company of an amount of its assets equal*
24 *to—*

1 “(I) in the case of contracts regu-
2 lated in the country in which sold as
3 property, casualty, or health insurance
4 contracts, one-third of its premiums
5 earned on insurance contracts during
6 the taxable year (as defined in section
7 832(b)(4)), and

8 “(II) in the case of contracts regu-
9 lated in the country in which sold as
10 life insurance or annuity contracts, the
11 greater of 10 percent of the reserves de-
12 scribed in clause (i) or \$10,000,000,
13 which are not directly or indirectly attrib-
14 utable to the insurance or reinsurance of
15 risks of persons who are related persons
16 (within the meaning of subsection (d)(3)).

17 “(B) APPLICABLE PRINCIPLES.—

18 “(i) BANKING, ETC. INCOME.—The Sec-
19 retary shall prescribe regulations which in-
20 terpret subparagraph (A)(i) in accordance
21 with the applicable principles of section
22 904(d)(2)(C), except that in prescribing
23 such regulations, the Secretary shall include
24 income from all leases in income from a
25 banking, financing, or similar business.

1 “(i) *LOOK-THRU RULES.*—*The Sec-*
2 *retary shall prescribe regulations consistent*
3 *with the principles of section 904(d)(3)*
4 *which provide that dividends, interest, in-*
5 *come equivalent to interest, rents, or royal-*
6 *ties received or accrued from a related per-*
7 *son (within the meaning of subsection*
8 *(d)(3)) shall be subject to look-thru treat-*
9 *ment for purposes of this section.*

10 “(iii) *SPECIAL RULE FOR BANKING OR*
11 *SECURITIES BUSINESS.*—*In the case of a*
12 *corporation described in subparagraph*
13 *(C)(ii), the regulations under clauses (i)*
14 *and (ii) shall be consistent with the appli-*
15 *cable principles of section 1296(b) (as in ef-*
16 *fect on the day before the enactment of the*
17 *Revenue Reconciliation Act of 1997).*

18 “(C) *PREDOMINANTLY ENGAGED.*—*For pur-*
19 *poses of subparagraph (A)(i), a corporation shall*
20 *be deemed predominantly engaged in the active*
21 *conduct of a banking, financing, or similar busi-*
22 *ness only if—*

23 “(i) *more than 70 percent of its gross*
24 *income from such business is derived from*
25 *transactions with unrelated persons (as de-*

1 *fined in subsection (d)(3)), and more than*
2 *20 percent of its gross income from that*
3 *business is derived from transactions with*
4 *unrelated persons (as so defined) located*
5 *within the country under the laws of which*
6 *the controlled foreign corporation is created*
7 *or organized, or*

8 “(ii) *the corporation is—*

9 “(I) *predominantly engaged in*
10 *the active conduct of a banking or se-*
11 *curities business (within the meaning*
12 *of section 1296(b), as in effect before*
13 *the enactment of the Revenue Rec-*
14 *onciliation Act of 1997), or*

15 “(II) *a qualified bank affiliate or*
16 *a qualified securities affiliate for pur-*
17 *poses of section 1296(b) (as so in ef-*
18 *fect).*

19 “(D) *QUALIFYING INSURANCE COMPANY.—*

20 *For purposes of clauses (i) and (iii) of subpara-*
21 *graph (A), the term ‘qualifying insurance com-*
22 *pany’ means any entity which is subject to regu-*
23 *lation as an insurance company under the laws*
24 *of its country of incorporation and which real-*
25 *izes at least 50 percent of its gross income (other*

1 *than gross income derived from investments)*
2 *from premiums written on risks situated within*
3 *its country of incorporation.*

4 “(E) *APPLICATION.*—*This paragraph shall*
5 *apply to taxable years of foreign corporations be-*
6 *ginning after December 31, 1997, and before*
7 *January 1, 1999, and to taxable years of United*
8 *States shareholders with or within which such*
9 *taxable years of foreign corporations end.”.*

10 (b) *EXEMPTION FROM FOREIGN BASE COMPANY SERV-*
11 *ICES INCOME.*—*Paragraph (2) of section 954(e) is amended*
12 *by striking “or” at the end of subparagraph (A), by striking*
13 *the period at the end of subparagraph (B) and inserting*
14 *“; or”, and by adding at the end the following:*

15 “(C) *in the case of taxable years described*
16 *in subsection (c)(4)(E), the active conduct by a*
17 *controlled foreign corporation of a banking, fi-*
18 *nancing, insurance, or similar business, but only*
19 *if the corporation is predominantly engaged in*
20 *the active conduct of that business (within the*
21 *meaning of subsection (c)(4)(C)).”.*

22 (c) *EFFECTIVE DATE.*—*The amendments made by this*
23 *section shall apply to taxable years of foreign corporations*
24 *beginning after December 31, 1997, and before January 1,*
25 *1999, and to taxable years of United States shareholders*

1 *with or within which such taxable years of foreign corpora-*
2 *tions end.*

3 **SEC. 745. TREATMENT OF NONRESIDENT ALIENS ENGAGED**
4 **IN INTERNATIONAL TRANSPORTATION SERV-**
5 **ICES.**

6 (a) *SOURCING RULES.*—

7 (1) *IN GENERAL.*—Section 861(a)(3) is amended
8 by adding at the end the following new flush sentence:
9 “In addition, compensation for labor or services per-
10 formed in the United States shall not be deemed to be
11 income from sources within the United States if the
12 labor or services are performed by a nonresident alien
13 individual in connection with the individual’s tem-
14 porary presence in the United States as a regular
15 member of the crew of a foreign vessel engaged in
16 transportation between the United States and a for-
17 eign country or a possession of the United States.”.

18 (2) *TRANSPORTATION INCOME.*—Subparagraph
19 (B) of section 863(c)(2) is amended by adding at the
20 end the following flush sentence:

21 “In the case of transportation income derived
22 from, or in connection with, a vessel, this sub-
23 paragraph shall only apply if the taxpayer is a
24 citizen or resident alien.”.

1 (3) *CONFORMING AMENDMENT.—Section*
2 *410(b)(3)(C) is amended by inserting “without regard*
3 *to the last sentence thereof” after “section 861(a)(3)”.*

4 (b) *EXCLUSION FROM INCOME.—Section 872(b) is*
5 *amended by redesignating paragraphs (6) and (7) as para-*
6 *graphs (7) and (8), respectively, and by inserting after*
7 *paragraph (5) the following new paragraph:*

8 “(6) *PERSONAL SERVICES OF CREW MEMBERS.—*
9 *Income derived by an individual resident of a foreign*
10 *country from personal services as a regular crew*
11 *member on board a vessel to which paragraph (1) ap-*
12 *plies.”.*

13 (c) *PRESENCE IN UNITED STATES.—*

14 (1) *IN GENERAL.—Paragraph (7) of section*
15 *7701(b) is amended by adding at the end the follow-*
16 *ing new subparagraph:*

17 “(D) *CREW MEMBERS TEMPORARILY*
18 *PRESENT.—If an individual is temporarily*
19 *present in the United States as a regular mem-*
20 *ber of the crew of a foreign vessel engaged in*
21 *transportation between the United States and a*
22 *foreign country or a possession of the United*
23 *States, such individual shall not be treated as*
24 *present in the United States on any such day.”.*

1 (2) *CONFORMING AMENDMENT.*—Subparagraph
2 (A) of section 7701(b)(7) is amended by striking “or
3 (C)” and inserting “, (C), or (D)”.

4 (d) *EFFECTIVE DATES.*—

5 (1) *IN GENERAL.*—The amendments made by
6 this section shall apply to remuneration for services
7 performed in taxable years beginning after December
8 31, 1997.

9 (2) *PRESENCE.*—The amendment made by sub-
10 section (c) shall apply to taxable years beginning
11 after December 31, 1997.

12 **PART II—TREATMENT OF PASSIVE FOREIGN**

13 **INVESTMENT COMPANIES**

14 **SEC. 751. UNITED STATES SHAREHOLDERS OF CON-**
15 **TROLLED FOREIGN CORPORATIONS NOT SUB-**
16 **JECT TO PFIC INCLUSION.**

17 Section 1296 is amended by adding at the end the fol-
18 lowing new subsection:

19 “(e) *EXCEPTION FOR UNITED STATES SHAREHOLDERS*
20 *OF CONTROLLED FOREIGN CORPORATIONS.*—

21 “(1) *IN GENERAL.*—For purposes of this part, a
22 corporation shall not be treated with respect to a
23 shareholder as a passive foreign investment company
24 during the qualified portion of such shareholder’s

1 *holding period with respect to stock in such corpora-*
2 *tion.*

3 “(2) *QUALIFIED PORTION.*—*For purposes of this*
4 *subsection, the term ‘qualified portion’ means the por-*
5 *tion of the shareholder’s holding period—*

6 “(A) *which is after December 31, 1997, and*

7 “(B) *during which the shareholder is a*
8 *United States shareholder (as defined in section*
9 *951(b)) of the corporation and the corporation is*
10 *a controlled foreign corporation.*

11 “(3) *NEW HOLDING PERIOD IF QUALIFIED POR-*
12 *TION ENDS.*—

13 “(A) *IN GENERAL.*—*Except as provided in*
14 *subparagraph (B), if the qualified portion of a*
15 *shareholder’s holding period with respect to any*
16 *stock ends after December 31, 1997, solely for*
17 *purposes of this part, the shareholder’s holding*
18 *period with respect to such stock shall be treated*
19 *as beginning as of the first day following such*
20 *period.*

21 “(B) *EXCEPTION.*—*Subparagraph (A) shall*
22 *not apply if such stock was, with respect to such*
23 *shareholder, stock in a passive foreign investment*
24 *company at any time before the qualified portion*
25 *of the shareholder’s holding period with respect*

1 to such stock and no election under section
2 1298(b)(1) is made.”.

3 **SEC. 752. ELECTION OF MARK TO MARKET FOR MARKET-**
4 **ABLE STOCK IN PASSIVE FOREIGN INVEST-**
5 **MENT COMPANY.**

6 (a) *IN GENERAL.*—Part VI of subchapter P of chapter
7 1 is amended by redesignating subpart C as subpart D, by
8 redesignating sections 1296 and 1297 as sections 1297 and
9 1298, respectively, and by inserting after subpart B the fol-
10 lowing new subpart:

11 **“Subpart C—Election of Mark to Market For**
12 **Marketable Stock**

 “Sec. 1296. Election of mark to market for marketable stock.

13 **“SEC. 1296. ELECTION OF MARK TO MARKET FOR MARKET-**
14 **ABLE STOCK.**

15 “(a) *GENERAL RULE.*—In the case of marketable stock
16 in a passive foreign investment company which is owned
17 (or treated under subsection (g) as owned) by a United
18 States person at the close of any taxable year of such person,
19 at the election of such person—

20 “(1) If the fair market value of such stock as of
21 the close of such taxable year exceeds its adjusted
22 basis, such United States person shall include in gross
23 income for such taxable year an amount equal to the
24 amount of such excess.

1 “(2) *If the adjusted basis of such stock exceeds*
2 *the fair market value of such stock as of the close of*
3 *such taxable year, such United States person shall be*
4 *allowed a deduction for such taxable year equal to the*
5 *lesser of—*

6 “(A) *the amount of such excess, or*

7 “(B) *the unreversed inclusions with respect*
8 *to such stock.*

9 “(b) *BASIS ADJUSTMENTS.—*

10 “(1) *IN GENERAL.—The adjusted basis of stock*
11 *in a passive foreign investment company—*

12 “(A) *shall be increased by the amount in-*
13 *cluded in the gross income of the United States*
14 *person under subsection (a)(1) with respect to*
15 *such stock, and*

16 “(B) *shall be decreased by the amount al-*
17 *lowed as a deduction to the United States person*
18 *under subsection (a)(2) with respect to such*
19 *stock.*

20 “(2) *SPECIAL RULE FOR STOCK CONSTRUCTIVELY*
21 *OWNED.—In the case of stock in a passive foreign in-*
22 *vestment company which the United States person is*
23 *treated as owning under subsection (g)—*

24 “(A) *the adjustments under paragraph (1)*
25 *shall apply to such stock in the hands of the per-*

1 *son actually holding such stock but only for pur-*
2 *poses of determining the subsequent treatment*
3 *under this chapter of the United States person*
4 *with respect to such stock, and*

5 “(B) *similar adjustments shall be made to*
6 *the adjusted basis of the property by reason of*
7 *which the United States person is treated as*
8 *owning such stock.*

9 “(c) *CHARACTER AND SOURCE RULES.—*

10 “(1) *ORDINARY TREATMENT.—*

11 “(A) *GAIN.—Any amount included in gross*
12 *income under subsection (a)(1), and any gain on*
13 *the sale or other disposition of marketable stock*
14 *in a passive foreign investment company (with*
15 *respect to which an election under this section is*
16 *in effect), shall be treated as ordinary income.*

17 “(B) *LOSS.—Any—*

18 “(i) *amount allowed as a deduction*
19 *under subsection (a)(2), and*

20 “(ii) *loss on the sale or other disposi-*
21 *tion of marketable stock in a passive foreign*
22 *investment company (with respect to which*
23 *an election under this section is in effect) to*
24 *the extent that the amount of such loss does*

1 not exceed the unreversed inclusions with re-
2 spect to such stock,
3 shall be treated as an ordinary loss. The amount
4 so treated shall be treated as a deduction allow-
5 able in computing adjusted gross income.

6 “(2) SOURCE.—The source of any amount in-
7 cluded in gross income under subsection (a)(1) (or al-
8 lowed as a deduction under subsection (a)(2)) shall be
9 determined in the same manner as if such amount
10 were gain or loss (as the case may be) from the sale
11 of stock in the passive foreign investment company.

12 “(d) UNREVERSED INCLUSIONS.—For purposes of this
13 section, the term ‘unreversed inclusions’ means, with respect
14 to any stock in a passive foreign investment company, the
15 excess (if any) of—

16 “(1) the amount included in gross income of the
17 taxpayer under subsection (a)(1) with respect to such
18 stock for prior taxable years, over

19 “(2) the amount allowed as a deduction under
20 subsection (a)(2) with respect to such stock for prior
21 taxable years.

22 The amount referred to in paragraph (1) shall include any
23 amount which would have been included in gross income
24 under subsection (a)(1) with respect to such stock for any
25 prior taxable year but for section 1291.

1 “(e) *MARKETABLE STOCK.*—*For purposes of this sec-*
2 *tion—*

3 “(1) *IN GENERAL.*—*The term ‘marketable stock’*
4 *means—*

5 “(A) *any stock which is regularly traded*
6 *on—*

7 “(i) *a national securities exchange*
8 *which is registered with the Securities and*
9 *Exchange Commission or the national mar-*
10 *ket system established pursuant to section*
11 *11A of the Securities and Exchange Act of*
12 *1934, or*

13 “(ii) *any exchange or other market*
14 *which the Secretary determines has rules*
15 *adequate to carry out the purposes of this*
16 *part,*

17 “(B) *to the extent provided in regulations,*
18 *stock in any foreign corporation which is com-*
19 *parable to a regulated investment company and*
20 *which offers for sale or has outstanding any*
21 *stock of which it is the issuer and which is re-*
22 *deemable at its net asset value, and*

23 “(C) *to the extent provided in regulations,*
24 *any option on stock described in subparagraph*
25 *(A) or (B).*

1 “(2) *SPECIAL RULE FOR REGULATED INVEST-*
2 *MENT COMPANIES.*—*In the case of any regulated in-*
3 *vestment company which is offering for sale or has*
4 *outstanding any stock of which it is the issuer and*
5 *which is redeemable at its net asset value, all stock*
6 *in a passive foreign investment company which it*
7 *owns directly or indirectly shall be treated as market-*
8 *able stock for purposes of this section. Except as pro-*
9 *vided in regulations, similar treatment as marketable*
10 *stock shall apply in the case of any other regulated*
11 *investment company which publishes net asset valu-*
12 *ations at least annually.*

13 “(f) *TREATMENT OF CONTROLLED FOREIGN CORPORA-*
14 *TIONS WHICH ARE SHAREHOLDERS IN PASSIVE FOREIGN*
15 *INVESTMENT COMPANIES.*—*In the case of a foreign corpora-*
16 *tion which is a controlled foreign corporation and which*
17 *owns (or is treated under subsection (g) as owning) stock*
18 *in a passive foreign investment company—*

19 “(1) *this section (other than subsection (c)(2))*
20 *shall apply to such foreign corporation in the same*
21 *manner as if such corporation were a United States*
22 *person, and*

23 “(2) *for purposes of subpart F of part III of sub-*
24 *chapter N—*

1 “(A) any amount included in gross income
2 under subsection (a)(1) shall be treated as for-
3 foreign personal holding company income described
4 in section 954(c)(1)(A), and

5 “(B) any amount allowed as a deduction
6 under subsection (a)(2) shall be treated as a de-
7 duction allocable to foreign personal holding
8 company income so described.

9 “(g) *STOCK OWNED THROUGH CERTAIN FOREIGN EN-*
10 *TITIES.—Except as provided in regulations—*

11 “(1) *IN GENERAL.—For purposes of this section,*
12 *stock owned, directly or indirectly, by or for a foreign*
13 *partnership or foreign trust or foreign estate shall be*
14 *considered as being owned proportionately by its*
15 *partners or beneficiaries. Stock considered to be*
16 *owned by a person by reason of the application of the*
17 *preceding sentence shall, for purposes of applying*
18 *such sentence, be treated as actually owned by such*
19 *person.*

20 “(2) *TREATMENT OF CERTAIN DISPOSITIONS.—*
21 *In any case in which a United States person is treat-*
22 *ed as owning stock in a passive foreign investment*
23 *company by reason of paragraph (1)—*

24 “(A) any disposition by the United States
25 person or by any other person which results in

1 *the United States person being treated as no*
2 *longer owning such stock, and*

3 “(B) *any disposition by the person owning*
4 *such stock,*

5 *shall be treated as a disposition by the United States*
6 *person of the stock in the passive foreign investment*
7 *company.*

8 “(h) *COORDINATION WITH SECTION 851(b).*—*For pur-*
9 *poses of paragraphs (2) and (3) of section 851(b), any*
10 *amount included in gross income under subsection (a) shall*
11 *be treated as a dividend.*

12 “(i) *STOCK ACQUIRED FROM A DECEDENT.*—*In the*
13 *case of stock of a passive foreign investment company which*
14 *is acquired by bequest, devise, or inheritance (or by the dece-*
15 *dent’s estate) and with respect to which an election under*
16 *this section was in effect as of the date of the decedent’s*
17 *death, notwithstanding section 1014, the basis of such stock*
18 *in the hands of the person so acquiring it shall be the ad-*
19 *justed basis of such stock in the hands of the decedent imme-*
20 *diately before his death (or, if lesser, the basis which would*
21 *have been determined under section 1014 without regard to*
22 *this subsection).*

23 “(j) *COORDINATION WITH SECTION 1291 FOR FIRST*
24 *YEAR OF ELECTION.*—

1 “(1) *TAXPAYERS OTHER THAN REGULATED IN-*
2 *VESTMENT COMPANIES.*—

3 “(A) *IN GENERAL.*—*If the taxpayer elects*
4 *the application of this section with respect to*
5 *any marketable stock in a corporation after the*
6 *beginning of the taxpayer’s holding period in*
7 *such stock, and if the requirements of subpara-*
8 *graph (B) are not satisfied, section 1291 shall*
9 *apply to—*

10 “(i) *any distributions with respect to,*
11 *or disposition of, such stock in the first tax-*
12 *able year of the taxpayer for which such*
13 *election is made, and*

14 “(ii) *any amount which, but for sec-*
15 *tion 1291, would have been included in*
16 *gross income under subsection (a) with re-*
17 *spect to such stock for such taxable year in*
18 *the same manner as if such amount were*
19 *gain on the disposition of such stock.*

20 “(B) *REQUIREMENTS.*—*The requirements of*
21 *this subparagraph are met if, with respect to*
22 *each of such corporation’s taxable years for*
23 *which such corporation was a passive foreign in-*
24 *vestment company and which begin after Decem-*
25 *ber 31, 1986, and included any portion of the*

1 *taxpayer's holding period in such stock, such cor-*
2 *poration was treated as a qualified electing fund*
3 *under this part with respect to the taxpayer.*

4 “(2) *SPECIAL RULES FOR REGULATED INVEST-*
5 *MENT COMPANIES.—*

6 “(A) *IN GENERAL.—If a regulated invest-*
7 *ment company elects the application of this sec-*
8 *tion with respect to any marketable stock in a*
9 *corporation after the beginning of the taxpayer's*
10 *holding period in such stock, then, with respect*
11 *to such company's first taxable year for which*
12 *such company elects the application of this sec-*
13 *tion with respect to such stock—*

14 “(i) *section 1291 shall not apply to*
15 *such stock with respect to any distribution*
16 *or disposition during, or amount included*
17 *in gross income under this section for, such*
18 *first taxable year, but*

19 “(ii) *such regulated investment compa-*
20 *ny's tax under this chapter for such first*
21 *taxable year shall be increased by the aggre-*
22 *gate amount of interest which would have*
23 *been determined under section 1291(c)(3) if*
24 *section 1291 were applied without regard to*
25 *this subparagraph.*

1 *Clause (ii) shall not apply if for the preceding*
2 *taxable year the company elected to mark to*
3 *market the stock held by such company as of the*
4 *last day of such preceding taxable year.*

5 “(B) *DISALLOWANCE OF DEDUCTION.*—*No*
6 *deduction shall be allowed to any regulated in-*
7 *vestment company for the increase in tax under*
8 *subparagraph (A)(i).*

9 “(k) *ELECTION.*—*This section shall apply to market-*
10 *able stock in a passive foreign investment company which*
11 *is held by a United States person only if such person elects*
12 *to apply this section with respect to such stock. Such an*
13 *election shall apply to the taxable year for which made and*
14 *all subsequent taxable years unless—*

15 “(1) *such stock ceases to be marketable stock, or*
16 “(2) *the Secretary consents to the revocation of*
17 *such election.*

18 “(l) *TRANSITION RULE FOR INDIVIDUALS BECOMING*
19 *SUBJECT TO UNITED STATES TAX.*—*If any individual be-*
20 *comes a United States person in a taxable year beginning*
21 *after December 31, 1997, solely for purposes of this section,*
22 *the adjusted basis (before adjustments under subsection (b))*
23 *of any marketable stock in a passive foreign investment*
24 *company owned by such individual on the first day of such*
25 *taxable year shall be treated as being the greater of its fair*

1 *market value on such first day or its adjusted basis on such*
2 *first day.”.*

3 (b) *COORDINATION WITH INTEREST CHARGE, ETC.—*

4 (1) *Paragraph (1) of section 1291(d) is amended*
5 *by adding at the end the following new flush sentence:*
6 *“Except as provided in section 1296(j), this section*
7 *also shall not apply if an election under section*
8 *1296(k) is in effect for the taxpayer’s taxable year.”.*

9 (2) *The subsection heading for subsection (d) of*
10 *section 1291 is amended by striking “SUBPART B”*
11 *and inserting “SUBPARTS B AND C”.*

12 (3) *Subparagraph (A) of section 1291(a)(3) is*
13 *amended to read as follows:*

14 “(A) *HOLDING PERIOD.—The taxpayer’s*
15 *holding period shall be determined under section*
16 *1223; except that—*

17 “(i) *for purposes of applying this sec-*
18 *tion to an excess distribution, such holding*
19 *period shall be treated as ending on the date*
20 *of such distribution, and*

21 “(ii) *if section 1296 applied to such*
22 *stock with respect to the taxpayer for any*
23 *prior taxable year, such holding period shall*
24 *be treated as beginning on the first day of*
25 *the first taxable year beginning after the*

1 *last taxable year for which section 1296 so*
2 *applied.”.*

3 *(c) TREATMENT OF MARK-TO-MARKET GAIN UNDER*
4 *SECTION 4982.—*

5 *(1) Subsection (e) of section 4982 is amended by*
6 *adding at the end thereof the following new para-*
7 *graph:*

8 *“(6) TREATMENT OF GAIN RECOGNIZED UNDER*
9 *SECTION 1296.—For purposes of determining a regu-*
10 *lated investment company’s ordinary income—*

11 *“(A) notwithstanding paragraph (1)(C),*
12 *section 1296 shall be applied as if such compa-*
13 *ny’s taxable year ended on October 31, and*

14 *“(B) any ordinary gain or loss from an ac-*
15 *tual disposition of stock in a passive foreign in-*
16 *vestment company during the portion of the cal-*
17 *endar year after October 31 shall be taken into*
18 *account in determining such regulated invest-*
19 *ment company’s ordinary income for the follow-*
20 *ing calendar year.*

21 *In the case of a company making an election under*
22 *paragraph (4), the preceding sentence shall be applied*
23 *by substituting the last day of the company’s taxable*
24 *year for October 31.”.*

1 (2) *Subsection (b) of section 852 is amended by*
2 *adding at the end thereof the following new para-*
3 *graph:*

4 “(10) *SPECIAL RULE FOR CERTAIN LOSSES ON*
5 *STOCK IN PASSIVE FOREIGN INVESTMENT COMPANY.—*
6 *To the extent provided in regulations, the taxable in-*
7 *come of a regulated investment company (other than*
8 *a company to which an election under section*
9 *4982(e)(4) applies) shall be computed without regard*
10 *to any net reduction in the value of any stock of a*
11 *passive foreign investment company with respect to*
12 *which an election under section 1296(k) is in effect*
13 *occurring after October 31 of the taxable year, and*
14 *any such reduction shall be treated as occurring on*
15 *the first day of the following taxable year.”.*

16 (3) *Subsection (c) of section 852 is amended by*
17 *inserting after “October 31 of such year” the follow-*
18 *ing: “, without regard to any net reduction in the*
19 *value of any stock of a passive foreign investment*
20 *company with respect to which an election under sec-*
21 *tion 1296(k) is in effect occurring after October 31 of*
22 *such year,”.*

23 (d) *CONFORMING AMENDMENTS.—*

1 (1) Sections 532(b)(4) and 542(c)(10) are each
2 amended by striking “section 1296” and inserting
3 “section 1297”.

4 (2) Subsection (f) of section 551 is amended by
5 striking “section 1297(b)(5)” and inserting “section
6 1298(b)(5)”.

7 (3) Subsections (a)(1) and (d) of section 1293
8 are each amended by striking “section 1297(a)” and
9 inserting “section 1298(a)”.

10 (4) Paragraph (3) of section 1297(b), as redesignig-
11 nated by subsection (a), is hereby repealed.

12 (5) The table of sections for subpart D of part
13 VI of subchapter P of chapter 1, as redesignated by
14 subsection (a), is amended to read as follows:

“Sec. 1297. Passive foreign investment company.

“Sec. 1298. Special rules.”.

15 (6) The table of subparts for part VI of sub-
16 chapter P of chapter 1 is amended by striking the last
17 item and inserting the following new items:

“Subpart C. Election of mark to market for marketable stock.

“Subpart D. General provisions.”.

18 (e) *CLARIFICATION OF GAIN RECOGNITION ELEC-*
19 *TION.*—The last sentence of section 1298(b)(1), as so redesignig-
20 nated, is amended by inserting “(determined without re-
21 gard to the preceding sentence)” after “investment com-
22 pany”.

1 **SEC. 753. EFFECTIVE DATE.**

2 *The amendments made by this part shall apply to—*

3 *(1) taxable years of United States persons begin-*
4 *ning after December 31, 1997, and*

5 *(2) taxable years of foreign corporations ending*
6 *with or within such taxable years of United States*
7 *persons.*

8 ***Subtitle F—Other Provisions***

9 **SEC. 761. TAX-EXEMPT STATUS FOR CERTAIN STATE WORK-**
10 ***ER'S COMPENSATION ACT COMPANIES.***

11 *(a) IN GENERAL.—Section 501(c)(27) (relating to*
12 *membership organizations under workmen's compensation*
13 *acts) is amended by adding at the end the following:*

14 *“(B) Any organization (including a mutual in-*
15 *surance company) if—*

16 *“(i) such organization is created by State*
17 *law and is organized and operated under State*
18 *law exclusively to—*

19 *“(I) provide workmen's compensation*
20 *insurance which is required by State law or*
21 *with respect to which State law provides*
22 *significant disincentives if such insurance is*
23 *not purchased by an employer, and*

24 *“(II) provide related coverage which is*
25 *incidental to workmen's compensation in-*
26 *surance,*

1 “(ii) such organization must provide work-
2 men’s compensation insurance to any employer
3 in the State (for employees in the State or tem-
4 porarily assigned out-of-State) which seeks such
5 insurance and meets other reasonable require-
6 ments relating thereto,

7 “(iii)(I) the State makes a financial com-
8 mitment with respect to such organization either
9 by extending the full faith and credit of the State
10 to debt of such organization or by providing the
11 initial operating capital of such organization
12 and (II) in the case of periods after the date of
13 enactment of this subparagraph, the assets of
14 such organization revert to the State upon dis-
15 solution, and

16 “(iv) the majority of the board of directors
17 or oversight body of such organization are ap-
18 pointed by the chief executive officer or other ex-
19 ecutive branch official of the State, by the State
20 legislature, or by both.”.

21 (b) *CONFORMING AMENDMENTS.*—Section 501(c)(27)
22 of such Code is amended by inserting “(A)” after “(27)”,
23 by redesignating subparagraphs (A), (B), and (C) as
24 clauses (i), (ii), and (iii), respectively, and by redesignating

1 *clauses (i) and (ii) of subparagraphs (B) and (C) (before*
2 *redesignation) as subclauses (I) and (II), respectively.*

3 *(c) EFFECTIVE DATE.—The amendments made by this*
4 *section shall apply to taxable years beginning after Decem-*
5 *ber 31, 1997.*

6 **SEC. 762. ELECTION TO CONTINUE EXCEPTION FROM**
7 **TREATMENT OF PUBLICLY TRADED PARTNER-**
8 **SHIPS AS CORPORATIONS.**

9 *(a) IN GENERAL.—Section 7704 is amended by adding*
10 *at the end thereof the following new subsection:*

11 *“(g) EXCEPTION FOR EXISTING PUBLICLY TRADED*
12 *PARTNERSHIPS.—*

13 *“(1) IN GENERAL.—Subsection (a) shall not*
14 *apply to an existing publicly traded partnership*
15 *which elects the application of this subsection and*
16 *consents to the application of the tax imposed by*
17 *paragraph (3).*

18 *“(2) EXISTING PUBLICLY TRADED PARTNER-*
19 *SHIP.—For purposes of this section, the term ‘existing*
20 *publicly traded partnership’ means any publicly*
21 *traded partnership to which subsection (a) does not*
22 *apply as of the date of the enactment of this para-*
23 *graph (other than by reason of subsection (c)(1)).*

24 *“(3) ADDITIONAL TAX ON ELECTING PUBLICLY*
25 *TRADED PARTNERSHIPS.—*

1 “(A) *IMPOSITION OF TAX.*—*There is hereby*
2 *imposed for each taxable year on the income of*
3 *every electing publicly traded partnership a tax*
4 *equal to 3.5 percent of the gross income for such*
5 *taxable year from the active conduct of trades*
6 *and businesses by the partnership.*

7 “(B) *ELECTING PUBLICLY TRADED PART-*
8 *NERSHIP.*—*For purposes of this paragraph, the*
9 *term ‘electing publicly traded partnership’*
10 *means any partnership for which the consent*
11 *under paragraph (1) is in effect.*

12 “(C) *ADJUSTMENTS IN THE CASE OF*
13 *TIERED PARTNERSHIPS.*—*For purposes of this*
14 *paragraph, if the income of the partnership in-*
15 *cludes its distributive share of income from an-*
16 *other partnership for any taxable year, the gross*
17 *income referred to in subparagraph (A) shall in-*
18 *clude the gross income of such other partnership*
19 *from the active conduct of trades and businesses*
20 *of such other partnership (in lieu of such dis-*
21 *tributive share). A similar rule shall apply in*
22 *the case of lower-tiered partnerships.*

23 “(D) *TREATMENT OF TAX.*—*For purposes of*
24 *this title, the tax imposed by this paragraph*
25 *shall be treated as imposed by chapter 1 other*

1 *than for purposes of determining the amount of*
 2 *any credit allowable under chapter 1.*

3 “(4) *ELECTION.*—*An election and consent under*
 4 *this subsection shall apply to the taxable year for*
 5 *which made and all subsequent taxable years unless*
 6 *revoked by the partnership. Such revocation may be*
 7 *made without the consent of the Secretary, but, once*
 8 *so revoked, may not be reinstated.”.*

9 (b) *EFFECTIVE DATE.*—*The amendment made by this*
 10 *section shall apply to taxable years beginning after Decem-*
 11 *ber 31, 1997.*

12 **SEC. 763. EXCLUSION FROM UNRELATED BUSINESS TAX-**
 13 **ABLE INCOME FOR CERTAIN SPONSORSHIP**
 14 **PAYMENTS.**

15 (a) *IN GENERAL.*—*Section 513 (relating to unrelated*
 16 *trade or business income) is amended by adding at the end*
 17 *the following new subsection:*

18 “(i) *TREATMENT OF CERTAIN SPONSORSHIP PAY-*
 19 *MENTS.*—

20 “(1) *IN GENERAL.*—*The term ‘unrelated trade or*
 21 *business’ does not include the activity of soliciting*
 22 *and receiving qualified sponsorship payments.*

23 “(2) *QUALIFIED SPONSORSHIP PAYMENTS.*—*For*
 24 *purposes of this subsection—*

1 “(A) *IN GENERAL.*—*The term ‘qualified*
2 *sponsorship payment’ means any payment made*
3 *by any person engaged in a trade or business*
4 *with respect to which there is no arrangement or*
5 *expectation that such person will receive any*
6 *substantial return benefit other than the use or*
7 *acknowledgement of the name or logo (or product*
8 *lines) of such person’s trade or business in con-*
9 *nection with the activities of the organization*
10 *that receives such payment. Such a use or ac-*
11 *knowledgement does not include advertising such*
12 *person’s products or services (including messages*
13 *containing qualitative or comparative language,*
14 *price information or other indications of savings*
15 *or value, an endorsement, or an inducement to*
16 *purchase, sell, or use such products or services).*

17 “(B) *LIMITATIONS.*—

18 “(i) *CONTINGENT PAYMENTS.*—*The*
19 *term ‘qualified sponsorship payment’ does*
20 *not include any payment if the amount of*
21 *such payment is contingent upon the level*
22 *of attendance at one or more events, broad-*
23 *cast ratings, or other factors indicating the*
24 *degree of public exposure to one or more*
25 *events.*

1 “(i) *ACKNOWLEDGEMENTS OR ADVERTISING IN PERIODICALS.*—The term ‘qualified sponsorship payment’ does not include
2 any payment which entitles the payor to an
3 acknowledgement or advertising in regularly scheduled and printed material published by or on behalf of the payee organization that is not related to and primarily
4 distributed in connection with a specific
5 event conducted by the payee organization.
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11 “(3) *ALLOCATION OF PORTIONS OF SINGLE PAYMENT.*—For purposes of this subsection, to the extent
12 that a portion of a payment would (if made as a separate payment) be a qualified sponsorship payment,
13 such portion of such payment and the other portion
14 of such payment shall be treated as separate payments.”
15
16
17

18 “(b) *EFFECTIVE DATE.*—The amendment made by this
19 section shall apply to payments solicited or received after
20 December 31, 1997.

21 **SEC. 764. ASSOCIATIONS OF HOLDERS OF TIMESHARE INTERESTS TO BE TAXED LIKE OTHER HOME-**
22 **OWNERS ASSOCIATIONS.**
23

24 “(a) *TIMESHARE ASSOCIATIONS INCLUDED AS HOME-*
25 *OWNER ASSOCIATIONS.*—

1 (1) *IN GENERAL.*—Paragraph (1) of section
2 528(c) (defining homeowners association) is amend-
3 ed—

4 (A) by striking “or a residential real estate
5 management association” and inserting “, a res-
6 idential real estate management association, or a
7 timeshare association” in the material preceding
8 subparagraph (A),

9 (B) by striking “or” at the end of clause (i)
10 of subparagraph (B), by striking the period at
11 the end of clause (ii) of subparagraph (B) and
12 inserting “, or”, and by adding at the end of
13 subparagraph (B) the following new clause:

14 “(iii) owners of timeshare rights to use,
15 or timeshare ownership interests in, associa-
16 tion property in the case of a timeshare as-
17 sociation,” and

18 (C) by inserting “and, in the case of a
19 timeshare association, for activities provided to
20 or on behalf of members of the association” before
21 the comma at the end of subparagraph (C).

22 (2) *TIMESHARE ASSOCIATION DEFINED.*—Sub-
23 section (c) of section 528 is amended by redesignating
24 paragraph (4) as paragraph (5) and by inserting
25 after paragraph (3) the following new paragraph:

1 “(4) *TIMESHARE ASSOCIATION.*—*The term*
2 *‘timeshare association’ means any organization (other*
3 *than a condominium management association) meet-*
4 *ing the requirement of subparagraph (A) of para-*
5 *graph (1) if any member thereof holds a timeshare*
6 *right to use, or a timeshare ownership interest in,*
7 *real property constituting association property.”.*

8 (b) *EXEMPT FUNCTION INCOME.*—*Paragraph (3) of*
9 *section 528(d) is amended by striking “or” at the end of*
10 *subparagraph (A), by striking the period at the end of sub-*
11 *paragraph (B) and inserting “, or”, and by adding at the*
12 *end the following new subparagraph:*

13 *“(C) owners of timeshare rights to use, or*
14 *timeshare ownership interests in, real property*
15 *in the case of a timeshare association.”.*

16 (c) *ASSOCIATION PROPERTY.*—*Paragraph (5) of sec-*
17 *tion 528(c), as redesignated by paragraph (2), is amended*
18 *by adding at the end the following new flush sentence:*

19 *“In the case of a timeshare association, such term in-*
20 *cludes property in which the timeshare association, or*
21 *members of the association, have rights arising out of*
22 *recorded easements, covenants, or other recorded in-*
23 *struments to use property related to the timeshare*
24 *project.”.*

1 (d) *RATE OF TAX.*—Subsection (b) of section 528 (re-
 2 lating to certain homeowners associations) is amended by
 3 inserting before the period “(32 percent of such income in
 4 the case of a timeshare association)”.

5 (e) *EFFECTIVE DATE.*—The amendments made by this
 6 section shall apply to taxable years beginning after Decem-
 7 ber 31, 1996.

8 **SEC. 765. INCREASED DEDUCTIBILITY OF BUSINESS MEAL**
 9 **EXPENSES FOR INDIVIDUALS SUBJECT TO**
 10 **FEDERAL HOURS OF SERVICE AND SEAFOOD**
 11 **PROCESSORS.**

12 (a) *IN GENERAL.*—Section 274(n) (relating to only 50
 13 percent of meal and entertainment expenses allowed as de-
 14 duction) is amended by adding at the end the following new
 15 paragraph:

16 “(3) *SPECIAL RULE FOR INDIVIDUALS SUBJECT*
 17 *TO FEDERAL HOURS OF SERVICE AND SEAFOOD PROC-*
 18 *ESSORS.*—

19 “(A) *IN GENERAL.*—In the case of any ex-
 20 penses for food or beverages consumed—

21 “(i) while away from home (within the
 22 meaning of section 162(a)(2)) by an indi-
 23 vidual during, or incident to, the period of
 24 duty subject to the hours of service limita-

1 *tions of the Department of Transportation,*
 2 *or*

3 *“(ii) by an individual in connection*
 4 *with the individual’s employment at a sea-*
 5 *food processing facility located in the Unit-*
 6 *ed States, North of 53 degrees North lati-*
 7 *tude,*

8 *paragraph (1) shall be applied by substituting*
 9 *‘the applicable percentage’ for ‘50 percent’.*

10 *“(B) APPLICABLE PERCENTAGE.—For pur-*
 11 *poses of this paragraph, the term ‘applicable per-*
 12 *centage’ means the percentage determined under*
 13 *the following table:*

“For taxable years beginning in calendar year—	The applicable percentage is—
<i>1998 or 1999</i>	<i>55</i>
<i>2000 or 2001</i>	<i>60</i>
<i>2002 or 2003</i>	<i>65</i>
<i>2004 or 2005</i>	<i>70</i>
<i>2006 or 2007</i>	<i>75</i>
<i>2008 or thereafter</i>	<i>80.”.</i>

14 *(b) EFFECTIVE DATE.—The amendment made by sub-*
 15 *section (a) shall apply to taxable years beginning after De-*
 16 *cember 31, 1997.*

1 **SEC. 766. DEDUCTION IN COMPUTING ADJUSTED GROSS IN-**
2 **COME FOR EXPENSES IN CONNECTION WITH**
3 **SERVICE PERFORMED BY CERTAIN OFFI-**
4 **CIALS.**

5 (a) *IN GENERAL.*—Paragraph (2) of section 62(a) (de-
6 fining adjusted gross income) is amended by adding at the
7 end the following new subparagraph:

8 “(C) *CERTAIN EXPENSES OF OFFICIALS.*—
9 *The deductions allowed by section 162 which*
10 *consist of expenses paid or incurred with respect*
11 *to services performed by an official as an em-*
12 *ployee of a State or a political subdivision there-*
13 *of in a position compensated in whole or in part*
14 *on a fee basis.”.*

15 (b) *EFFECTIVE DATE.*—The amendment made by this
16 section shall apply to expenses paid or incurred in taxable
17 years beginning after December 31, 1997.

18 **SEC. 767. INCREASE IN STANDARD MILEAGE RATE EXPENSE**
19 **DEDUCTION FOR CHARITABLE USE OF PAS-**
20 **SENGER AUTOMOBILE.**

21 (a) *IN GENERAL.*—Section 170(i) (relating to stand-
22 ard mileage rate for use of passenger automobile) is amend-
23 ed to read as follows:

24 “(i) *STANDARD MILEAGE RATE FOR USE OF PAS-*
25 *SENGER AUTOMOBILE.*—

1 **“SEC. 198. EXPENSING OF ENVIRONMENTAL REMEDIATION**
2 **COSTS.**

3 “(a) *IN GENERAL.*—A taxpayer may elect to treat any
4 qualified environmental remediation expenditure which is
5 paid or incurred by the taxpayer as an expense which is
6 not chargeable to capital account. Any expenditure which
7 is so treated shall be allowed as a deduction for the taxable
8 year in which it is paid or incurred.

9 “(b) *QUALIFIED ENVIRONMENTAL REMEDIATION EX-*
10 *PENDITURE.*—For purposes of this section—

11 “(1) *IN GENERAL.*—The term ‘qualified environ-
12 mental remediation expenditure’ means any expendi-
13 ture—

14 “(A) which is otherwise chargeable to cap-
15 ital account, and

16 “(B) which is paid or incurred in connec-
17 tion with the abatement or control of hazardous
18 substances at a qualified contaminated site.

19 “(2) *SPECIAL RULE FOR EXPENDITURES FOR DE-*
20 *PRECIABLE PROPERTY.*—Such term shall not include
21 any expenditure for the acquisition of property of a
22 character subject to the allowance for depreciation
23 which is used in connection with the abatement or
24 control of hazardous substances at a qualified con-
25 taminated site; except that the portion of the allow-
26 ance under section 167 for such property which is

1 *otherwise allocated to such site shall be treated as a*
2 *qualified environmental remediation expenditure.*

3 *“(c) QUALIFIED CONTAMINATED SITE.—For purposes*
4 *of this section—*

5 *“(1) QUALIFIED CONTAMINATED SITE.—*

6 *“(A) IN GENERAL.—The term ‘qualified*
7 *contaminated site’ means any area—*

8 *“(i) which is held by the taxpayer for*
9 *use in a trade or business or for the produc-*
10 *tion of income, or which is property de-*
11 *scribed in section 1221(1) in the hands of*
12 *the taxpayer,*

13 *“(ii) which is within a targeted area,*
14 *and*

15 *“(iii) at or on which there has been a*
16 *release (or threat of release) or disposal of*
17 *any hazardous substance.*

18 *“(B) TAXPAYER MUST RECEIVE STATEMENT*
19 *FROM STATE ENVIRONMENTAL AGENCY.—An area*
20 *shall be treated as a qualified contaminated site*
21 *with respect to expenditures paid or incurred*
22 *during any taxable year only if the taxpayer re-*
23 *ceives a statement from the appropriate agency*
24 *of the State in which such area is located that*

1 *such area meets the requirements of clauses (ii)*
2 *and (iii) of subparagraph (A).*

3 “(C) *APPROPRIATE STATE AGENCY.*— *For*
4 *purposes of subparagraph (B), the appropriate*
5 *agency of a State is the agency designated by the*
6 *Administrator of the Environmental Protection*
7 *Agency for purposes of this section. If no agency*
8 *of a State is designated under the preceding sen-*
9 *tence, the appropriate agency for such State shall*
10 *be the Environmental Protection Agency.*

11 “(2) *TARGETED AREA.*—

12 “(A) *IN GENERAL.*—*The term ‘targeted*
13 *area’ means—*

14 “(i) *any empowerment zone or enter-*
15 *prise community (and any supplemental*
16 *zone designated on December 21, 1994), and*

17 “(ii) *any site announced before Feb-*
18 *ruary 1, 1997, as being included as a*
19 *brownfields pilot project of the Environ-*
20 *mental Protection Agency.*

21 “(B) *NATIONAL PRIORITIES LISTED SITES*
22 *NOT INCLUDED.*—*Such term shall not include*
23 *any site which is on, or proposed for, the na-*
24 *tional priorities list under section 105(a)(8)(B)*
25 *of the Comprehensive Environmental Response,*

1 *Compensation, and Liability Act of 1980 (as in*
2 *effect on the date of the enactment of this sec-*
3 *tion).*

4 “(C) *CERTAIN RULES TO APPLY.—For pur-*
5 *poses of this paragraph the rules of sections*
6 *1392(b)(4) and 1393(a)(9) shall apply.*

7 “(d) *HAZARDOUS SUBSTANCE.—For purposes of this*
8 *section—*

9 “(1) *IN GENERAL.—The term ‘hazardous sub-*
10 *stance’ means—*

11 “(A) *any substance which is a hazardous*
12 *substance as defined in section 101(14) of the*
13 *Comprehensive Environmental Response, Com-*
14 *ensation, and Liability Act of 1980, and*

15 “(B) *any substance which is designated as*
16 *a hazardous substance under section 102 of such*
17 *Act.*

18 “(2) *EXCEPTION.—Such term shall not include*
19 *any substance with respect to which a removal or re-*
20 *medial action is not permitted under section 104 of*
21 *such Act by reason of subsection (a)(3) thereof.*

22 “(e) *DEDUCTION RECAPTURED AS ORDINARY INCOME*
23 *ON SALE, ETC.—Solely for purposes of section 1245, in the*
24 *case of property to which a qualified environmental remedi-*

1 *ation expenditure would have been capitalized but for this*
2 *section—*

3 “(1) *the deduction allowed by this section for*
4 *such expenditure shall be treated as a deduction for*
5 *depreciation, and*

6 “(2) *such property (if not otherwise section 1245*
7 *property) shall be treated as section 1245 property*
8 *solely for purposes of applying section 1245 to such*
9 *deduction.*

10 “(f) *COORDINATION WITH OTHER PROVISIONS.—Sec-*
11 *tions 280B and 468 shall not apply to amounts which are*
12 *treated as expenses under this section.*

13 “(g) *REGULATIONS.—The Secretary shall prescribe*
14 *such regulations as may be necessary or appropriate to*
15 *carry out the purposes of this section.”.*

16 “(b) *CLERICAL AMENDMENT.—The table of sections for*
17 *part VI of subchapter B of chapter 1 is amended by adding*
18 *at the end the following new item:*

“Sec. 198. Expensing of environmental remediation costs.”.

19 “(c) *EFFECTIVE DATE.—The amendments made by this*
20 *section shall apply to expenditures paid or incurred after*
21 *the date of the enactment of this Act, in taxable years end-*
22 *ing after such date.*

1 **SEC. 769. COMBINED EMPLOYMENT TAX REPORTING DEM-**
2 **ONSTRATION PROJECT.**

3 (a) *IN GENERAL.*—*The Secretary of the Treasury shall*
4 *provide for a demonstration project to assess the feasibility*
5 *and desirability of expanding combined Federal and State*
6 *tax reporting.*

7 (b) *DESCRIPTION OF DEMONSTRATION PROJECT.*—*The*
8 *demonstration project under subsection (a) shall be—*

9 (1) *carried out between the Internal Revenue*
10 *Service and the State of Montana for a period ending*
11 *with the date which is 5 years after the date of the*
12 *enactment of this Act,*

13 (2) *limited to the reporting of employment taxes,*
14 *and*

15 (3) *limited to the disclosure of the taxpayer iden-*
16 *tity (as defined in section 6103(b)(6) of such Code)*
17 *and the signature of the taxpayer.*

18 *Such identity and signature may be disclosed notwithstand-*
19 *ing section 6103 of the Internal Revenue Code of 1986.*

20 **SEC. 770. INCREASED MAXIMUM CAPITAL EXPENDITURE**
21 **LIMIT FOR QUALIFIED SMALL ISSUE BONDS.**

22 (a) *IN GENERAL.*—*Subparagraph (A) of section*
23 *144(a)(4) (relating to \$10,000,000 limit in certain cases)*
24 *is amended by adding at the end the following new flush*
25 *sentence:*

1 “Capital expenditures which would (but for this
2 sentence) be taken into account under clause (ii)
3 shall be taken into account only to the extent
4 such expenditures exceed \$10,000,000.”.

5 **(b) EFFECTIVE DATE.**—The amendment made by sub-
6 section (a) shall apply to—

7 (1) obligations issued after December 31, 1997,
8 and

9 (2) capital expenditures made after such date
10 with respect to obligations issued on or before such
11 date.

12 **SEC. 771. EXTENSION OF CREDIT FOR ELECTRICITY PRO-**
13 **DUCED FROM CERTAIN RENEWABLE RE-**
14 **SOURCES.**

15 Paragraph (3) of section 45(c) is amended by striking
16 “July 1, 1999” and inserting “July 1, 2001”.

17 **SEC. 772. TAXABLE INCOME LIMIT ON PERCENTAGE DEPLE-**
18 **TION NOT TO APPLY TO MARGINAL PRODUC-**
19 **TION.**

20 **(a) IN GENERAL.**—Paragraph (6) of section 613A(c)
21 is amended by adding at the end the following new subpara-
22 graph:

23 “(H) **EXEMPTION FROM TAXABLE INCOME**
24 **LIMIT WHERE REFERENCE PRICE BELOW \$14.**—
25 The second sentence of subsection (a) of section

1 613 shall not apply to so much of the allowance
2 for depletion as is determined under subpara-
3 graph (A) for any taxable year beginning in a
4 calendar year for which the reference price (as
5 defined in section 29(d)(2)(C)) is below \$14.”.

6 (b) *EFFECTIVE DATE.*—The amendment made by sub-
7 section (a) shall apply to taxable years beginning after De-
8 cember 31, 1997.

9 **SEC. 773. CLARIFICATION OF TREATMENT OF CERTAIN RE-**
10 **CEIVABLES PURCHASED BY COOPERATIVE**
11 **HOSPITAL SERVICE ORGANIZATIONS.**

12 (a) *IN GENERAL.*—Subparagraph (A) of section
13 501(e)(1) is amended by inserting “(including the purchase
14 of patron accounts receivable on a recourse basis)” after
15 “billing and collection”.

16 (b) *EFFECTIVE DATE.*—The amendment made by sub-
17 section (a) shall apply to taxable years beginning after De-
18 cember 31, 1996.

19 **SEC. 774. EXCEPTION FOR BONDS GUARANTEED BY FED-**
20 **ERAL HOME LOAN BANK BOARD FROM RE-**
21 **STRICTION ON FEDERAL GUARANTEE OF**
22 **BONDS.**

23 (a) *IN GENERAL.*—Clause (i) of section 149(b)(3)(A)
24 is amended by striking “or the Government National Mort-
25 gage Association” and inserting “the Government National

1 *Mortgage Association, or the Federal Home Loan Bank*
2 *Board”.*

3 **(b) EFFECTIVE DATE.**—*The amendment made by sub-*
4 *section (a) shall apply to bonds issued after the date of the*
5 *enactment of this Act.*

6 **SEC. 775. INCREASED PERIOD FOR DEDUCTION FOR TRAV-**
7 **ELING EXPENSES WHILE WORKING AWAY**
8 **FROM HOME.**

9 **(a) IN GENERAL.**—*Section 162 (relating to trade or*
10 *business expenses) is amended—*

11 **(1) in subsection (a)—**

12 **(A) in paragraph (2), by inserting “subject**
13 *to subsection (o),” before “traveling expenses”,*
14 *and*

15 **(B) by striking the last sentence, and**

16 **(2) by redesignating subsection (o) as subsection**
17 *(p) and by inserting after subsection (n) the following*
18 *new subsection:*

19 **“(o) EXPENSES WHILE AWAY FROM HOME.**—*For pur-*
20 *poses of subsection (a)(2)—*

21 **“(1) IN GENERAL.**—*A taxpayer shall not be*
22 *treated as being temporarily away from home during*
23 *any period of employment if such period exceeds 1*
24 *year.*

1 “(2) SPECIAL RULES FOR CONSTRUCTION
2 PROJECTS.—

3 “(A) 18-MONTH PERIOD FOR CERTAIN
4 PROJECTS.—If—

5 “(i) the employment described in para-
6 graph (1) is in connection with an identifi-
7 able construction project with a completion
8 date that is reasonably expected to occur
9 within 5 years after the starting date of
10 such project, and

11 “(ii) the taxpayer continues to main-
12 tain a household as his principal residence
13 and incur duplicative expenses at such resi-
14 dence,

15 paragraph (1) shall be applied by substituting
16 ‘18 months’ for ‘1 year’.

17 “(B) 2-YEAR PERIOD FOR PROJECTS IN
18 AREAS LACKING FAMILY SUPPORT INFRASTRUC-
19 TURE.—If the employment described in para-
20 graph (1) is in connection with an identifiable
21 construction project described in subparagraph
22 (A) which is located in an area which lacks ade-
23 quate housing, educational, medical, or other fa-
24 cilities necessary for families, paragraph (1)

1 shall be applied by substituting ‘2 years’ for ‘1
2 year’.”.

3 (b) *EFFECTIVE DATE.*—*The amendments made by this*
4 *section shall apply to costs paid or incurred in taxable*
5 *years beginning after December 31, 1997.*

6 **SEC. 776. CHARITABLE CONTRIBUTION DEDUCTION FOR**
7 **CERTAIN EXPENSES INCURRED IN SUPPORT**
8 **OF NATIVE ALASKAN SUBSISTENCE WHALING.**

9 (a) *IN GENERAL.*—*Section 170 (relating to charitable,*
10 *etc., contributions and gifts) is amended by redesignating*
11 *subsection (m) as subsection (n) and by inserting after sub-*
12 *section (l) the following new subsection:*

13 “(m) *EXPENSES PAID BY CERTAIN WHALING CAP-*
14 *TAINS IN SUPPORT OF NATIVE ALASKAN SUBSISTENCE*
15 *WHALING.*—

16 “(1) *IN GENERAL.*—*In the case of an individual*
17 *who is recognized by the Alaska Eskimo Whaling*
18 *Commission as a whaling captain charged with the*
19 *responsibility of maintaining and carrying out sanc-*
20 *tioned whaling activities and who engages in such ac-*
21 *tivities during the taxable year, the amount described*
22 *in paragraph (2) (to the extent such amount does not*
23 *exceed \$7,500 for the taxable year) shall be treated for*
24 *purposes of this section as a charitable contribution.*

1 “(2) *AMOUNT DESCRIBED.*—*The amount de-*
2 *scribed in this paragraph is the aggregate of the rea-*
3 *sonable and necessary whaling expenses paid by the*
4 *taxpayer during the taxable year in carrying out*
5 *sanctioned whaling activities. For purposes of the*
6 *preceding sentence, the term ‘whaling expenses’ in-*
7 *cludes expenses for—*

8 “(A) *the acquisition and maintenance of*
9 *whaling boats, weapons, and gear used in sanc-*
10 *tioned whaling activities,*

11 “(B) *the supplying of food for the crew and*
12 *other provisions for carrying out such activities,*
13 *and*

14 “(C) *storage and distribution of the catch*
15 *from such activities.*

16 “(3) *SANCTIONED WHALING ACTIVITIES.*—*For*
17 *purposes of this subsection, the term ‘sanctioned whal-*
18 *ing activities’ means subsistence bowhead whale hunt-*
19 *ing activities conducted pursuant to the management*
20 *plan of the Alaska Eskimo Whaling Commission.”.*

21 (b) *EFFECTIVE DATE.*—*The amendment made by sub-*
22 *section (a) shall apply to taxable years ending after the date*
23 *of the enactment of this Act.*

1 **SEC. 777. MODIFICATION TO ELIGIBILITY CRITERIA FOR**
2 **DESIGNATION OF FUTURE ENTERPRISE**
3 **ZONES IN ALASKA OR HAWAII.**

4 *Section 1392 (relating to eligibility criteria) is amend-*
5 *ed by adding at the end the following new subsection:*

6 *“(d) SPECIAL ELIGIBILITY FOR NOMINATED AREAS*
7 *LOCATED IN ALASKA OR HAWAII.—A nominated area in*
8 *Alaska or Hawaii shall be treated as meeting the require-*
9 *ments of paragraphs (2), (3), and (4) of subsection (a) if*
10 *for each census tract or block group within such area 20*
11 *percent or more of the families have income which is 50*
12 *percent or less of the statewide median family income (as*
13 *determined under section 143).”.*

14 **SEC. 778. CLARIFICATION OF DE MINIMIS FRINGE BENEFIT**
15 **RULES TO NO-CHARGE EMPLOYEE MEALS.**

16 *(a) IN GENERAL.—Paragraph (2) of section 132(e)*
17 *(defining de minimis fringe) is amended by adding at the*
18 *end the following new sentence: “For purposes of subpara-*
19 *graph (B), an employee entitled under section 119 to ex-*
20 *clude the value of a meal provided at such facility shall*
21 *be treated as having paid an amount for such meal equal*
22 *to the direct operating costs of the facility attributable to*
23 *such meal.”.*

24 *(b) EFFECTIVE DATE.—The amendment made by this*
25 *section shall apply to taxable years beginning after Decem-*
26 *ber 31, 1997.*

1 **SEC. 779. CLARIFICATION OF STANDARD TO BE USED IN DE-**
2 **TERMINING EMPLOYMENT TAX STATUS OF**
3 **SECURITIES BROKERS.**

4 (a) *IN GENERAL.*—*In determining for purposes of*
5 *chapter 1 of the Internal Revenue Code of 1986 whether a*
6 *registered representative of a securities broker-dealer is an*
7 *employee (as defined in section 3121(d) of the Internal Rev-*
8 *enue Code of 1986), no weight shall be given to instructions*
9 *from the service recipient which are imposed only in com-*
10 *pliance with investor protection standards imposed by the*
11 *Federal Government, any State government, or a governing*
12 *body pursuant to a delegation by a Federal or State agency.*

13 (b) *EFFECTIVE DATE.*—*Subsection (a) shall apply to*
14 *services performed after December 31, 1997.*

15 **SEC. 780. SENSE OF THE SENATE REGARDING REFORM OF**
16 **THE INTERNAL REVENUE CODE OF 1986.**

17 (a) *FINDINGS.*—*The Senate finds that—*

18 (1) *the Internal Revenue Code of 1986 (“tax*
19 *code”) is unnecessarily complex, having grown from*
20 *14 pages at its inception to 3,458 pages by 1995;*

21 (2) *this complexity resulted in taxpayers spend-*
22 *ing about 5,300,000,000 hours and \$225,000,000,000*
23 *trying to comply with the tax code in 1996;*

24 (3) *the current congressional budgetary process is*
25 *weighted too heavily toward tax increases, as evi-*
26 *denced by the fact that since 1954 there have been 27*

1 *major bills enacted that increased Federal income*
2 *taxes and only 9 bills that decreased Federal income*
3 *taxes, 3 of which were de minimis decreases;*

4 *(4) the tax burden on working families has*
5 *reached an unsustainable level, as evidenced by the*
6 *fact that in 1948 the average American family with*
7 *children paid only 4.3 percent of its income to the*
8 *Federal Government in direct taxes and today the av-*
9 *erage family pays about 25 percent;*

10 *(5) the tax code unfairly penalizes saving and*
11 *investment by double taxing these activities while*
12 *only taxing income used for consumption once, and*
13 *as a result the United States has one of the lowest*
14 *saving rates, at 4.7 percent, in the industrialized*
15 *world;*

16 *(6) the tax code stifles economic growth by dis-*
17 *couraging work and capital formation through exces-*
18 *sively high tax rates;*

19 *(7) Congress and the President have found it*
20 *necessary, on 2 separate occasions, to enact laws to*
21 *protect taxpayers from the abuses of the Internal Rev-*
22 *enue Service and a third bill has been introduced in*
23 *the one hundred fifth Congress; and*

24 *(8) the complexity of the tax code has increased*
25 *the number of Internal Revenue Service employees re-*

1 (1) *the Federal estate tax punishes hard working*
2 *small business owners and discourages savings and*
3 *growth;*

4 (2) *the Federal estate tax imposes an unfair eco-*
5 *nomical burden on small businesses and reduces their*
6 *ability to survive and compete with large corpora-*
7 *tions; and*

8 (3) *a reduction in Federal estate taxes for fam-*
9 *ily-owned farms and enterprises will help to prevent*
10 *the liquidation of small businesses that strengthen*
11 *American communities by providing jobs and secu-*
12 *rity.*

13 (b) *SENSE OF THE SENATE.—It is the sense of the Sen-*
14 *ate that—*

15 (1) *the estate tax relief provided in this bill is*
16 *an important step that will enable more family-*
17 *owned farms and small businesses to survive and con-*
18 *tinue to provide economic security and job creation in*
19 *American communities; and*

20 (2) *Congress should eliminate the Federal estate*
21 *tax liability for family-owned businesses by the end of*
22 *2002 on a deficit-neutral basis.*

1 **SEC. 783. QUALIFIED GAMES OF CHANCE.**

2 (a) *IN GENERAL.*—*The term “unrelated trade or busi-*
3 *ness” does not include the activity of qualified games of*
4 *chance.*

5 (b) *QUALIFIED GAMES OF CHANCE.*—*For purposes of*
6 *this subsection, the term “qualified games of chance” means*
7 *any game of chance, other than provided in subsection (f),*
8 *conducted by an organization if—*

9 (1) *such organization is licensed pursuant to*
10 *State law to conduct such game;*

11 (2) *only organizations which are organized as*
12 *nonprofit corporations or are exempt from tax under*
13 *section 501(a) may be so licensed to conduct such*
14 *game within the State; and*

15 (3) *the conduct of such game does not violate*
16 *State or local law.*

17 **SEC. 784. SURVIVOR BENEFITS FOR PUBLIC SAFETY OFFI-**
18 **CERS KILLED IN THE LINE OF DUTY.**

19 (a) *IN GENERAL.*—*Part III of subchapter B of chapter*
20 *1 (relating to items specifically excluded from gross income)*
21 *is amended by redesignating section 138 as section 139 and*
22 *by inserting after section 137 the following new section:*

1 **“SEC. 138. SURVIVOR BENEFITS ATTRIBUTABLE TO SERV-**
2 **ICE BY A PUBLIC SAFETY OFFICER WHO IS**
3 **KILLED IN THE LINE OF DUTY.**

4 *“(a) IN GENERAL.—Gross income shall not include*
5 *any amount paid as a survivor annuity on account of the*
6 *death of a public safety officer (as such term is defined in*
7 *section 1204 of the Omnibus Crime Control and Safe Streets*
8 *Act of 1968) killed in the line of duty—*

9 *“(1) if such annuity is provided under a govern-*
10 *mental plan which meets the requirements of section*
11 *401(1) to the spouse (or a former spouse) of the public*
12 *safety officer or to a child of such officer; and*

13 *“(2) to the extent such annuity is attributable to*
14 *such officer’s service as a public safety officer.*

15 *“(b) EXCEPTIONS.—*

16 *“(1) IN GENERAL.—Subsection (a) shall not*
17 *apply with respect to the death of any public safety*
18 *officer if—*

19 *“(A) the death was caused by the inten-*
20 *tional misconduct of the officer or by such offi-*
21 *cer’s intention to bring about such officer’s death;*

22 *“(B) the officer was voluntarily intoxicated*
23 *(as defined in section 1204 of the Omnibus*
24 *Crime Control and Safe Streets Act of 1968) at*
25 *the time of death; or*

1 (1) *which is payable—*

2 (A) *to an individual (or to the survivors of*
3 *an individual) who was a full-time employee of*
4 *any police department or fire department which*
5 *is organized and operated by a State, by any po-*
6 *litical subdivision thereof, or by any agency or*
7 *instrumentality of a State or political subdivi-*
8 *sion thereof, and*

9 (B) *under a State law (as in existence on*
10 *July 1, 1992) which irrebuttably presumed that*
11 *heart disease and hypertension are work-related*
12 *illnesses but only for employees separating from*
13 *service before such date; and*

14 (2) *which is received in calendar year 1989,*
15 *1990, or 1991.*

16 *For purposes of the preceding sentence, the term “State”*
17 *includes the District of Columbia.*

18 (c) *WAIVER OF STATUTE OF LIMITATIONS.—If, on the*
19 *date of the enactment of this Act (or at any time within*
20 *the 1-year period beginning on such date of enactment)*
21 *credit or refund of any overpayment of tax resulting from*
22 *the provisions of this section is barred by any law or rule*
23 *of law, credit or refund of such overpayment shall, neverthe-*
24 *less, be allowed or made if claim therefore is filed before*
25 *the date 1 year after such date of enactment.*

1 **SEC. 786. REMOVAL OF DOLLAR LIMITATION ON BENEFIT**
2 **PAYMENTS FROM A DEFINED BENEFIT PLAN**
3 **MAINTAINED FOR CERTAIN POLICE AND FIRE**
4 **EMPLOYEES.**

5 (a) *IN GENERAL.*—Subparagraph (G) of section
6 415(b)(2) of the Internal Revenue Code of 1986 is amended
7 by striking “participant—” and all that follows and insert-
8 ing “participant, subparagraphs (C) and (D) of this para-
9 graph and subparagraph (B) of paragraph (1) shall not
10 apply.”.

11 (b) *EFFECTIVE DATE.*—The amendment made by sub-
12 section (a) shall apply to years beginning after December
13 31, 1996.

14 **SEC. 787. DEBATE ON A RECONCILIATION BILL.**

15 Section 310(e)(2) of the Congressional Budget Act of
16 1974 is amended to read as follows:

17 “(2) For purposes of consideration of any rec-
18 onciliation bill reported under subsection (b)—

19 “(A) debate, and all amendments thereto
20 and debatable motions and appeals in connection
21 therewith, shall be limited to not more than 30
22 hours;

23 “(B) time on the bill may only be yielded
24 back by consent and a motion to further limit
25 debate shall be debatable with debate limited to
26 $\frac{1}{2}$ hour equally divided;

1 “(C) time on amendments shall be limited
2 to 30 minutes to be equally divided in the usual
3 form and on any second degree amendment or
4 motion to 20 minutes to be equally divided in
5 the usual form, except that after the 15th hour
6 of consideration of a bill, time on all amend-
7 ments or motions shall be limited to 20 minutes;

8 “(D) no first degree amendment may be
9 proposed after the 15th hour of consideration of
10 a bill unless it has been submitted to the Journal
11 Clerk prior to the expiration of the 15th hour;

12 “(E) no second degree amendment may be
13 proposed after the 20th hour of consideration of
14 a bill unless it has been submitted to the Journal
15 Clerk prior to the expiration of the 20th hour;
16 and

17 “(F) after no more than thirty hours of con-
18 sideration of the measure, the Senate shall pro-
19 ceed, without any further debate on any ques-
20 tion, to vote on the final disposition thereof to
21 the exclusion of all amendments not then actu-
22 ally pending before the Senate at that time and
23 to the exclusion of all motions, except a motion
24 to table, or to reconsider and one quorum call on
25 demand to establish the presence of a quorum

1 *(and motions required to establish a quorum)*
 2 *immediately before the final vote begins.”.*

3 **SEC. 788. EXCLUSION FROM INCOME OF SEVERANCE PAY-**
 4 **MENT AMOUNTS; TIME PERIODS FOR**
 5 **CARRYBACK AND CARRYFORWARD OF UN-**
 6 **USED CREDITS.**

7 *(a) EXCLUSION FROM INCOME OF SEVERANCE PAY-*
 8 *MENT AMOUNTS.—Part III of subchapter B of chapter 1*
 9 *(relating to items specifically excluded from gross income)*
 10 *is amended by redesignating section 138 as section 139 and*
 11 *by inserting after section 137 the following new section:*

12 **“SEC. 138. SEVERANCE PAYMENTS.**

13 *“(a) IN GENERAL.—In the case of an individual, gross*
 14 *income shall not include any qualified severance payment.*

15 *“(b) LIMITATION.—The amount to which the exclusion*
 16 *under subsection (a) applies shall not exceed \$2,000 with*
 17 *respect to any separation from employment.*

18 *“(c) QUALIFIED SEVERANCE PAYMENT.—For purposes*
 19 *of this section—*

20 *“(1) IN GENERAL.—The term ‘qualified severance*
 21 *payment’ means any payment received by an individ-*
 22 *ual if—*

23 *“(A) such payment was paid by such indi-*
 24 *vidual’s employer on account of such individ-*
 25 *ual’s separation from employment,*

1 “(B) such separation was in connection
2 with a reduction in the work force of the em-
3 ployer, and

4 “(C) such individual does not attain em-
5 ployment within 6 months of the date of such
6 separation in which the amount of compensation
7 is equal to or greater than 95 percent of the
8 amount of compensation for the employment that
9 is related to such payment.

10 “(2) *LIMITATION.*—Such term shall not include
11 any payment received by an individual if the aggre-
12 gate payments received with respect to the separation
13 from employment exceed \$125,000.”.

14 (b) *TIME PERIODS FOR CARRYBACK AND*
15 *CARRYFORWARD OF UNUSED CREDITS.*—Section 39(a) (re-
16 lating to unused credits) is amended—

17 (1) in paragraph (1), by striking “3” each place
18 it appears and inserting “1” and by striking “15”
19 each place it appears and inserting “20”; and

20 (2) in paragraph (2), by striking “18” each
21 place it appears and inserting “22” and by striking
22 “17” each place it appears and inserting “21”.

23 (c) *CLERICAL AMENDMENT.*—The table of sections for
24 part III of subchapter B of chapter 1 is amended by striking

1 *the item relating to section 138 and inserting the following*
 2 *new items:*

“Sec. 138. Severance payments.

“Sec. 139. Cross references to other Acts.”.

3 *(d) EFFECTIVE DATES.—*

4 *(1) IN GENERAL.—The amendments made by*
 5 *subsections (a) and (c) shall apply to taxable years*
 6 *beginning after December 31, 1997, and before July*
 7 *1, 2002.*

8 *(2) SUBSECTION (b).—The amendments made by*
 9 *subsection (b) shall apply to the carryback and*
 10 *carryforward of credits arising in taxable years be-*
 11 *ginning after December 31, 1997.*

12 **SEC. 789. CURRENT REFUNDINGS OF CERTAIN TAX-EXEMPT**
 13 **BONDS.**

14 *(a) IN GENERAL.—Subsection (c) of section 10632 of*
 15 *the Revenue Act of 1987 (relating to bonds issued by Indian*
 16 *tribal governments) is amended by adding at the end the*
 17 *following new sentence: “The amendments made by this sec-*
 18 *tion shall not apply to any obligation issued after such date*
 19 *if—*

20 *“(1) such obligation is issued (or is part of a se-*
 21 *ries of obligations issued) to refund an obligation is-*
 22 *sued on or before such date,*

23 *“(2) the average maturity date of the issue of*
 24 *which the refunding obligation is a part is not later*

1 *than the average maturity date of the obligations to*
2 *be refunded by such issue,*

3 *“(3) the amount of the refunding obligation does*
4 *not exceed the outstanding amount of the refunded ob-*
5 *ligation, and*

6 *“(4) the net proceeds of the refunding obligation*
7 *are used to redeem the refunded obligation not later*
8 *than 90 days after the date of the issuance of the re-*
9 *funding obligation.*

10 *For purposes of paragraph (2), average maturity shall be*
11 *determined in accordance with section 147(b)(2)(A) of the*
12 *Internal Revenue Code of 1986.”.*

13 *(b) EFFECTIVE DATE.—The amendment made by sub-*
14 *section (a) shall apply to refunding obligations issued after*
15 *the date of the enactment of this Act.*

16 **SEC. 790. SPECIAL RULE FOR THRIFTS WHICH BECOME**
17 **LARGE BANKS.**

18 *(a) IN GENERAL.—Section 593(g)(2) (defining appli-*
19 *cable excess reserves) is amended by adding at the end the*
20 *following new subparagraph:*

21 **“(C) SPECIAL RULE FOR THRIFTS WHICH**
22 **BECAME LARGE BANKS IN 1995.—**

23 *“(i) IN GENERAL.—In the case of a*
24 *bank (as defined in section 581) which be-*
25 *came a large bank (as defined in section*

1 585(c)(2)) for its first taxable year begin-
2 ning after December 31, 1994, the balance
3 taken into account under subparagraph
4 (A)(ii) shall not be less than the amount
5 which would be the balance of such reserves
6 as of the close of its last taxable year begin-
7 ning before January 1, 1995, if the addi-
8 tions to such reserves for all taxable years
9 had been determined under section
10 585(b)(2)(A).

11 “(i) APPLICATION OF CUT-OFF METH-
12 OD; ETC.—In the case of a taxpayer to
13 which this subparagraph applies—

14 “(I) paragraph (5)(B) shall
15 apply, and

16 “(II) this subparagraph shall not
17 apply in determining the amount
18 taken into account by the taxpayer
19 under subparagraph (A)(ii) for pur-
20 poses of paragraphs (5) and (6) or sub-
21 section (e)(1).”.

22 (b) EFFECTIVE DATE.—The amendment made by this
23 section shall take effect as if included in the amendments
24 made by section 1616 of the Small Business Job Protection
25 Act of 1996.

1 **SEC. 791. SENSE OF THE SENATE REGARDING MIDDLE-**
2 **CLASS TAXPAYERS BENEFITING FROM TAX**
3 **CUTS.**

4 (a) *FINDINGS.—The Senate finds that—*

5 (1) *Congress has not provided a genuine tax cut*
6 *for America’s middle-class families since 1981;*

7 (2) *President Clinton promised middle-class tax*
8 *cuts in 1992;*

9 (3) *President Clinton raised taxes by*
10 *\$240,000,000,000 in 1993;*

11 (4) *President Clinton vetoed middle-class tax*
12 *cuts in 1995;*

13 (5) *the middle-class American worker had to*
14 *work until May 9 in order to earn enough money to*
15 *pay all Federal, State, and local taxes in 1997;*

16 (6) *the Joint Economic Committee reports that*
17 *real total Government taxes per household in 1994 to-*
18 *taled \$18,600;*

19 (7) *more than 70 percent of the tax cuts in both*
20 *the House of Representatives and the Senate tax relief*
21 *bills will go to Americans earning less than \$75,000*
22 *annually;*

23 (8) *the Joint Economic Committee estimates that*
24 *a family of 4 earning \$30,000 will receive 53 percent*
25 *of the tax relief under the reconciliation bill;*

1 (9) *the earned income tax credit was already ex-*
2 *expanded in President Clinton’s 1993 tax bill;*

3 (10) *the fiscal year 1998 budget resolution does*
4 *not make the \$500-per-child tax credit refundable;*
5 *and*

6 (11) *those who receive the earned income tax*
7 *credit do not pay Federal income taxes but receive a*
8 *substantial cash transfer from the Federal Govern-*
9 *ment in the form of refund checks above and beyond*
10 *income tax rebates.*

11 (b) *SENSE OF THE SENATE.—It is the sense of the Sen-*
12 *ate that America’s middle-class taxpayers shoulder the big-*
13 *gest tax burden and that only those who pay Federal income*
14 *taxes should benefit from the Federal income tax cuts con-*
15 *tained in the Revenue Reconciliation Act of 1997.*

16 **SEC. 792. AVERAGING OF FARM INCOME OVER 3 YEARS.**

17 (a) *IN GENERAL.—Subpart B of part II of subchapter*
18 *E of chapter 1 of the Internal Revenue Code of 1986 (relat-*
19 *ing to taxable year for which items of gross income in-*
20 *cluded) is amended by adding the following new section:*

21 **“SEC. 460A. AVERAGING OF FARM INCOME.**

22 “(a) *IN GENERAL.—At the election of a taxpayer en-*
23 *gaged in a farming business, the tax imposed by section*
24 *1 for such taxable year shall be equal to the sum of—*

1 “(1) a tax computed under such section on tax-
2 able income reduced by elected farm income, plus

3 “(2) the increase in tax which would result if
4 taxable income for the 3 prior taxable years were in-
5 creased by the elected farm income.

6 “(b) DEFINITIONS.—In this section—

7 “(1) ELECTED FARM INCOME.—

8 “(A) IN GENERAL.—The term ‘elected farm
9 income’ means so much of the taxable income for
10 the taxable year—

11 “(i) which is attributable to any farm-
12 ing business; and

13 “(ii) which is specified in the election
14 under subsection (a).

15 “(B) TREATMENT OF GAINS.—For purposes
16 of subparagraph (A), gain from the sale or other
17 disposition of property (other than land) regu-
18 larly used by the taxpayer in a farming business
19 for a substantial period shall be treated as at-
20 tributable to a farming business.

21 “(2) FARMING BUSINESS.—The term ‘farming
22 business’ has the meaning given such term by section
23 263A(e)(4).”.

1 (b) *CLERICAL AMENDMENT.*—The table of sections for
 2 such subpart B is amended by adding at the end the follow-
 3 ing new item:

“Sec. 460A. Averaging of farm income.”.

4 (c) *EFFECTIVE DATE.*—The amendments made by this
 5 section shall apply to taxable years beginning after the date
 6 of the enactment of this Act and before January 1, 2001.

7 **TITLE VIII—REVENUES**

8 **Subtitle A—Financial Products**

9 **SEC. 801. CONSTRUCTIVE SALES TREATMENT FOR APPRE-** 10 **CIATED FINANCIAL POSITIONS.**

11 (a) *IN GENERAL.*—Part IV of subchapter P of chapter
 12 1 is amended by adding at the end the following new sec-
 13 tion:

14 **“SEC. 1259. CONSTRUCTIVE SALES TREATMENT FOR APPRE-** 15 **CIATED FINANCIAL POSITIONS.**

16 “(a) *IN GENERAL.*—If there is a constructive sale of
 17 an appreciated financial position—

18 “(1) the taxpayer shall recognize gain as if such
 19 position were sold, assigned, or otherwise terminated
 20 at its fair market value on the date of such construc-
 21 tive sale (and any gain shall be taken into account
 22 for the taxable year which includes such date), and

23 “(2) for purposes of applying this title for peri-
 24 ods after the constructive sale—

1 “(A) proper adjustment shall be made in
2 the amount of any gain or loss subsequently real-
3 ized with respect to such position for any gain
4 taken into account by reason of paragraph (1),
5 and

6 “(B) the holding period of such position
7 shall be determined as if such position were
8 originally acquired on the date of such construc-
9 tive sale.

10 “(b) APPRECIATED FINANCIAL POSITION.—For pur-
11 poses of this section—

12 “(1) IN GENERAL.—Except as provided in para-
13 graph (2), the term ‘appreciated financial position’
14 means any position with respect to any stock, debt in-
15 strument, or partnership interest if there would be
16 gain were such position sold, assigned, or otherwise
17 terminated at its fair market value.

18 “(2) EXCEPTIONS.—The term ‘appreciated fi-
19 nancial position’ shall not include—

20 “(A) any position with respect to debt if—

21 “(i) the interest payments (or other
22 similar amounts) with respect to such debt
23 meet the requirements of clause (i) of section
24 860G(a)(1)(B), and

1 “(ii) such debt is not convertible (di-
2 rectly or indirectly) into stock of the issuer
3 or any related person, and

4 “(B) any position which is marked to mar-
5 ket under any provision of this title or the regu-
6 lations thereunder.

7 “(3) POSITION.—The term ‘position’ means an
8 interest, including a futures or forward contract,
9 short sale, or option.

10 “(c) CONSTRUCTIVE SALE.—For purposes of this sec-
11 tion—

12 “(1) IN GENERAL.—A taxpayer shall be treated
13 as having made a constructive sale of an appreciated
14 financial position if the taxpayer (or a related per-
15 son)—

16 “(A) enters into a short sale of the same or
17 substantially identical property,

18 “(B) enters into an offsetting notional prin-
19 cipal contract with respect to the same or sub-
20 stantially identical property,

21 “(C) enters into a futures or forward con-
22 tract to deliver the same or substantially iden-
23 tical property,

24 “(D) in the case of an appreciated financial
25 position that is a short sale or a contract de-

1 scribed in subparagraph (B) or (C) with respect
2 to any property, acquires the same or substan-
3 tially identical property, or

4 “(E) to the extent prescribed by the Sec-
5 retary in regulations, enters into 1 or more other
6 transactions (or acquires 1 or more positions)
7 that have substantially the same effect as a
8 transaction described in any of the preceding
9 subparagraphs.

10 “(2) *EXCEPTION FOR SALES OF NONPUBLICLY*
11 *TRADED PROPERTY.*—The term ‘constructive sale’
12 shall not include any contract for sale of any stock,
13 debt instrument, or partnership interest which is not
14 a marketable security (as defined in section 453(f)) if
15 the contract settles within 1 year after the date such
16 contract is entered into.

17 “(3) *EXCEPTION FOR CERTAIN CLOSED TRANS-*
18 *ACTIONS.*—In applying this section, there shall be dis-
19 regarded any transaction (which would otherwise be
20 treated as a constructive sale) during the taxable year
21 if—

22 “(A) such transaction is closed before the
23 end of the 30th day after the close of such taxable
24 year, and

1 “(B) in the case of a transaction which is
2 closed during the 90-day period ending on such
3 30th day—

4 “(i) the taxpayer holds the appreciated
5 financial position throughout the 60-day pe-
6 riod beginning on the date such transaction
7 is closed, and

8 “(ii) at no time during such 60-day
9 period is the taxpayer’s risk of loss with re-
10 spect to such position reduced by reason of
11 a circumstance which would be described in
12 section 246(c)(4) if references to stock in-
13 cluded references to such position.

14 If a position with respect to a transaction which is
15 closed during the 90-day period as described in sub-
16 paragraph (B) is reestablished, then such transaction
17 shall be disregarded in applying this section if the re-
18 established position is closed during such 90-day pe-
19 riod in a transaction which meets the requirements of
20 subparagraph (B).

21 “(4) RELATED PERSON.—A person is related to
22 another person with respect to a transaction if—

23 “(A) the relationship is described in section
24 267 or 707(b), and

1 “(B) such transaction is entered into with
2 a view toward avoiding the purposes of this sec-
3 tion.

4 “(d) *OTHER DEFINITIONS.*—For purposes of this sec-
5 tion—

6 “(1) *FORWARD CONTRACT.*—The term ‘forward
7 contract’ means a contract to deliver a substantially
8 fixed amount of property for a substantially fixed
9 price.

10 “(2) *OFFSETTING NOTIONAL PRINCIPAL CON-*
11 *TRACT.*—The term ‘offsetting notional principal con-
12 *tract’ means, with respect to any property, an agree-*
13 *ment which includes—*

14 “(A) a requirement to pay (or provide cred-
15 it for) all or substantially all of the investment
16 yield (including appreciation) on such property
17 for a specified period, and

18 “(B) a right to be reimbursed for (or receive
19 credit for) all or substantially all of any decline
20 in the value of such property.

21 “(e) *SPECIAL RULES.*—

22 “(1) *TREATMENT OF SUBSEQUENT SALE OF PO-*
23 *SITION WHICH WAS DEEMED SOLD.*—If—

24 “(A) there is a constructive sale of any ap-
25 preciated financial position,

1 “(B) such position is subsequently disposed
2 of, and

3 “(C) at the time of such disposition, the
4 transaction resulting in the constructive sale of
5 such position is open with respect to the tax-
6 payer or any related person,
7 solely for purposes of determining whether the tax-
8 payer has entered into a constructive sale of any other
9 appreciated financial position held by the taxpayer,
10 the taxpayer shall be treated as entering into such
11 transaction immediately after such disposition. For
12 purposes of the preceding sentence, an assignment or
13 other termination shall be treated as a disposition.

14 “(2) CERTAIN TRUST INSTRUMENTS TREATED AS
15 STOCK.—For purposes of this section, an interest in
16 a trust which is actively traded (within the meaning
17 of section 1092(d)(1)) shall be treated as stock.

18 “(3) MULTIPLE POSITIONS IN PROPERTY.—If a
19 taxpayer holds multiple positions in property, the de-
20 termination of whether a specific transaction is a
21 constructive sale and, if so, which appreciated finan-
22 cial position is deemed sold shall be made in the same
23 manner as actual sales.

1 “(f) *REGULATIONS.*—*The Secretary shall prescribe*
2 *such regulations as may be necessary or appropriate to*
3 *carry out the purposes of this section.*”.

4 (b) *ELECTION OF MARK TO MARKET FOR SECURITIES*
5 *TRADERS AND FOR TRADERS AND DEALERS IN COMMOD-*
6 *ITIES.*—*Subsection (d) of section 475 (relating to mark to*
7 *market accounting method for dealers in securities) is*
8 *amended by adding at the end the following new paragraph:*

9 “(4) *ELECTION OF MARK TO MARKET FOR SECU-*
10 *RITIES TRADERS AND FOR TRADERS AND DEALERS IN*
11 *COMMODITIES.*—

12 “(A) *IN GENERAL.*—*In the case of a per-*
13 *son—*

14 “(i) *who is engaged in a trade or busi-*
15 *ness to which this paragraph applies, and*

16 “(ii) *who elects to be treated as a deal-*
17 *er in securities for purposes of this section*
18 *with respect to such trade or business,*

19 *subsections (a), (b)(3), (c)(3), and (e) and the*
20 *preceding provisions of this subsection (or, in the*
21 *case of a dealer in commodities, this section)*
22 *shall apply to all commodities and securities*
23 *held by such person in any trade or business*
24 *with respect to which such election is in effect in*
25 *the same manner as if such person were a dealer*

1 *in securities and all references to securities in-*
2 *cluded references to commodities.*

3 “(B) *APPLICATION OF PARAGRAPH.—This*
4 *paragraph shall apply to any active trade or*
5 *business—*

6 *“(i) as a trader in securities, or*

7 *“(ii) as a trader or dealer in commod-*
8 *ities.*

9 “(C) *EXCEPTION FOR CERTAIN HOLDINGS*
10 *OF TRADERS.—In the case of a trader in securi-*
11 *ties or commodities, subsection (a) shall not*
12 *apply to any security or commodity (to which*
13 *subsection (a) would otherwise apply solely by*
14 *reason of this paragraph) if such security or*
15 *commodity is clearly identified in the trader’s*
16 *records (before the close of the day applicable*
17 *under subsection (b)(2)) as being held other than*
18 *in a trade or business to which the election*
19 *under subparagraph (A) is in effect. A security*
20 *or commodity so identified shall be treated as de-*
21 *scribed in subsection (b)(1).*

22 “(D) *COMMODITY.—For purposes of this*
23 *paragraph, the term ‘commodities’ includes only*
24 *commodities of a kind customarily dealt in on*
25 *an organized commodity exchange.*

1 “(E) *ELECTION.*—*An election under this*
2 *paragraph may be made separately for each*
3 *trade or business and without the consent of the*
4 *Secretary. Such an election, once made, shall*
5 *apply to the taxable year for which made and all*
6 *subsequent taxable years unless revoked with the*
7 *consent of the Secretary.”.*

8 (c) *CLERICAL AMENDMENT.*—*The table of sections for*
9 *part IV of subchapter P of chapter 1 is amended by adding*
10 *at the end the following new item:*

*“Sec. 1259. Constructive sales treatment for appreciated financial
positions.”.*

11 (d) *EFFECTIVE DATES.*—

12 (1) *IN GENERAL.*—*Except as otherwise provided*
13 *in this subsection, the amendments made by this sec-*
14 *tion shall apply to any constructive sale after June*
15 *8, 1997.*

16 (2) *EXCEPTION FOR SALES OF POSITIONS, ETC.*
17 *HELD BEFORE JUNE 9, 1997.*—*A constructive sale be-*
18 *fore June 9, 1997, and the property to which the posi-*
19 *tion involved in the transaction relates, shall not be*
20 *taken into account in determining whether any other*
21 *constructive sale after June 8, 1997, has occurred if,*
22 *within before the close of the 30-day period beginning*
23 *on the date of the enactment of this Act, such position*
24 *and property are clearly identified in the taxpayer’s*

1 *records as offsetting. The preceding sentence shall*
2 *cease to apply as of the date the taxpayer ceases to*
3 *hold such position or property.*

4 (3) *SPECIAL RULE.—In the case of a decedent*
5 *dying after June 8, 1997, if—*

6 (A) *there was a constructive sale on or be-*
7 *fore such date of any appreciated financial posi-*
8 *tion,*

9 (B) *the transaction resulting in such con-*
10 *structive sale of such position remains open*
11 *(with respect to the decedent or any related per-*
12 *son) for not less than 2 years after the date of*
13 *such transaction (whether such period is before*
14 *or after June 8, 1997), and*

15 (C) *such transaction is not closed within the*
16 *30-day period beginning on the date of the enact-*
17 *ment of this Act,*

18 *then, for purposes of such Code, such position (and*
19 *any property related thereto, as determined under the*
20 *principles of section 1259(d)(1) of such Code (as so*
21 *added)) shall be treated as property constituting*
22 *rights to receive an item of income in respect of a de-*
23 *cedent under section 691 of such Code.*

1 (4) *ELECTION OF SECURITIES TRADERS, AND*
2 *FOR TRADERS AND DEALERS IN COMMODITIES, TO BE*
3 *TREATED AS DEALERS IN SECURITIES.—*

4 (A) *IN GENERAL.—The amendment made*
5 *by subsection (b) shall apply to taxable years*
6 *ending after the date of the enactment of this*
7 *Act.*

8 (B) *4-YEAR SPREAD OF ADJUSTMENTS.—In*
9 *the case of a taxpayer who elects under section*
10 *475(d)(4) of the Internal Revenue Code of 1986*
11 *(as added by this section) to change its method*
12 *of accounting for its first taxable year ending*
13 *after the date of the enactment of this Act, the*
14 *net amount of the adjustments required to be*
15 *taken into account by the taxpayer under section*
16 *481 of the Internal Revenue Code of 1986 shall*
17 *be taken into account ratably over the 4-taxable*
18 *year period beginning with such first taxable*
19 *year.*

20 **SEC. 802. LIMITATION ON EXCEPTION FOR INVESTMENT**
21 **COMPANIES UNDER SECTION 351.**

22 (a) *IN GENERAL.—Paragraph (1) of section 351(e) (re-*
23 *lating to exceptions) is amended by adding at the end the*
24 *following: “For purposes of the preceding sentence, the de-*

1 *termination of whether a company is an investment com-*
2 *pany shall be made—*

3 “(A) *by taking into account all stock and*
4 *securities held by the company, and*

5 “(B) *by treating as securities—*

6 “(i) *money,*

7 “(ii) *stocks and other equity interests*
8 *in a corporation, evidences of indebtedness,*
9 *options, forward or futures contracts, no-*
10 *tional principal contracts and derivatives,*

11 “(iii) *any foreign currency,*

12 “(iv) *any interest in a real estate in-*
13 *vestment trust, a common trust fund, a reg-*
14 *ulated investment company, a publicly-*
15 *traded partnership (as defined in section*
16 *7704(b)) or any other equity interest (other*
17 *than in a corporation) which pursuant to*
18 *its terms or any other arrangement is read-*
19 *ily convertible into, or exchangeable for, any*
20 *asset described in any preceding clause, this*
21 *clause or clause (v) or (viii),*

22 “(v) *except to the extent provided in*
23 *regulations prescribed by the Secretary, any*
24 *interest in a precious metal, unless such*

1 *metal is used or held in the active conduct*
2 *of a trade or business after the contribution,*

3 “*(vi) except as otherwise provided in*
4 *regulations prescribed by the Secretary, in-*
5 *terests in any entity if substantially all of*
6 *the assets of such entity consist (directly or*
7 *indirectly) of any assets described in any*
8 *preceding clause or clause (viii),*

9 “*(vii) to the extent provided in regula-*
10 *tions prescribed by the Secretary, any inter-*
11 *est in any entity not described in clause*
12 *(vi), but only to the extent of the value of*
13 *such interest that is attributable to assets*
14 *listed in clauses (i) through (v) or clause*
15 *(viii), or*

16 “*(viii) any other asset specified in reg-*
17 *ulations prescribed by the Secretary.*”

18 *The Secretary may prescribe regulations that, under*
19 *appropriate circumstances, treat any asset described*
20 *in clauses (i) through (v) as not so listed.”.*

21 ***(b) EFFECTIVE DATE.—***

22 ***(1) IN GENERAL.—****The amendment made by sub-*
23 *section (a) shall apply to transfers after June 8, 1997,*
24 *in taxable years ending after such date.*

1 (2) *BINDING CONTRACTS.*—*The amendment*
 2 *made by subsection (a) shall not apply to any trans-*
 3 *fer pursuant to a written binding contract in effect*
 4 *on June 8, 1997, that provides for the transfer of a*
 5 *fixed amount of property, and at all times thereafter*
 6 *before such transfer.*

7 **SEC. 803. GAINS AND LOSSES FROM CERTAIN TERMI-**
 8 **NATIONS WITH RESPECT TO PROPERTY.**

9 (a) *APPLICATION OF CAPITAL TREATMENT TO PROP-*
 10 *ERTY OTHER THAN PERSONAL PROPERTY.*—

11 (1) *IN GENERAL.*—*Paragraph (1) of section*
 12 *1234A (relating to gains and losses from certain ter-*
 13 *minations) is amended by striking “personal property*
 14 *(as defined in section 1092(d)(1))” and inserting*
 15 *“property”.*

16 (2) *EFFECTIVE DATE.*—*The amendment made by*
 17 *paragraph (1) shall apply to terminations more than*
 18 *30 days after the date of the enactment of this Act.*

19 (b) *APPLICATION OF CAPITAL TREATMENT, ETC. TO*
 20 *OBLIGATIONS ISSUED BY NATURAL PERSONS.*—

21 (1) *IN GENERAL.*—*Section 1271(b) is amended to*
 22 *read as follows:*

23 “(b) *EXCEPTION FOR CERTAIN OBLIGATIONS.*—

24 “(1) *IN GENERAL.*—*This section shall not apply*
 25 *to—*

1 “(A) any obligation issued by a natural
2 person before June 9, 1997, and

3 “(B) any obligation issued before July 2,
4 1982, by an issuer which is not a corporation
5 and is not a government or political subdivision
6 thereof.

7 “(2) *TERMINATION*.—Paragraph (1) shall not
8 apply to any obligation acquired after June 8, 1997,
9 unless the basis of the obligation in the hands of the
10 acquirer is determined solely by reference to the ad-
11 justed basis of the obligation in the hands of the per-
12 son from whom acquired.”.

13 (2) *EFFECTIVE DATE*.—The amendment made by
14 paragraph (1) shall take effect on the date of enact-
15 ment of this Act.

16 **Subtitle B—Corporate**
17 **Organizations and Reorganizations**

18 **SEC. 811. TAX TREATMENT OF CERTAIN EXTRAORDINARY**
19 **DIVIDENDS.**

20 (a) *TREATMENT OF EXTRAORDINARY DIVIDENDS IN*
21 *EXCESS OF BASIS*.—Paragraph (2) of section 1059(a) (re-
22 lating to corporate shareholder’s recognition of gain attrib-
23 utable to nontaxed portion of extraordinary dividends) is
24 amended to read as follows:

1 “(2) *AMOUNTS IN EXCESS OF BASIS.*—If the
2 *nontaxed portion of such dividends exceeds such basis,*
3 *such excess shall be treated as gain from the sale or*
4 *exchange of such stock for the taxable year in which*
5 *the extraordinary dividend is received.”.*

6 **(b) *TREATMENT OF REDEMPTIONS WHERE OPTIONS***
7 ***INVOLVED.***—Paragraph (1) of section 1059(e) (relating to
8 *treatment of partial liquidations and non-pro rata redemp-*
9 *tions) is amended to read as follows:*

10 “(1) *TREATMENT OF PARTIAL LIQUIDATIONS AND*
11 *CERTAIN REDEMPTIONS.*—Except as otherwise pro-
12 *vided in regulations—*

13 “(A) *REDEMPTIONS.*—In the case of any re-
14 *demption of stock—*

15 “(i) *which is part of a partial liquida-*
16 *tion (within the meaning of section 302(e))*
17 *of the redeeming corporation,*

18 “(ii) *which is not pro rata as to all*
19 *shareholders, or*

20 “(iii) *which would not have been treat-*
21 *ed (in whole or in part) as a dividend if*
22 *any options had not been taken into ac-*
23 *count under section 318(a)(4),*

24 *any amount treated as a dividend with respect*
25 *to such redemption shall be treated as an ex-*

1 *traordinary dividend to which paragraphs (1)*
2 *and (2) of subsection (a) apply without regard*
3 *to the period the taxpayer held such stock. In the*
4 *case of a redemption described in clause (iii),*
5 *only the basis in the stock redeemed shall be*
6 *taken into account under subsection (a).*

7 “(B) *REORGANIZATIONS, ETC.—An ex-*
8 *change described in section 356 which is treated*
9 *as a dividend shall be treated as a redemption*
10 *of stock for purposes of applying subparagraph*
11 *(A).”.*

12 (c) *TIME FOR REDUCTION.—Paragraph (1) of section*
13 *1059(d) is amended to read as follows:*

14 “(1) *TIME FOR REDUCTION.—Any reduction in*
15 *basis under subsection (a)(1) shall be treated as occur-*
16 *ring at the beginning of the ex-dividend date of the*
17 *extraordinary dividend to which the reduction re-*
18 *lates.”.*

19 (d) *EFFECTIVE DATES.—*

20 (1) *IN GENERAL.—The amendments made by*
21 *this section shall apply to distributions after May 3,*
22 *1995.*

23 (2) *TRANSITION RULE.—The amendments made*
24 *by this section shall not apply to any distribution*
25 *made pursuant to the terms of—*

1 (A) a written binding contract in effect on
2 May 3, 1995, and at all times thereafter before
3 such distribution, or

4 (B) a tender offer outstanding on May 3,
5 1995.

6 (3) *CERTAIN DIVIDENDS NOT PURSUANT TO CER-*
7 *TAIN REDEMPTIONS.*—*In determining whether the*
8 *amendment made by subsection (a) applies to any ex-*
9 *traordinary dividend other than a dividend treated as*
10 *an extraordinary dividend under section 1059(e)(1) of*
11 *the Internal Revenue Code of 1986 (as amended by*
12 *this Act), paragraphs (1) and (2) shall be applied by*
13 *substituting “September 13, 1995” for “May 3,*
14 *1995”.*

15 **SEC. 812. APPLICATION OF SECTION 355 TO DISTRIBUTIONS**
16 **FOLLOWED BY ACQUISITIONS AND TO**
17 **INTRAGROUP TRANSACTIONS.**

18 (a) *DISTRIBUTIONS FOLLOWED BY ACQUISITIONS.*—
19 *Section 355 (relating to distribution of stock and securities*
20 *of a controlled corporation) is amended by adding at the*
21 *end the following new subsection:*

22 “(e) *RECOGNITION OF GAIN WHERE CERTAIN DIS-*
23 *TRIBUTIONS OF STOCK OR SECURITIES ARE FOLLOWED BY*
24 *ACQUISITION.*—

1 “(1) *GENERAL RULE.*—If there is a distribution
2 to which this subsection applies, the following rules
3 shall apply:

4 “(A) *ACQUISITION OF CONTROLLED COR-*
5 *PORATION.*—If there is an acquisition described
6 in paragraph (2)(A)(ii) with respect to any con-
7 trolled corporation, any stock or securities in the
8 controlled corporation shall not be treated as
9 qualified property for purposes of subsection
10 (c)(2) of this section or section 361(c)(2).

11 “(B) *ACQUISITION OF DISTRIBUTING COR-*
12 *PORATION.*—If there is an acquisition described
13 in paragraph (2)(A)(ii) with respect to the dis-
14 tributing corporation, the controlled corporation
15 shall recognize gain in an amount equal to the
16 amount of net gain which would be recognized if
17 all the assets of the distributing corporation (im-
18 mediately after the distribution) were sold (at
19 such time) for fair market value. Any gain rec-
20 ognized under the preceding sentence shall be
21 treated as long-term capital gain and shall be
22 taken into account for the taxable year which in-
23 cludes the day after the date of such distribution.

24 “(2) *DISTRIBUTIONS TO WHICH SUBSECTION AP-*
25 *PLIES.*—

1 “(A) *IN GENERAL.*—*This subsection shall*
2 *apply to any distribution—*

3 “(i) *to which this section (or so much*
4 *of section 356 as relates to this section) ap-*
5 *plies, and*

6 “(ii) *which is part of a plan (or series*
7 *of related transactions) pursuant to which 1*
8 *or more persons acquire directly or indi-*
9 *rectly stock representing a 50-percent or*
10 *greater interest in the distributing corpora-*
11 *tion or any controlled corporation.*

12 “(B) *PLAN PRESUMED TO EXIST IN CER-*
13 *TAIN CASES.*—*If 1 or more persons acquire di-*
14 *rectly or indirectly stock representing a 50-per-*
15 *cent or greater interest in the distributing cor-*
16 *poration or any controlled corporation during*
17 *the 4-year period beginning on the date which is*
18 *2 years before the date of the distribution, such*
19 *acquisition shall be treated as pursuant to a*
20 *plan described in subparagraph (A)(ii) unless it*
21 *is established that the distribution and the acqui-*
22 *sition are not pursuant to a plan or series of re-*
23 *lated transactions.*

1 “(C) COORDINATION WITH SUBSECTION
2 (d).—This subsection shall not apply to any dis-
3 tribution to which subsection (d) applies.

4 “(3) SPECIAL RULES RELATING TO ACQUI-
5 TIONS.—

6 “(A) CERTAIN ACQUISITIONS NOT TAKEN
7 INTO ACCOUNT.—Except as provided in regula-
8 tions, the following acquisitions shall not be
9 treated as described in paragraph (2)(A)(ii):

10 “(i) The acquisition of stock in any
11 controlled corporation by the distributing
12 corporation.

13 “(ii) The acquisition by a person of
14 stock in any controlled corporation by rea-
15 son of holding stock or securities in the dis-
16 tributing corporation.

17 “(iii) The acquisition by a person of
18 stock in any successor corporation of the
19 distributing corporation or any controlled
20 corporation by reason of holding stock or se-
21 curities in such distributing or controlled
22 corporation.

23 “(iv) The acquisition of stock in a cor-
24 poration if shareholders owning directly or
25 indirectly stock possessing—

1 “(I) more than 50 percent of the
2 total combined voting power of all
3 classes of stock entitled to vote, and

4 “(II) more than 50 percent of the
5 total value of shares of all classes of
6 stock,

7 in the distributing corporation or any con-
8 trolled corporation before such acquisition
9 own indirectly stock possessing such vote
10 and value in such distributing or controlled
11 corporation after such acquisition.

12 This subparagraph shall not apply to any acqui-
13 sition if the stock held before the acquisition was
14 acquired pursuant to a plan (or series of related
15 transactions) described in subparagraph (A)(ii).

16 “(B) ASSET ACQUISITIONS.—Except as pro-
17 vided in regulations, for purposes of this sub-
18 section, if the assets of the distributing corpora-
19 tion or any controlled corporation are acquired
20 by a successor corporation in a transaction de-
21 scribed in subparagraph (A), (C), or (D) of sec-
22 tion 368(a)(1) or any other transaction specified
23 in regulations by the Secretary, the shareholders
24 (immediately before the acquisition) of the cor-
25 poration acquiring such assets shall be treated as

1 *acquiring stock in the corporation from which*
2 *the assets were acquired.*

3 “(4) *DEFINITION AND SPECIAL RULES.—For*
4 *purposes of this subsection—*

5 “(A) *50-PERCENT OR GREATER INTER-*
6 *EST.—The term ‘50-percent or greater interest’*
7 *has the meaning given such term by subsection*
8 *(d)(4).*

9 “(B) *DISTRIBUTIONS IN TITLE 11 OR SIMI-*
10 *LAR CASE.—Paragraph (1) shall not apply to*
11 *any distribution made in a title 11 or similar*
12 *case (as defined in section 368(a)(3)).*

13 “(C) *AGGREGATION AND CONTRIBUTION*
14 *RULES.—*

15 “(i) *AGGREGATION.—The rules of*
16 *paragraph (7)(A) of subsection (d) shall*
17 *apply.*

18 “(ii) *CONTRIBUTION.—Section*
19 *355(d)(8)(A) shall apply in determining*
20 *whether a person holds stock or securities in*
21 *any corporation.*

22 “(D) *SUCCESSORS AND PREDECESSORS.—*
23 *For purposes of this subsection, any reference to*
24 *a controlled corporation or a distributing cor-*

1 *poration shall include a reference to any prede-*
2 *cessor or successor of such corporation.*

3 *“(E) STATUTE OF LIMITATIONS.—If there is*
4 *an acquisition to which paragraph (1) (A) or*
5 *(B) applies—*

6 *“(i) the statutory period for the assess-*
7 *ment of any deficiency attributable to any*
8 *part of the gain recognized under this sub-*
9 *section by reason of such acquisition shall*
10 *not expire before the expiration of 3 years*
11 *from the date the Secretary is notified by*
12 *the taxpayer (in such manner as the Sec-*
13 *retary may by regulations prescribe) that*
14 *such acquisition occurred, and*

15 *“(ii) such deficiency may be assessed*
16 *before the expiration of such 3-year period*
17 *notwithstanding the provisions of any other*
18 *law or rule of law which would otherwise*
19 *prevent such assessment.*

20 *“(5) REGULATIONS.—The Secretary shall pre-*
21 *scribe such regulations as may be necessary to carry*
22 *out the purposes of this subsection, including regula-*
23 *tions—*

1 “(A) providing for the application of this
2 subsection where there is more than 1 controlled
3 corporation,

4 “(B) treating 2 or more distributions as 1
5 distribution where necessary to prevent the
6 avoidance of such purposes, and

7 “(C) providing for the application of rules
8 similar to the rules of subsection (d)(6) where
9 appropriate for purposes of paragraph (2)(B).”.

10 (b) *SPECIAL RULES FOR CERTAIN INTRAGROUP*
11 *TRANSACTIONS.*—

12 (1) *SECTION 355 NOT TO APPLY.*—Section 355, as
13 amended by subsection (a), is amended by adding at
14 the end the following new subsection:

15 “(f) *SECTION NOT TO APPLY TO CERTAIN*
16 *INTRAGROUP DISTRIBUTIONS.*—Except as provided in reg-
17 ulations, this section (or so much of section 356 as relates
18 to this section) shall not apply to the distribution of stock
19 from 1 member of an affiliated group (as defined in section
20 1504(a)) to another member of such group if such distribu-
21 tion is part of a plan (or series of related transactions) de-
22 scribed in subsection (e)(2)(A)(ii).”.

23 (2) *ADJUSTMENTS TO BASIS.*—Section 358 (re-
24 lating to basis to distributees) is amended by adding
25 at the end the following new subsection:

1 “(g) *ADJUSTMENTS IN INTRAGROUP TRANSACTIONS*
2 *INVOLVING SECTION 355.*—*In the case of an exchange to*
3 *which section 355 (or so much of section 356 as relates to*
4 *section 355) applies and which involves the distribution of*
5 *stock from 1 member of an affiliated group (as defined in*
6 *section 1504(a)) to another member of such group, the Sec-*
7 *retary may, notwithstanding any other provision of this*
8 *section, provide adjustments to the adjusted basis of any*
9 *stock which—*

10 “(1) *is in a corporation which is a member of*
11 *such group, and*

12 “(2) *is held by another member of such group,*
13 *to appropriately reflect the proper treatment of such dis-*
14 *tribution.”.*

15 “(c) *DETERMINATION OF CONTROL IN CERTAIN DIVI-*
16 *SIVE TRANSACTIONS.*—

17 “(1) *SECTION 351 TRANSACTIONS.*—*Section 351(c)*
18 *(relating to special rule) is amended to read as fol-*
19 *lows:*

20 “(c) *SPECIAL RULES WHERE DISTRIBUTION TO*
21 *SHAREHOLDERS.*—*In determining control for purposes of*
22 *this section—*

23 “(1) *the fact that any corporate transferor dis-*
24 *tributes part or all of the stock in the corporation*

1 *which it receives in the exchange to its shareholders*
2 *shall not be taken into account, and*

3 “(2) *if the requirements of section 355 are met*
4 *with respect to such distribution, the shareholders*
5 *shall be treated as in control of such corporation im-*
6 *mediately after the exchange if the shareholders hold*
7 *(immediately after the distribution) stock possess-*
8 *ing—*

9 “(A) *more than 50 percent of the total com-*
10 *bined voting power of all classes of stock of such*
11 *corporation entitled to vote, and*

12 “(B) *more than 50 percent of the total value*
13 *of shares of all classes of stock of such corpora-*
14 *tion.”.*

15 “(2) *D REORGANIZATIONS.—Section 368(a)(2)(H)*
16 *(relating to special rule for determining whether cer-*
17 *tain transactions are qualified under paragraph*
18 *(1)(D)) is amended to read as follows:*

19 “(H) *SPECIAL RULES FOR DETERMINING*
20 *WHETHER CERTAIN TRANSACTIONS ARE QUALI-*
21 *FIED UNDER PARAGRAPH (1)(D).—For purposes*
22 *of determining whether a transaction qualifies*
23 *under paragraph (1)(D)—*

24 “(i) *in the case of a transaction with*
25 *respect to which the requirements of sub-*

1 paragraphs (A) and (B) of section 354(b)(1)
2 are met, the term ‘control’ has the meaning
3 given such term by section 304(c), and

4 “(ii) in the case of a transaction with
5 respect to which the requirements of section
6 355 are met, the shareholders described in
7 paragraph (1)(D) shall be treated as having
8 control of the corporation to which the as-
9 sets are transferred if such shareholders hold
10 (immediately after the transfer) stock pos-
11 sessing—

12 “(I) more than 50 percent of the
13 total combined voting power of all
14 classes of stock of such corporation en-
15 titled to vote, and

16 “(II) more than 50 percent of the
17 total value of shares of all classes of
18 stock of such corporation.”.

19 (d) *EFFECTIVE DATES.*—

20 (1) *SECTION 355 RULES.*—The amendments made
21 by subsections (a) and (b) shall apply to distributions
22 after April 16, 1997.

23 (2) *DIVISIVE TRANSACTIONS.*—The amendments
24 made by subsection (c) shall apply to transfers after
25 the date of the enactment of this Act.

1 (3) *TRANSITION RULE.*—*The amendments made*
2 *by this section shall not apply to any distribution*
3 *pursuant to an acquisition described in section*
4 *355(e)(2)(A)(ii) of the Internal Revenue Code of 1986*
5 *(or, in the case of the amendments made by subsection*
6 *(c), any transfer) after April 16, 1997, if such acqui-*
7 *sition or transfer is—*

8 (A) *made pursuant to a written agreement*
9 *which was (subject to customary conditions)*
10 *binding on such date and at all times thereafter,*

11 (B) *described in a ruling request submitted*
12 *to the Internal Revenue Service on or before such*
13 *date, or*

14 (C) *described on or before such date in a*
15 *public announcement or in a filing with the Se-*
16
17 *ly by reason of the distribution.*

18 *This paragraph shall not apply to any written agree-*
19 *ment, ruling request, or public announcement or fil-*
20 *ing unless it identifies the acquirer of the distributing*
21 *corporation or any controlled corporation, or the*
22 *transfer or transferee, whichever is applicable.*

1 **SEC. 813. TAX TREATMENT OF REDEMPTIONS INVOLVING**
2 **RELATED CORPORATIONS.**

3 (a) *STOCK PURCHASES BY RELATED CORPORA-*
4 *TIONS.—The last sentence of section 304(a)(1) (relating to*
5 *acquisition by related corporation other than subsidiary)*
6 *is amended to read as follows: “To the extent that such dis-*
7 *tribution is treated as a distribution to which section 301*
8 *applies, the transferor and the acquiring corporation shall*
9 *be treated in the same manner as if the transferor had*
10 *transferred the stock so acquired to the acquiring corpora-*
11 *tion in exchange for stock of the acquiring corporation in*
12 *a transaction to which section 351(a) applies, and then the*
13 *acquiring corporation had redeemed the stock it was treated*
14 *as issuing in such transaction.”.*

15 (b) *COORDINATION WITH SECTION 1059.—Clause (iii)*
16 *of section 1059(e)(1)(A), as amended by this title, is amend-*
17 *ed to read as follows:*

18 “(iii) which would not have been treat-
19 ed (in whole or in part) as a dividend if—

20 “(I) any options had not been
21 taken into account under section
22 318(a)(4), or

23 “(II) section 304(a) had not ap-
24 plied,”.

25 (c) *SPECIAL RULE FOR ACQUISITIONS BY FOREIGN*
26 *CORPORATIONS.—Section 304(b) (relating to special rules*

1 *for application of subsection (a)) is amended by adding at*
2 *the end the following new paragraph:*

3 “(5) *ACQUISITIONS BY FOREIGN CORPORA-*
4 *TIONS.—*

5 “(A) *IN GENERAL.—In the case of any ac-*
6 *quisition to which subsection (a) applies in*
7 *which the acquiring corporation is a foreign cor-*
8 *poration, the only earnings and profits taken*
9 *into account under paragraph (2)(A) shall be*
10 *those earnings and profits—*

11 “(i) *which are attributable (under reg-*
12 *ulations prescribed by the Secretary) to*
13 *stock of the acquiring corporation owned*
14 *(within the meaning of section 958(a)) by a*
15 *corporation or individual which is—*

16 “(I) *a United States shareholder*
17 *(within the meaning of section 951(b))*
18 *of the acquiring corporation, and*

19 “(II) *the transferor or a person*
20 *who bears a relationship to the trans-*
21 *feror described in section 267(b) or*
22 *707(b), and*

23 “(ii) *which were accumulated during*
24 *the period or periods such stock was owned*

1 *by such person while the acquiring corpora-*
2 *tion was a controlled foreign corporation.*

3 “(B) *APPLICATION OF SECTION 1248.*—*For*
4 *purposes of subparagraph (A), the rules of sec-*
5 *tion 1248(d) shall apply except to the extent oth-*
6 *erwise provided by the Secretary.*

7 “(C) *REGULATIONS.*—*The Secretary shall*
8 *prescribe such regulations as are appropriate to*
9 *carry out the purposes of this paragraph.”.*

10 *(d) EFFECTIVE DATE.*—

11 (1) *IN GENERAL.*—*The amendments made by*
12 *this section shall apply to distributions and acquisi-*
13 *tions after June 8, 1997.*

14 (2) *TRANSITION RULE.*—*The amendments made*
15 *by this section shall not apply to any distribution or*
16 *acquisition after June 8, 1997, if such distribution or*
17 *acquisition is—*

18 (A) *made pursuant to a written agreement*
19 *which was binding on such date and at all times*
20 *thereafter,*

21 (B) *described in a ruling request submitted*
22 *to the Internal Revenue Service on or before such*
23 *date, or*

1 (C) described in a public announcement or
2 filing with the Securities and Exchange Commis-
3 sion on or before such date.

4 **SEC. 814. MODIFICATION OF HOLDING PERIOD APPLICABLE**
5 **TO DIVIDENDS RECEIVED DEDUCTION.**

6 (a) *IN GENERAL.*—Subparagraph (A) of section
7 246(c)(1) is amended to read as follows:

8 “(A) which is held by the taxpayer for 45
9 days or less during the 90-day period beginning
10 on the date which is 45 days before the date on
11 which such share becomes ex-dividend with re-
12 spect to such dividend, or”.

13 (b) *CONFORMING AMENDMENTS.*—

14 (1) Paragraph (2) of section 246(c) is amended
15 to read as follows:

16 “(2) *90-DAY RULE IN THE CASE OF CERTAIN*
17 *PREFERENCE DIVIDENDS.*—In the case of stock having
18 preference in dividends, if the taxpayer receives divi-
19 dends with respect to such stock which are attrib-
20 utable to a period or periods aggregating in excess of
21 366 days, paragraph (1)(A) shall be applied—

22 “(A) by substituting ‘90 days’ for ‘45 days’
23 each place it appears, and

24 “(B) by substituting ‘180-day period’ for
25 ‘90-day period’.”.

1 (2) Paragraph (3) of section 246(c) is amended
2 by adding “and” at the end of subparagraph (A), by
3 striking subparagraph (B), and by redesignating sub-
4 paragraph (C) as subparagraph (B).

5 (c) *EFFECTIVE DATE.*—

6 (1) *IN GENERAL.*—The amendments made by
7 this section shall apply to dividends received or ac-
8 crued after the 30th day after the date of the enact-
9 ment of this Act.

10 (2) *TRANSITIONAL RULE.*—The amendments
11 made by this section shall not apply to dividends re-
12 ceived or accrued during the 2-year period beginning
13 on the date of the enactment of this Act if—

14 (A) the dividend is paid with respect to
15 stock held by the taxpayer on June 8, 1997, and
16 all times thereafter until the dividend is received,

17 (B) such stock is continuously subject to a
18 position described in section 246(c)(4) of the In-
19 ternal Revenue Code of 1986 on June 8, 1997,
20 and all times thereafter until the dividend is re-
21 ceived, and

22 (C) such stock and position are clearly iden-
23 tified in the taxpayer’s records within 30 days
24 after the date of the enactment of this Act.

1 *Stock shall not be treated as meeting the requirement*
 2 *of subparagraph (B) if the position is sold, closed, or*
 3 *otherwise terminated and reestablished.*

4 ***Subtitle C—Other Corporate***
 5 ***Provisions***

6 **SEC. 821. REGISTRATION AND OTHER PROVISIONS RELAT-**
 7 **ING TO CONFIDENTIAL CORPORATE TAX**
 8 **SHELTERS.**

9 *(a) IN GENERAL.—Section 6111 (relating to registra-*
 10 *tion of tax shelters) is amended by redesignating subsections*
 11 *(d) and (e) as subsections (e) and (f), respectively, and by*
 12 *inserting after subsection (c) the following new subsection:*

13 ***“(d) CERTAIN CONFIDENTIAL ARRANGEMENTS TREAT-***
 14 ***ED AS TAX SHELTERS.—***

15 ***“(1) IN GENERAL.—For purposes of this section,***
 16 ***the term ‘tax shelter’ includes any entity, plan, ar-***
 17 ***rangement, or transaction—***

18 ***“(A) a significant purpose of the structure***
 19 ***of which is the avoidance or evasion of Federal***
 20 ***income tax for a direct or indirect participant***
 21 ***which is a corporation,***

22 ***“(B) which is offered to any potential par-***
 23 ***ticipant under conditions of confidentiality, and***

1 “(C) for which the tax shelter promoters
2 may receive fees in excess of \$100,000 in the ag-
3 gregate.

4 “(2) *CONDITIONS OF CONFIDENTIALITY.*—For
5 purposes of paragraph (1)(B), an offer is under con-
6 ditions of confidentiality if—

7 “(A) the potential participant to whom the
8 offer is made (or any other person acting on be-
9 half of such participant) has an understanding
10 or agreement with or for the benefit of any pro-
11 moter of the tax shelter that such participant (or
12 such other person) will limit disclosure of the tax
13 shelter or any significant tax features of the tax
14 shelter, or

15 “(B) any promoter of the tax shelter—

16 “(i) claims, knows, or has reason to
17 know,

18 “(ii) knows or has reason to know that
19 any other person (other than the potential
20 participant) claims, or

21 “(iii) causes another person to claim,
22 that the tax shelter (or any aspect thereof) is
23 proprietary to any person other than the poten-
24 tial participant or is otherwise protected from
25 disclosure to or use by others.

1 *For purposes of this subsection, the term ‘promoter’*
2 *means any person or any related person (within the*
3 *meaning of section 267 or 707) who participates in*
4 *the organization, management, or sale of the tax shel-*
5 *ter.*

6 “(3) *PERSONS OTHER THAN PROMOTER RE-*
7 *QUIRED TO REGISTER IN CERTAIN CASES.—*

8 “(A) *IN GENERAL.—If—*

9 “(i) *the requirements of subsection (a)*
10 *are not met with respect to any tax shelter*
11 *(as defined in paragraph (1)) by any tax*
12 *shelter promoter, and*

13 “(ii) *no tax shelter promoter is a Unit-*
14 *ed States person,*

15 *then each United States person who discussed*
16 *participation in such shelter shall register such*
17 *shelter under subsection (a).*

18 “(B) *EXCEPTION.—Subparagraph (A) shall*
19 *not apply to a United States person who dis-*
20 *cussed participation in a tax shelter if—*

21 “(i) *such person notified the promoter*
22 *in writing (not later than the close of the*
23 *90th day after the day on which such dis-*
24 *cussions began) that such person would not*
25 *participate in such shelter, and*

1 “(ii) such person does not participate
2 in such shelter.

3 “(4) OFFER TO PARTICIPATE TREATED AS OFFER
4 FOR SALE.—For purposes of subsections (a) and (b),
5 an offer to participate in a tax shelter (as defined in
6 paragraph (1)) shall be treated as an offer for sale.”.

7 (b) PENALTY.—Subsection (a) of section 6707 (relating
8 to failure to furnish information regarding tax shelters) is
9 amended by adding at the end the following new paragraph:

10 “(3) CONFIDENTIAL ARRANGEMENTS.—

11 “(A) IN GENERAL.—In the case of a tax
12 shelter (as defined in section 6111(d)), the pen-
13 alty imposed under paragraph (1) shall be an
14 amount equal to the greater of—

15 “(i) 50 percent of the fees paid to all
16 promoters of the tax shelter with respect to
17 offerings made before the date such shelter is
18 registered under section 6111, or

19 “(ii) \$10,000.

20 Clause (i) shall be applied by substituting ‘75
21 percent’ for ‘50 percent’ in the case of an inten-
22 tional failure or act described in paragraph (1).

23 “(B) SPECIAL RULE FOR PARTICIPANTS RE-
24 QUIRED TO REGISTER SHELTER.—In the case of

1 a person required to register such a tax shelter
2 by reason of section 6111(d)(3)—

3 “(i) such person shall be required to
4 pay the penalty under paragraph (1) only
5 if such person actually participated in such
6 shelter,

7 “(ii) the amount of such penalty shall
8 be determined by taking into account under
9 subparagraph (A)(i) only the fees paid by
10 such person, and

11 “(iii) such penalty shall be in addition
12 to the penalty imposed on any other person
13 for failing to register such shelter.”.

14 (c) MODIFICATIONS TO SUBSTANTIAL UNDERSTATE-
15 MENT PENALTY.—

16 (1) RESTRICTION ON REASONABLE BASIS FOR
17 CORPORATE UNDERSTATEMENT OF INCOME TAX.—

18 Subparagraph (B) of section 6662(d)(2) is amended
19 by adding at the end the following new flush sentence:

20 “For purposes of clause (ii)(II), in no event shall
21 a corporation be treated as having a reasonable
22 basis for its tax treatment of an item attrib-
23 utable to a multiple-party financing transaction
24 if such treatment does not clearly reflect the in-
25 come of the corporation.”.

1 (2) *MODIFICATION TO DEFINITION OF TAX SHEL-*
2 *TER.*—*Clause (iii) of section 6662(d)(2)(C) is amend-*
3 *ed by striking “the principal purpose” and inserting*
4 *“a significant purpose”.*

5 (d) *CONFORMING AMENDMENTS.*—

6 (1) *Paragraph (2) of section 6707(a) is amended*
7 *by striking “The penalty” and inserting “Except as*
8 *provided in paragraph (3), the penalty”.*

9 (2) *Subparagraph (A) of section 6707(a)(1) is*
10 *amended by striking “paragraph (2)” and inserting*
11 *“paragraph (2) or (3), as the case may be”.*

12 (e) *EFFECTIVE DATE.*—

13 (1) *IN GENERAL.*—*Except as provided in para-*
14 *graph (2), the amendments made by this section shall*
15 *apply to any tax shelter (as defined in section*
16 *6111(d) of the Internal Revenue Code of 1986, as*
17 *amended by this section) interests in which are of-*
18 *fered to potential participants after the Secretary of*
19 *the Treasury prescribes guidance with respect to meet-*
20 *ing requirements added by such amendments.*

21 (2) *MODIFICATIONS TO SUBSTANTIAL UNDER-*
22 *STATEMENT PENALTY.*—*The amendments made by*
23 *subsection (c) shall apply to items with respect to*
24 *transactions entered into after the date of the enact-*
25 *ment of this Act.*

1 **SEC. 822. CERTAIN PREFERRED STOCK TREATED AS BOOT.**

2 (a) *SECTION 351.*—Section 351 (relating to transfer
3 to corporation controlled by transferor) is amended by re-
4 designating subsection (g) as subsection (h) and by insert-
5 ing after subsection (f) the following new subsection:

6 “(g) *NONQUALIFIED PREFERRED STOCK NOT TREAT-*
7 *ED AS STOCK.*—

8 “(1) *IN GENERAL.*—For purposes of subsections
9 (a) and (b), the term ‘stock’ shall not include non-
10 qualified preferred stock.

11 “(2) *NONQUALIFIED PREFERRED STOCK.*—For
12 purposes of paragraph (1)—

13 “(A) *IN GENERAL.*—The term ‘nonqualified
14 preferred stock’ means preferred stock if—

15 “(i) the holder of such stock has the
16 right to require the issuer or a related per-
17 son to redeem or purchase the stock,

18 “(ii) the issuer or a related person is
19 required to redeem or purchase such stock,

20 “(iii) the issuer or a related person has
21 the right to redeem or purchase the stock
22 and, as of the issue date, it is more likely
23 than not that such right will be exercised, or

24 “(iv) the dividend rate on such stock
25 varies in whole or in part (directly or indi-

1 rectly) with reference to interest rates, com-
2 modity prices, or other similar indices.

3 “(B) *LIMITATIONS.*—Clauses (i), (ii), and
4 (iii) of subparagraph (A) shall apply only if the
5 right or obligation referred to therein may be ex-
6 ercised within the 20-year period beginning on
7 the issue date of such stock and such right or ob-
8 ligation is not subject to a contingency which, as
9 of the issue date, makes remote the likelihood of
10 the redemption or purchase.

11 “(C) *EXCEPTIONS FOR CERTAIN RIGHTS OR*
12 *OBLIGATIONS.*—

13 “(i) *IN GENERAL.*—A right or obliga-
14 tion shall not be treated as described in
15 clause (i), (ii), or (iii) of subparagraph (A)
16 if—

17 “(I) it may be exercised only
18 upon the death, disability, or mental
19 incompetency of the holder, or

20 “(II) in the case of a right or obli-
21 gation to redeem or purchase stock
22 transferred in connection with the per-
23 formance of services for the issuer or a
24 related person (and which represents
25 reasonable compensation), it may be

1 *exercised only upon the holder's sepa-*
2 *ration from service from the issuer or*
3 *a related person.*

4 “(i) *EXCEPTION.*—*Clause (i)(I) shall*
5 *not apply if the stock relinquished in the ex-*
6 *change, or the stock acquired in the ex-*
7 *change is in—*

8 “(I) *a corporation if any class of*
9 *stock in such corporation or a related*
10 *party is readily tradable on an estab-*
11 *lished securities market or otherwise,*
12 *or*

13 “(II) *any other corporation if*
14 *such exchange is part of a transaction*
15 *or series of transactions in which such*
16 *corporation is to become a corporation*
17 *described in subclause (I).*

18 “(3) *DEFINITIONS.*—*For purposes of this sub-*
19 *section—*

20 “(A) *PREFERRED STOCK.*—*The term ‘pre-*
21 *ferred stock’ means stock which is limited and*
22 *preferred as to dividends and does not partici-*
23 *pate (including through a conversion privilege)*
24 *in corporate growth to any significant extent.*

1 “(B) *RELATED PERSON*.—A person shall be
2 treated as related to another person if they bear
3 a relationship to such other person described in
4 section 267(b) or 707(b).

5 “(4) *REGULATIONS*.—The Secretary may pre-
6 scribe such regulations as may be necessary or appro-
7 priate to carry out the purposes of this subsection and
8 sections 354(a)(2)(C), 355(a)(3)(D), and 356(e). The
9 Secretary may also prescribe regulations, consistent
10 with the treatment under this subsection and such sec-
11 tions, for the treatment of nonqualified preferred stock
12 under other provisions of this title.”.

13 (b) *SECTION 354*.—Paragraph (2) of section 354(a)
14 (relating to exchanges of stock and securities in certain re-
15 organizations) is amended by adding at the end the follow-
16 ing new subparagraph:

17 “(C) *NONQUALIFIED PREFERRED STOCK*.—
18 “(i) *IN GENERAL*.—Nonqualified pre-
19 ferred stock (as defined in section 351(g)(2))
20 received in exchange for stock other than
21 nonqualified preferred stock (as so defined)
22 shall not be treated as stock or securities.

23 “(ii) *RECAPITALIZATIONS OF FAMILY-*
24 *OWNED CORPORATIONS*.—

1 “(I) *IN GENERAL.*—Clause (i)
2 shall not apply in the case of a recapitalization under section 368(a)(1)(E)
3 of a family-owned corporation.
4

5 “(II) *FAMILY-OWNED CORPORATION.*—For purposes of this clause, except as provided in regulations, the
6 term ‘family-owned corporation’ means
7 any corporation which is described in
8 clause (i) of section 447(d)(2)(C)
9 throughout the 8-year period beginning
10 on the date which is 5 years before the
11 date of the recapitalization. For purposes of the preceding sentence, stock
12 shall not be treated as owned by a family member during any period described in section 355(d)(6)(B).”
13
14
15
16
17

18 (c) *SECTION 355.*—Paragraph (3) of section 355(a) is
19 amended by adding at the end the following new subparagraph:
20

21 “(D) *NONQUALIFIED PREFERRED STOCK.*—
22 Nonqualified preferred stock (as defined in section 351(g)(2)) received in a distribution with
23 respect to stock other than nonqualified preferred
24

1 *stock (as so defined) shall not be treated as stock*
2 *or securities.”.*

3 (d) *SECTION 356.—Section 356 is amended by redesignig-*
4 *ating subsections (e) and (f) as subsections (f) and (g),*
5 *respectively, and by inserting after subsection (d) the follow-*
6 *ing new subsection:*

7 “(e) *NONQUALIFIED PREFERRED STOCK TREATED AS*
8 *OTHER PROPERTY.—For purposes of this section—*

9 “(1) *IN GENERAL.—Except as provided in para-*
10 *graph (2), the term ‘other property’ includes non-*
11 *qualified preferred stock (as defined in section*
12 *351(g)(2)).*

13 “(2) *EXCEPTION.—The term ‘other property’*
14 *does not include nonqualified preferred stock (as so*
15 *defined) to the extent that, under section 354 or 355,*
16 *such preferred stock would be permitted to be received*
17 *without the recognition of gain.”.*

18 (e) *CONFORMING AMENDMENTS.—*

19 (1) *Subparagraph (B) of section 354(a)(2) and*
20 *subparagraph (C) of section 355(a)(3)(C) are each*
21 *amended by inserting “(including nonqualified pre-*
22 *ferred stock, as defined in section 351(g)(2))” after*
23 *“stock”.*

24 (2) *Subparagraph (A) of section 354(a)(3) and*
25 *subparagraph (A) of section 355(a)(4) are each*

1 amended by inserting “nonqualified preferred stock
2 and” after “including”.

3 (3) Section 1036 is amended by redesignating
4 subsection (b) as subsection (c) and by inserting after
5 subsection (a) the following new subsection:

6 “(b) *NONQUALIFIED PREFERRED STOCK NOT TREAT-*
7 *ED AS STOCK.*—For purposes of this section, nonqualified
8 preferred stock (as defined in section 351(g)(2)) shall be
9 treated as property other than stock.”.

10 (f) *EFFECTIVE DATE.*—

11 (1) *IN GENERAL.*—The amendments made by
12 this section shall apply to transactions after June 8,
13 1997.

14 (2) *TRANSITION RULE.*—The amendments made
15 by this section shall not apply to any transaction
16 after June 8, 1997, if such transaction is—

17 (A) made pursuant to a written agreement
18 which was binding on such date and at all times
19 thereafter,

20 (B) described in a ruling request submitted
21 to the Internal Revenue Service on or before such
22 date, or

23 (C) described on or before such date in a
24 public announcement or in a filing with the Se-

1 *curities and Exchange Commission required sole-*
2 *ly by reason of the transaction.*

3 ***Subtitle D—Administrative***
4 ***Provisions***

5 ***SEC. 831. DECREASE OF THRESHOLD FOR REPORTING PAY-***
6 ***MENTS TO CORPORATIONS PERFORMING***
7 ***SERVICES FOR FEDERAL AGENCIES.***

8 *(a) IN GENERAL.—Subsection (d) of section 6041A (re-*
9 *lating to returns regarding payments of remuneration for*
10 *services and direct sales) is amended by adding at the end*
11 *the following new paragraph:*

12 *“(3) PAYMENTS TO CORPORATIONS BY FEDERAL*
13 *EXECUTIVE AGENCIES.—*

14 *“(A) IN GENERAL.—Notwithstanding any*
15 *regulation prescribed by the Secretary before the*
16 *date of the enactment of this paragraph, sub-*
17 *section (a) shall apply to remuneration paid to*
18 *a corporation by any Federal executive agency*
19 *(as defined in section 6050M(b)).*

20 *“(B) EXCEPTION.—Subparagraph (A) shall*
21 *not apply to—*

22 *“(i) services under contracts described*
23 *in section 6050M(e)(3) with respect to*
24 *which the requirements of section*
25 *6050M(e)(2) are met, and*

1 “(ii) such other services as the Sec-
2 retary may specify in regulations prescribed
3 after the date of the enactment of this para-
4 graph.”.

5 (b) *EFFECTIVE DATE.*—The amendment made by this
6 section shall apply to returns the due date for which (deter-
7 mined without regard to any extension) is more than 90
8 days after the date of the enactment of this Act.

9 **SEC. 832. DISCLOSURE OF RETURN INFORMATION FOR AD-**
10 **MINISTRATION OF CERTAIN VETERANS PRO-**
11 **GRAMS.**

12 (a) *GENERAL RULE.*—Subparagraph (D) of section
13 6103(l)(7) (relating to disclosure of return information to
14 Federal, State, and local agencies administering certain
15 programs) is amended by striking “Clause (viii) shall not
16 apply after September 30, 1998.”.

17 (b) *EFFECTIVE DATE.*—The amendment made by sub-
18 section (a) shall take effect on the date of the enactment
19 of this Act.

20 **SEC. 833. RETURNS OF BENEFICIARIES OF ESTATES AND**
21 **TRUSTS REQUIRED TO FILE RETURNS CON-**
22 **SISTENT WITH ESTATE OR TRUST RETURN OR**
23 **TO NOTIFY SECRETARY OF INCONSISTENCY.**

24 (a) *DOMESTIC ESTATES AND TRUSTS.*—Section 6034A
25 (relating to information to beneficiaries of estates and

1 trusts) is amended by adding at the end the following new
2 subsection:

3 “(c) *BENEFICIARY’S RETURN MUST BE CONSISTENT*
4 *WITH ESTATE OR TRUST RETURN OR SECRETARY NOTI-*
5 *FIED OF INCONSISTENCY.*—

6 “(1) *IN GENERAL.*—A beneficiary of any estate
7 or trust to which subsection (a) applies shall, on such
8 beneficiary’s return, treat any reported item in a
9 manner which is consistent with the treatment of such
10 item on the applicable entity’s return.

11 “(2) *NOTIFICATION OF INCONSISTENT TREAT-*
12 *MENT.*—

13 “(A) *IN GENERAL.*—In the case of any re-
14 ported item, if—

15 “(i)(I) the applicable entity has filed a
16 return but the beneficiary’s treatment on
17 such beneficiary’s return is (or may be) in-
18 consistent with the treatment of the item on
19 the applicable entity’s return, or

20 “(II) the applicable entity has not filed
21 a return, and

22 “(ii) the beneficiary files with the Sec-
23 retary a statement identifying the inconsis-
24 tency,

25 paragraph (1) shall not apply to such item.

1 “(B) *BENEFICIARY RECEIVING INCORRECT*
2 *INFORMATION.—A beneficiary shall be treated as*
3 *having complied with clause (ii) of subpara-*
4 *graph (A) with respect to a reported item if the*
5 *beneficiary—*

6 “(i) *demonstrates to the satisfaction of*
7 *the Secretary that the treatment of the re-*
8 *ported item on the beneficiary’s return is*
9 *consistent with the treatment of the item on*
10 *the statement furnished under subsection (a)*
11 *to the beneficiary by the applicable entity,*
12 *and*

13 “(ii) *elects to have this paragraph*
14 *apply with respect to that item.*

15 “(3) *EFFECT OF FAILURE TO NOTIFY.—In any*
16 *case—*

17 “(A) *described in subparagraph (A)(i)(I) of*
18 *paragraph (2), and*

19 “(B) *in which the beneficiary does not com-*
20 *ply with subparagraph (A)(ii) of paragraph (2),*
21 *any adjustment required to make the treatment of the*
22 *items by such beneficiary consistent with the treat-*
23 *ment of the items on the applicable entity’s return*
24 *shall be treated as arising out of mathematical or*
25 *clerical errors and assessed according to section*

1 6213(b)(1). Paragraph (2) of section 6213(b) shall not
2 apply to any assessment referred to in the preceding
3 sentence.

4 “(4) *DEFINITIONS.*—For purposes of this sub-
5 section—

6 “(A) *REPORTED ITEM.*—The term ‘reported
7 item’ means any item for which information is
8 required to be furnished under subsection (a).

9 “(B) *APPLICABLE ENTITY.*—The term ‘ap-
10 plicable entity’ means the estate or trust of which
11 the taxpayer is the beneficiary.

12 “(5) *ADDITION TO TAX FOR FAILURE TO COMPLY*
13 *WITH SECTION.*—For addition to tax in the case of a
14 beneficiary’s negligence in connection with, or dis-
15 regard of, the requirements of this section, see part II
16 of subchapter A of chapter 68.”.

17 (b) *FOREIGN TRUSTS.*—Subsection (d) of section 6048
18 (relating to information with respect to certain foreign
19 trusts) is amended by adding at the end the following new
20 paragraph:

21 “(5) *UNITED STATES PERSON’S RETURN MUST*
22 *BE CONSISTENT WITH TRUST RETURN OR SECRETARY*
23 *NOTIFIED OF INCONSISTENCY.*—Rules similar to the
24 rules of section 6034A(c) shall apply to items reported

1 *by a trust under subsection (b)(1)(B) and to United*
2 *States persons referred to in such subsection.”.*

3 (c) *EFFECTIVE DATE.*—*The amendments made by this*
4 *section shall apply to returns of beneficiaries and owners*
5 *filed after the date of the enactment of this Act.*

6 **SEC. 834. CONTINUOUS LEVY ON CERTAIN PAYMENTS.**

7 (a) *IN GENERAL.*—*Section 6331 (relating to levy and*
8 *distrain) is amended—*

9 (1) *by redesignating subsection (h) as subsection*
10 *(i), and*

11 (2) *by inserting after subsection (g) the following*
12 *new subsection:*

13 “(h) *CONTINUING LEVY ON CERTAIN PAYMENTS.*—

14 “(1) *IN GENERAL.*—*The effect of a levy on speci-*
15 *fied payments to or received by a taxpayer shall be*
16 *continuous from the date such levy is first made until*
17 *such levy is released. Notwithstanding section 6334,*
18 *such continuous levy shall attach to up to 15 percent*
19 *of any specified payment due to the taxpayer.*

20 “(2) *SPECIFIED PAYMENT.*—*For the purposes of*
21 *paragraph (1), the term ‘specified payment’ means—*

22 “(A) *any Federal payment other than a*
23 *payment for which eligibility is based on the in-*
24 *come or assets (or both) of a payee, and*

1 “(B) any payment described in paragraph
2 (4), (7), (9), or (11) of section 6334(a).”.

3 (b) *EFFECTIVE DATE.*—The amendment made by sub-
4 section (a) shall apply to levies issued after the date of the
5 enactment of this Act.

6 **SEC. 835. MODIFICATION OF LEVY EXEMPTION.**

7 (a) *IN GENERAL.*—Section 6334 (relating to property
8 exempt from levy) is amended by redesignating subsection
9 (f) as subsection (g) and by inserting after subsection (e)
10 the following new subsection:

11 “(f) *LEVY ALLOWED ON CERTAIN SPECIFIED PAY-*
12 *MENTS.*—Any payment described in subparagraph (B) of
13 section 6331(h)(2) shall not be exempt from levy if the Sec-
14 retary approves the levy thereon under section 6331(h).”.

15 (b) *EFFECTIVE DATE.*—The amendment made by sub-
16 section (a) shall apply to levies issued after the date of the
17 enactment of this Act.

18 **SEC. 836. CONFIDENTIALITY AND DISCLOSURE OF RE-**
19 **TURNS AND RETURN INFORMATION.**

20 (a) *IN GENERAL.*—Subsection (k) of section 6103 is
21 amended by adding at the end the following new paragraph:

22 “(8) *LEVIES ON CERTAIN GOVERNMENT PAY-*
23 *MENTS.*—

24 “(A) *DISCLOSURE OF RETURN INFORMATION*
25 *IN LEVIES ON FINANCIAL MANAGEMENT SERV-*

1 *ICE.—In serving a notice of levy, or release of*
2 *such levy, with respect to any applicable govern-*
3 *ment payment, the Secretary may disclose to of-*
4 *icers and employees of the Financial Manage-*
5 *ment Service—*

6 *“(i) return information, including tax-*
7 *payer identity information,*

8 *“(ii) the amount of any unpaid liabil-*
9 *ity under this title (including penalties and*
10 *interest), and*

11 *“(iii) the type of tax and tax period to*
12 *which such unpaid liability relates.*

13 *“(B) RESTRICTION ON USE OF DISCLOSED*
14 *INFORMATION.—Return information disclosed*
15 *under subparagraph (A) may be used by officers*
16 *and employees of the Financial Management*
17 *Service only for the purpose of, and to the extent*
18 *necessary in, transferring levied funds in satis-*
19 *faction of the levy, maintaining appropriate*
20 *agency records in regard to such levy or the re-*
21 *lease thereof, notifying the taxpayer and the*
22 *agency certifying such payment that the levy has*
23 *been honored, or in the defense of any litigation*
24 *ensuing from the honor of such levy.*

1 “(C) *APPLICABLE GOVERNMENT PAY-*
2 *MENT.—For purposes of this paragraph, the*
3 *term ‘applicable government payment’ means—*

4 “(i) *any Federal payment (other than*
5 *a payment for which eligibility is based on*
6 *the income or assets (or both) of a payee)*
7 *certified to the Financial Management*
8 *Service for disbursement, and*

9 “(ii) *any other payment which is cer-*
10 *tified to the Financial Management Service*
11 *for disbursement and which the Secretary*
12 *designates by published notice.”.*

13 (b) *CONFORMING AMENDMENTS.—*

14 (1) *Section 6301(p) is amended—*

15 (A) *in paragraph (3)(A), by striking “(2),*
16 *or (6)” and inserting “(2), (6), or (8)”, and*

17 (B) *in paragraph (4), by inserting “(k)(8),”*
18 *after “(j) (1) or (2),” each place it appears.*

19 (2) *Section 552a(a)(8)(B) of title 5, United*
20 *States Code, is amended by striking “or” at the end*
21 *of clause (v), by adding “or” at the end of clause (vi),*
22 *and by adding at the end the following new clause:*

23 “(vii) *matches performed incident to a*
24 *levy described in section 6103(k)(8) of the*
25 *Internal Revenue Code of 1986;”.*

1 (c) *EFFECTIVE DATE.*—*The amendments made by this*
2 *section shall apply to levies issued after the date of the en-*
3 *actment of this Act.*

4 ***Subtitle E—Excise Tax Provisions***

5 ***SEC. 841. EXTENSION AND MODIFICATION OF AIRPORT AND*** 6 ***AIRWAY TRUST FUND TAXES.***

7 (a) *FUEL TAXES.*—

8 (1) *AVIATION FUEL.*—*Clause (ii) of section*
9 *4091(b)(3)(A) is amended by striking “September 30,*
10 *1997” and inserting “September 30, 2007”.*

11 (2) *AVIATION GASOLINE.*—*Subparagraph (B) of*
12 *section 4081(d)(2) is amended by striking “September*
13 *30, 1997” and inserting “September 30, 2007”.*

14 (3) *NONCOMMERCIAL AVIATION.*—*Subparagraph*
15 *(B) of section 4041(c)(3) is amended by striking*
16 *“September 30, 1997” and inserting “September 30,*
17 *2007”.*

18 (b) *TICKET TAXES.*—

19 (1) *PERSONS.*—*Clause (ii) of section*
20 *4261(g)(1)(A) is amended by striking “September 30,*
21 *1997” and inserting “September 30, 2007”.*

22 (2) *PROPERTY.*—*Clause (ii) of section*
23 *4271(d)(1)(A) is amended by striking “September 30,*
24 *1997” and inserting “September 30, 2007”.*

25 (c) *MODIFICATIONS.*—

1 (1) *USE OF INTERNATIONAL TRAVEL FACILI-*
2 *TIES.—Subsection (c) of section 4261 is amended to*
3 *read as follows:*

4 “(c) *USE OF INTERNATIONAL TRAVEL FACILITIES.—*

5 “(1) *IN GENERAL.—There is hereby imposed a*
6 *tax of \$8 on any amount paid (whether within or*
7 *without the United States) for any transportation of*
8 *any person by air, if such transportation begins or*
9 *ends in the United States.*

10 “(2) *EXCEPTION FOR TRANSPORTATION EN-*
11 *TIRELY TAXABLE UNDER SUBSECTION (a).—This sub-*
12 *section shall not apply to any transportation all of*
13 *which is taxable under subsection (a) (determined*
14 *without regard to sections 4281 and 4282).*

15 “(3) *SPECIAL RULE FOR ALASKA AND HAWAII.—*
16 *In any case in which the tax imposed by paragraph*
17 *(1) applies to a segment between the continental*
18 *United States and Alaska or Hawaii or between Alas-*
19 *ka and Hawaii, such tax shall apply only to depart-*
20 *tures and shall be at the rate of \$6.”.*

21 (2) *SPECIAL RULES.—Section 4261 is amended*
22 *by redesignating subsections (e), (f), and (g), as sub-*
23 *sections (f), (g), and (h), respectively, and by insert-*
24 *ing after subsection (d) the following new subsection:*

25 “(e) *SPECIAL RULES.—*

1 “(1) *APPLICATION OF SUBSECTION (a) TO DO-*
2 *MESTIC SEGMENTS OF INTERNATIONAL TRANSPOR-*
3 *TATION.—*—

4 “(A) *IN GENERAL.—In the case of taxable*
5 *transportation described in section 4262(a)(2),*
6 *the tax imposed by subsection (a) shall be ap-*
7 *plied by taking into account only an amount*
8 *which bears the same ratio to the amount paid*
9 *for such transportation as the number of speci-*
10 *fied miles in the domestic segments of such trans-*
11 *portation bears to the total number of specified*
12 *miles in such transportation.*

13 “(B) *SPECIFIED MILES.—For purposes of*
14 *subparagraph (A), the term ‘specified miles’*
15 *means the great circle miles (as specified by the*
16 *Secretary) between the 2 points of each segment.*
17 *The Secretary may specify mileage which shall*
18 *apply in lieu of the mileage determined under*
19 *the preceding sentence with respect to any 2*
20 *points if the Secretary determines that the mile-*
21 *age on the route customarily traveled by air be-*
22 *tween such points is different from the mileage*
23 *determined under the preceding sentence.*

24 “(C) *DOMESTIC SEGMENT.—For purposes of*
25 *this section, the term ‘domestic segment’ means*

1 *any segment which is taxable transportation de-*
2 *scribed in section 4262(a)(1).*

3 “(2) *REDUCED RATE OF TAX FOR SEGMENTS TO*
4 *AND FROM RURAL AIRPORTS.—*

5 “(A) *IN GENERAL.—Subsections (a) and (b)*
6 *shall be applied by substituting ‘7.5 percent’ for*
7 *‘10 percent’ in the case of any segment beginning*
8 *or ending at an airport which is a rural airport*
9 *for the calendar year in which such segment be-*
10 *gins or ends (as the case may be).*

11 “(B) *RURAL AIRPORT.—For purposes of*
12 *subparagraph (A), the term ‘rural airport’*
13 *means, with respect to any calendar year, any*
14 *airport if—*

15 “(i) *there were fewer than 100,000*
16 *commercial passengers departing by air*
17 *during the second preceding calendar year*
18 *from such airport, and*

19 “(ii) *such airport—*

20 “(I) *is not located within 75 miles*
21 *of another airport which is not de-*
22 *scribed in clause (i), or*

23 “(II) *is receiving essential air*
24 *service subsidies as of the date of the*
25 *enactment of this paragraph.*

1 “(C) *TRANSPORTATION INVOLVING MUL-*
2 *TIPLE SEGMENTS.—In the case of transportation*
3 *involving more than 1 segment at least 1 of*
4 *which does not begin or end at a rural airport,*
5 *subparagraph (A) shall be applied by taking into*
6 *account only an amount which bears the same*
7 *ratio to the amount paid for such transportation*
8 *as the number of specified miles in segments*
9 *which begin or end at a rural airport bears to*
10 *the total number of specified miles in such trans-*
11 *portation.*

12 “(3) *AMOUNTS PAID FOR RIGHT TO AWARD FREE*
13 *OR REDUCED RATE AIR TRANSPORTATION.—Any*
14 *amount paid (or other benefit provided) to an air*
15 *carrier (or any related person) for the right to pro-*
16 *vide mileage awards for (or other reductions in the*
17 *cost of) any transportation of persons by air shall be*
18 *treated for purposes of subsection (a) as an amount*
19 *paid for taxable transportation, and such amount*
20 *shall be taxable under subsection (a) without regard*
21 *to any other provision of this subchapter. The Sec-*
22 *retary shall prescribe rules which reallocate items of*
23 *income, deduction, credit, exclusion, or other allow-*
24 *ance to the extent necessary to prevent the avoidance*
25 *of tax imposed by reason of this paragraph.”.*

1 (3) *SECONDARY LIABILITY OF CARRIER FOR UN-*
2 *PAID TAX.*—Subsection (c) of section 4263 is amended
3 by striking “subchapter—” and all that follows and
4 inserting “subchapter, such tax shall be paid by the
5 carrier providing the initial segment of such trans-
6 portation which begins or ends in the United States.”.

7 (4) *TECHNICAL AMENDMENTS.*—

8 (A) Paragraph (2) of section 4262(a) is
9 amended by striking “United States, but” and
10 all that follows and inserting “United States.”.

11 (B) Subsection (c) of section 4262 is amend-
12 ed by striking paragraph (3).

13 (d) *EFFECTIVE DATES.*—

14 (1) *FUEL TAXES.*—The amendments made by
15 subsection (a) shall apply take effect on October 1,
16 1997.

17 (2) *TICKET TAXES.*—

18 (A) *IN GENERAL.*—Except as otherwise pro-
19 vided in this paragraph, the amendments made
20 by subsections (b) and (c) shall apply to trans-
21 portation beginning on or after October 1, 1997.

22 (B) *TREATMENT OF AMOUNTS PAID FOR*
23 *TICKETS PURCHASED BEFORE DATE OF ENACT-*
24 *MENT.*—The amendments made by subsection (c)
25 shall not apply to amounts paid for a ticket pur-

1 *chased before the date of the enactment of this*
2 *Act for a specified flight beginning on or after*
3 *October 1, 1997.*

4 (C) *AMOUNTS PAID FOR RIGHT TO AWARD*
5 *MILEAGE AWARDS.—*

6 (i) *IN GENERAL.—Paragraph (2) of*
7 *section 4261(e) of the Internal Revenue*
8 *Code of 1986 (as added by the amendment*
9 *made by subsection (c)) shall apply to*
10 *amounts paid after September 30, 1997.*

11 (ii) *PAYMENTS WITHIN CONTROLLED*
12 *GROUP.—For purposes of clause (i), any*
13 *amount paid after June 16, 1997, and be-*
14 *fore October 1, 1997, by 1 member of a con-*
15 *trolled group for a right which is described*
16 *in such section 4261(e)(2) and is furnished*
17 *by another member of such group after Sep-*
18 *tember 30, 1997, shall be treated as paid*
19 *after September 30, 1997. For purposes of*
20 *the preceding sentence, all persons treated*
21 *as a single employer under subsection (a) or*
22 *(b) of section 52 of such Code shall be treat-*
23 *ed as members of a controlled group.*

24 (e) *DELAYED DEPOSITS OF AIRLINE TICKET TAX REV-*
25 *ENUES.—In the case of deposits of taxes imposed by section*

1 4261 of the Internal Revenue Code of 1986, the due date
2 for any such deposit which would (but for this subsection)
3 be required to be made—

4 (1) after August 14, 1997, and before October 1,
5 1997, shall be October 10, 1997, and

6 (2) after July 1, 2001, and before October 1,
7 2001, shall be October 10, 2001.

8 **SEC. 842. RESTORATION OF LEAKING UNDERGROUND**
9 **STORAGE TANK TRUST FUND TAXES.**

10 Paragraph (3) of section 4081(d) is amended by strik-
11 ing “shall not apply after December 31, 1995” and insert-
12 ing “shall apply after September 30, 1997, and before Octo-
13 ber 1, 2007”.

14 **SEC. 843. APPLICATION OF COMMUNICATIONS TAX TO**
15 **LONG-DISTANCE PREPAID TELEPHONE**
16 **CARDS.**

17 (a) *IN GENERAL.*—Section 4251 is amended by adding
18 at the end the following new subsection:

19 “(d) *TREATMENT OF PREPAID TELEPHONE CARDS.*—

20 “(1) *IN GENERAL.*—For purposes of this sub-
21 chapter, in the case of communications services ac-
22 quired by means of a prepaid telephone card—

23 “(A) the purchase of such card shall not be
24 treated as an amount paid for communications
25 services, but

1 “(B) the amount paid to any telephone car-
2 rier from any person who is not such a provider
3 on account of the use of such a card to acquire
4 communications services shall be treated as an
5 amount paid for such communications services.

6 “(2) *PREPAID TELEPHONE CARD.*—For purposes
7 of paragraph (1), the term ‘prepaid telephone card’
8 means any card or other similar arrangement which
9 permits its holder to obtain communications services
10 and pay for such services in advance.”.

11 (b) *EFFECTIVE DATE.*—The amendments made by this
12 section shall apply to amounts paid on or after the date
13 of the enactment of this Act.

14 **SEC. 844. UNIFORM RATE OF TAX ON VACCINES.**

15 (a) *IN GENERAL.*—Subsection (b) of section 4131 is
16 amended to read as follows:

17 “(b) *AMOUNT OF TAX.*—

18 “(1) *IN GENERAL.*—The amount of the tax im-
19 posed by subsection (a) shall be 84 cents per dose of
20 any taxable vaccine.

21 “(2) *COMBINATIONS OF VACCINES.*—If any tax-
22 able vaccine is described in more than 1 subpara-
23 graph of section 4132(a)(1), the amount of the tax
24 imposed by subsection (a) on such vaccine shall be the

1 *sum of the amounts for the vaccines which are so in-*
2 *cluded.”.*

3 *(b) TAXABLE VACCINES.—Paragraph (1) of section*
4 *4132(a) is amended to read as follows:*

5 *“(1) TAXABLE VACCINE.—The term ‘taxable vac-*
6 *cine’ means any of the following vaccines which are*
7 *manufactured or produced in the United States or en-*
8 *tered into the United States for consumption, use, or*
9 *warehousing:*

10 *“(A) Any vaccine containing diphtheria*
11 *toxoid.*

12 *“(B) Any vaccine containing tetanus toxoid.*

13 *“(C) Any vaccine containing pertussis bac-*
14 *teria, extracted or partial cell bacteria, or spe-*
15 *cific pertussis antigens.*

16 *“(D) Any vaccine against measles.*

17 *“(E) Any vaccine against mumps.*

18 *“(F) Any vaccine against rubella.*

19 *“(G) Any vaccine containing polio virus.*

20 *“(H) Any HIB vaccine.*

21 *“(I) Any vaccine against hepatitis B.*

22 *“(J) Any vaccine against chicken pox.”.*

23 *(c) CONFORMING AMENDMENT.—Subsection (a) of sec-*
24 *tion 4132 is amended by striking paragraphs (2), (3), and*

1 (4) and by redesignating paragraphs (5) through (8) as
2 paragraphs (2) through (5), respectively.

3 (d) *EFFECTIVE DATE.*—*The amendments made by this*
4 *section shall take effect on October 1, 1997.*

5 (e) *LIMITATION ON CERTAIN CREDITS OR REFUNDS.*—
6 *For purposes of applying section 4132(b) of the Internal*
7 *Revenue Code of 1986 with respect to any claim for credit*
8 *or refund filed before April 1, 1998, the amount of tax taken*
9 *into account shall not exceed the tax computed under the*
10 *rate in effect on October 1, 1997.*

11 **SEC. 845. CREDIT FOR TIRE TAX IN LIEU OF EXCLUSION OF**
12 **VALUE OF TIRES IN COMPUTING PRICE.**

13 (a) *IN GENERAL.*—*Subsection (e) of section 4051 is*
14 *amended to read as follows:*

15 “(e) *CREDIT AGAINST TAX FOR TIRE TAX.*—*If—*

16 “(1) *tires are sold on or in connection with the*
17 *sale of any article, and*

18 “(2) *tax is imposed by this subchapter on the*
19 *sale of such tires,*

20 *there shall be allowed as a credit against the tax imposed*
21 *by this subchapter an amount equal to the tax (if any) im-*
22 *posed by section 4071 on such tires.”.*

23 (b) *CONFORMING AMENDMENT.*—*Subparagraph (B) of*
24 *section 4052(b)(1) is amended by striking clause (iii), by*

1 adding “and” at the end of clause (ii), and by redesignating
2 clause (iv) as clause (iii).

3 (c) *EFFECTIVE DATE.*—The amendments made by this
4 section shall take effect on January 1, 1998.

5 **SEC. 846. INCREASE IN EXCISE TAXES ON TOBACCO PROD-**
6 **UCTS.**

7 (a) *CIGARETTES.*—Subsection (b) of section 5701 is
8 amended—

9 (1) by striking “\$12 per thousand (\$10 per thou-
10 sand on cigarettes removed during 1991 or 1992)” in
11 paragraph (1) and inserting “\$22 per thousand”, and

12 (2) by striking “\$25.20 per thousand (\$21 per
13 thousand on cigarettes removed during 1991 or
14 1992)” in paragraph (2) and inserting “\$46.20 per
15 thousand”.

16 (b) *CIGARS.*—Subsection (a) of section 5701 is amend-
17 ed—

18 (1) by striking “\$1.125 cents per thousand
19 (93.75 cents per thousand on cigars removed during
20 1991 or 1992)” in paragraph (1) and inserting
21 “\$2.063 cents per thousand”, and

22 (2) by striking “equal to” and all that follows in
23 paragraph (2) and inserting “equal to 23.375 percent
24 of the price for which sold but not more than \$55 per
25 thousand.”.

1 (c) *CIGARETTE PAPERS*.—Subsection (c) of section
2 5701 is amended by striking “0.75 cent (0.625 cent on ciga-
3 rette papers removed during 1991 or 1992)” and inserting
4 “1.38 cents”.

5 (d) *CIGARETTE TUBES*.—Subsection (d) of section
6 5701 is amended by striking “1.5 cents (1.25 cents on ciga-
7 rette tubes removed during 1991 or 1992)” and inserting
8 “2.75 cents”.

9 (e) *SMOKELESS TOBACCO*.—Subsection (e) of section
10 5701 is amended—

11 (1) by striking “36 cents (30 cents on snuff re-
12 moved during 1991 or 1992)” in paragraph (1) and
13 inserting “66 cents”, and

14 (2) by striking “12 cents (10 cents on chewing
15 tobacco removed during 1991 or 1992)” in paragraph
16 (2) and inserting “22 cents”.

17 (f) *PIPE TOBACCO*.—Subsection (f) of section 5701 is
18 amended by striking “67.5 cents (56.25 cents on pipe to-
19 bacco removed during 1991 or 1992)” and inserting
20 “\$1.2375 cents”.

21 (g) *IMPOSITION OF EXCISE TAX ON MANUFACTURE OR*
22 *IMPORTATION OF ROLL-YOUR-OWN TOBACCO*.—

23 (1) *IN GENERAL*.—Section 5701 (relating to rate
24 of tax) is amended by redesignating subsection (g) as

1 *subsection (h) and by inserting after subsection (f) the*
2 *following new subsection:*

3 “(g) *ROLL-YOUR-OWN TOBACCO.*—*On roll-your-own*
4 *tobacco, manufactured in or imported into the United*
5 *States, there shall be imposed a tax of 66 cents per pound*
6 *(and a proportionate tax at the like rate on all fractional*
7 *parts of a pound).”.*

8 (2) *ROLL-YOUR-OWN TOBACCO.*—*Section 5702*
9 *(relating to definitions) is amended by adding at the*
10 *end the following new subsection:*

11 “(p) *ROLL-YOUR-OWN TOBACCO.*—*The term ‘roll-*
12 *your-own tobacco’ means any tobacco which, because of its*
13 *appearance, type, packaging, or labeling, is suitable for use*
14 *and likely to be offered to, or purchased by, consumers as*
15 *tobacco for making cigarettes.”.*

16 (3) *TECHNICAL AMENDMENTS.*—

17 (A) *Subsection (c) of section 5702 is amend-*
18 *ed by striking “and pipe tobacco” and inserting*
19 *“pipe tobacco, and roll-your-own tobacco”.*

20 (B) *Subsection (d) of section 5702 is*
21 *amended—*

22 (i) *in the material preceding para-*
23 *graph (1), by striking “or pipe tobacco”*
24 *and inserting “pipe tobacco, or roll-your-*
25 *own tobacco”, and*

1 (ii) by striking paragraph (1) and in-
2 serting the following new paragraph:

3 “(1) a person who produces cigars, cigarettes,
4 smokeless tobacco, pipe tobacco, or roll-your-own to-
5 bacco solely for the person’s own personal consump-
6 tion or use, and”.

7 (C) The chapter heading for chapter 52 is
8 amended to read as follows:

9 **“CHAPTER 52—TOBACCO PRODUCTS AND**
10 **CIGARETTE PAPERS AND TUBES”.**

11 (D) The table of chapters for subtitle E is
12 amended by striking the item relating to chapter
13 52 and inserting the following new item:

 “CHAPTER 52. Tobacco products and cigarette papers and tubes.”.

14 (h) **MODIFICATIONS OF CERTAIN TOBACCO TAX PROVI-**
15 **SIONS.—**

16 (1) **EXEMPTION FOR EXPORTED TOBACCO PROD-**
17 **UCTS AND CIGARETTE PAPERS AND TUBES TO APPLY**
18 **ONLY TO ARTICLES MARKED FOR EXPORT.—**

19 (A) Subsection (b) of section 5704 is amend-
20 ed by adding at the end the following new sen-
21 tence: “Tobacco products and cigarette papers
22 and tubes may not be transferred or removed
23 under this subsection unless such products or pa-
24 pers and tubes bear such marks, labels, or notices
25 as the Secretary shall by regulations prescribe.”.

1 (B) Section 5761 is amended by redesignat-
2 ing subsections (c) and (d) as subsections (d)
3 and (e), respectively, and by inserting after sub-
4 section (b) the following new subsection:

5 “(c) SALE OF TOBACCO PRODUCTS AND CIGARETTE
6 PAPERS AND TUBES FOR EXPORT.—Except as provided in
7 subsections (b) and (d) of section 5704—

8 “(1) every person who sells, relands, or receives
9 within the jurisdiction of the United States any to-
10 bacco products or cigarette papers or tubes which
11 have been labeled or shipped for exportation under
12 this chapter,

13 “(2) every person who sells or receives such re-
14 landed tobacco products or cigarette papers or tubes,
15 and

16 “(3) every person who aids or abets in such sell-
17 ing, relanding, or receiving,

18 shall, in addition to the tax and any other penalty provided
19 in this title, be liable for a penalty equal to the greater of
20 \$1,000 or 5 times the amount of the tax imposed by this
21 chapter. All tobacco products and cigarette papers and tubes
22 relanded within the jurisdiction of the United States, and
23 all vessels, vehicles, and aircraft used in such relanding or
24 in removing such products, papers, and tubes from the place
25 where relanded, shall be forfeited to the United States.”.

1 (C) Subsection (a) of section 5761 is
2 amended by striking “subsection (b)” and insert-
3 ing “subsection (b) or (c)”.

4 (D) Subsection (d) of section 5761, as reded-
5 ignated by subparagraph (B), is amended by
6 striking “The penalty imposed by subsection (b)”
7 and inserting “The penalties imposed by sub-
8 sections (b) and (c)”.

9 (E)(i) Subpart F of chapter 52 is amended
10 by adding at the end the following new section:

11 **“SEC. 5754. RESTRICTION ON IMPORTATION OF PRE-**
12 **VIOUSLY EXPORTED TOBACCO PRODUCTS.**

13 “(a) *IN GENERAL.*—Tobacco products and cigarette
14 papers and tubes previously exported from the United
15 States may be imported or brought into the United States
16 only as provided in section 5704(d). For purposes of this
17 section, section 5704(d), section 5761, and such other provi-
18 sions as the Secretary may specify by regulations, references
19 to exportation shall be treated as including a reference to
20 shipment to the Commonwealth of Puerto Rico.

21 “(b) *CROSS REFERENCE.*—

**“For penalty for the sale of tobacco products and
cigarette papers and tubes in the United States
which are labeled for export, see section 5761(c).”.**

22 (ii) The table of sections for subpart F of
23 chapter 52 is amended by adding at the end the
24 following new item:

“Sec. 5754. Restriction on importation of previously exported tobacco products.”.

1 (2) *IMPORTERS REQUIRED TO BE QUALIFIED.—*

2 (A) *Sections 5712, 5713(a), 5721, 5722,*
3 *5762(a)(1), and 5763 (b) and (c) are each*
4 *amended by inserting “or importer” after “man-*
5 *ufacturer”.*

6 (B) *The heading of subsection (b) of section*
7 *5763 is amended by inserting “QUALIFIED IM-*
8 *PORTERS,” after “MANUFACTURERS.”.*

9 (C) *The heading for subchapter B of chapter*
10 *52 is amended by inserting “**and Importers**”*
11 *after “**Manufacturers**”.*

12 (D) *The item relating to subchapter B in*
13 *the table of subchapters for chapter 52 is amend-*
14 *ed by inserting “and importers” after “manufac-*
15 *turers”.*

16 (3) *BOOKS OF 25 OR FEWER CIGARETTE PAPERS*
17 *SUBJECT TO TAX.—Subsection (c) of section 5701 is*
18 *amended by striking “On each book or set of cigarette*
19 *papers containing more than 25 papers,” and insert-*
20 *ing “On cigarette papers,”.*

21 (4) *STORAGE OF TOBACCO PRODUCTS.—Sub-*
22 *section (k) of section 5702 is amended by inserting*
23 *“under section 5704” after “internal revenue bond”.*

1 (5) *AUTHORITY TO PRESCRIBE MINIMUM MANU-*
2 *FACTURING ACTIVITY REQUIREMENTS.*—Section 5712
3 *is amended by striking “or” at the end of paragraph*
4 *(1), by redesignating paragraph (2) as paragraph (3),*
5 *and by inserting after paragraph (1) the following*
6 *new paragraph:*

7 “(2) *the activity proposed to be carried out at*
8 *such premises does not meet such minimum capacity*
9 *or activity requirements as the Secretary may pre-*
10 *scribe, or”.*

11 (i) *EFFECTIVE DATE.*—

12 (1) *IN GENERAL.*—*The amendments made by*
13 *this section shall apply to articles removed (as defined*
14 *in section 5702(k) of the Internal Revenue Code of*
15 *1986, as amended by this section) after September 30,*
16 *1997.*

17 (2) *TRANSITIONAL RULE.*—*Any person who—*

18 (A) *on the date of the enactment of this Act*
19 *is engaged in business as a manufacturer of roll-*
20 *your-own tobacco or as an importer of tobacco*
21 *products or cigarette papers and tubes, and*

22 (B) *before October 1, 1997, submits an ap-*
23 *plication under subchapter B of chapter 52 of*
24 *such Code to engage in such business,*

1 *may, notwithstanding such subchapter B, continue to*
2 *engage in such business pending final action on such*
3 *application. Pending such final action, all provisions*
4 *of such chapter 52 shall apply to such applicant in*
5 *the same manner and to the same extent as if such*
6 *applicant were a holder of a permit under such chap-*
7 *ter 52 to engage in such business.*

8 *(j) FLOOR STOCKS TAXES.—*

9 *(1) IMPOSITION OF TAX.—On tobacco products*
10 *and cigarette papers and tubes manufactured in or*
11 *imported into the United States which are removed*
12 *before October 1, 1997, and held on such date for sale*
13 *by any person, there is hereby imposed a tax in an*
14 *amount equal to the excess of—*

15 *(A) the tax which would be imposed under*
16 *section 5701 of the Internal Revenue Code of*
17 *1986 on the article if the article had been re-*
18 *moved on such date, over*

19 *(B) the prior tax (if any) imposed under*
20 *section 5701 of such Code on such article.*

21 *(2) AUTHORITY TO EXEMPT CIGARETTES HELD*
22 *IN VENDING MACHINES.—To the extent provided in*
23 *regulations prescribed by the Secretary, no tax shall*
24 *be imposed by paragraph (1) on cigarettes held for re-*
25 *tail sale on October 1, 1997, by any person in any*

1 *vending machine. If the Secretary provides such a*
2 *benefit with respect to any person, the Secretary may*
3 *reduce the \$500 amount in paragraph (3) with re-*
4 *spect to such person.*

5 (3) *CREDIT AGAINST TAX.—Each person shall be*
6 *allowed as a credit against the taxes imposed by*
7 *paragraph (1) an amount equal to \$500. Such credit*
8 *shall not exceed the amount of taxes imposed by para-*
9 *graph (1) on October 1, 1997, for which such person*
10 *is liable.*

11 (4) *LIABILITY FOR TAX AND METHOD OF PAY-*
12 *MENT.—*

13 (A) *LIABILITY FOR TAX.—A person holding*
14 *cigarettes on October 1, 1997, to which any tax*
15 *imposed by paragraph (1) applies shall be liable*
16 *for such tax.*

17 (B) *METHOD OF PAYMENT.—The tax im-*
18 *posed by paragraph (1) shall be paid in such*
19 *manner as the Secretary shall prescribe by regu-*
20 *lations.*

21 (C) *TIME FOR PAYMENT.—The tax imposed*
22 *by paragraph (1) shall be paid on or before Jan-*
23 *uary 2, 1998.*

24 (5) *ARTICLES IN FOREIGN TRADE ZONES.—Not-*
25 *withstanding the Act of June 18, 1934 (48 Stat. 998,*

1 19 U.S.C. 81a) and any other provision of law, any
2 article which is located in a foreign trade zone on Oc-
3 tober 1, 1997, shall be subject to the tax imposed by
4 paragraph (1) if—

5 (A) internal revenue taxes have been deter-
6 mined, or customs duties liquidated, with respect
7 to such article before such date pursuant to a re-
8 quest made under the 1st proviso of section 3(a)
9 of such Act, or

10 (B) such article is held on such date under
11 the supervision of a customs officer pursuant to
12 the 2d proviso of such section 3(a).

13 (6) *DEFINITIONS.*—For purposes of this sub-
14 section—

15 (A) *IN GENERAL.*—Terms used in this sub-
16 section which are also used in section 5702 of the
17 Internal Revenue Code of 1986 shall have the re-
18 spective meanings such terms have in such sec-
19 tion, as amended by this Act.

20 (B) *SECRETARY.*—The term “Secretary”
21 means the Secretary of the Treasury or the Sec-
22 retary’s delegate.

23 (7) *CONTROLLED GROUPS.*—Rules similar to the
24 rules of section 5061(e)(3) of such Code shall apply
25 for purposes of this subsection.

1 (8) *OTHER LAWS APPLICABLE.*—All provisions of
2 law, including penalties, applicable with respect to
3 the taxes imposed by section 5701 of such Code shall,
4 insofar as applicable and not inconsistent with the
5 provisions of this subsection, apply to the floor stocks
6 taxes imposed by paragraph (1), to the same extent
7 as if such taxes were imposed by such section 5701.
8 The Secretary may treat any person who bore the ul-
9 timate burden of the tax imposed by paragraph (1)
10 as the person to whom a credit or refund under such
11 provisions may be allowed or made.

12 ***Subtitle F—Provisions Relating to***
13 ***Tax-Exempt Entities***

14 ***SEC. 851. EXPANSION OF LOOK-THRU RULE FOR INTEREST,***
15 ***ANNUITIES, ROYALTIES, AND RENTS DERIVED***
16 ***BY SUBSIDIARIES OF TAX-EXEMPT ORGANIZA-***
17 ***TIONS.***

18 (a) *IN GENERAL.*—Paragraph (13) of section 512(b)
19 is amended to read as follows:

20 “(13) *SPECIAL RULES FOR CERTAIN AMOUNTS*
21 *RECEIVED FROM CONTROLLED ENTITIES.*—

22 “(A) *IN GENERAL.*—If an organization (in
23 this paragraph referred to as the ‘controlling or-
24 ganization’) receives (directly or indirectly) a
25 specified payment from another entity which it

1 *controls (in this paragraph referred to as the*
2 *‘controlled entity’), notwithstanding paragraphs*
3 *(1), (2), and (3), the controlling organization*
4 *shall include such payment as an item of gross*
5 *income derived from an unrelated trade or busi-*
6 *ness to the extent such payment reduces the net*
7 *unrelated income of the controlled entity (or in-*
8 *creases any net unrelated loss of the controlled*
9 *entity). There shall be allowed all deductions of*
10 *the controlling organization directly connected*
11 *with amounts treated as derived from an unre-*
12 *lated trade or business under the preceding sen-*
13 *tence.*

14 “(B) *NET UNRELATED INCOME OR LOSS.—*

15 *For purposes of this paragraph—*

16 “(i) *NET UNRELATED INCOME.—The*
17 *term ‘net unrelated income’ means—*

18 “(I) *in the case of a controlled en-*
19 *tity which is not exempt from tax*
20 *under section 501(a), the portion of*
21 *such entity’s taxable income which*
22 *would be unrelated business taxable in-*
23 *come if such entity were exempt from*
24 *tax under section 501(a) and had the*
25 *same exempt purposes (as defined in*

1 *section 513A(a)(5)(A)) as the control-*
2 *ling organization, or*

3 *“(II) in the case of a controlled*
4 *entity which is exempt from tax under*
5 *section 501(a), the amount of the unre-*
6 *lated business taxable income of the*
7 *controlled entity.*

8 *“(ii) NET UNRELATED LOSS.—The*
9 *term ‘net unrelated loss’ means the net oper-*
10 *ating loss adjusted under rules similar to*
11 *the rules of clause (i).*

12 *“(C) SPECIFIED PAYMENT.—For purposes of*
13 *this paragraph, the term ‘specified payment’*
14 *means any interest, annuity, royalty, or rent.*

15 *“(D) DEFINITION OF CONTROL.—For pur-*
16 *poses of this paragraph—*

17 *“(i) CONTROL.—The term ‘control’*
18 *means—*

19 *“(I) in the case of a corporation,*
20 *ownership (by vote or value) of more*
21 *than 50 percent of the stock in such*
22 *corporation,*

23 *“(II) in the case of a partnership,*
24 *ownership of more than 50 percent of*

1 *the profits interests or capital interests*
2 *in such partnership, or*

3 “(III) *in any other case, owner-*
4 *ship of more than 50 percent of the*
5 *beneficial interests in the entity.*

6 “(ii) *CONSTRUCTIVE OWNERSHIP.—*
7 *Section 318 (relating to constructive owner-*
8 *ship of stock) shall apply for purposes of de-*
9 *termining ownership of stock in a corpora-*
10 *tion. Similar principles shall apply for*
11 *purposes of determining ownership of inter-*
12 *ests in any other entity.*

13 “(E) *RELATED PERSONS.—The Secretary*
14 *shall prescribe such rules as may be necessary or*
15 *appropriate to prevent avoidance of the purposes*
16 *of this paragraph through the use of related per-*
17 *sons.”.*

18 (b) *EFFECTIVE DATE.—*

19 (1) *IN GENERAL.—Except as provided in para-*
20 *graph (2), the amendments made by this section shall*
21 *apply to taxable years beginning after the date of the*
22 *enactment of this Act.*

23 (2) *CONTROL TEST.—In the case of taxable years*
24 *beginning before January 1, 1999, an organization*
25 *shall be treated as controlling another organization*

1 for purposes of section 512(b)(13) of the Internal Rev-
2 enue Code of 1986 (as amended by this section) only
3 if it controls such organization within the meaning of
4 such section, determined by substituting “80 percent”
5 for “50 percent” each place it appears in subpara-
6 graph (D) thereof.

7 **SEC. 852. LIMITATION ON INCREASE IN BASIS OF PROP-**
8 **ERTY RESULTING FROM SALE BY TAX-EXEMPT**
9 **ENTITY TO A RELATED PERSON.**

10 (a) *IN GENERAL.*—Part IV of subchapter O of chapter
11 1 (relating to special rules for gain or loss on disposition
12 of property) is amended by redesignating section 1061 as
13 section 1062 and by inserting after section 1060 the follow-
14 ing new section:

15 **“SEC. 1061. BASIS LIMITATION FOR SALE OR EXCHANGE OF**
16 **PROPERTY BY TAX-EXEMPT ENTITY TO RE-**
17 **LATED PERSON.**

18 “(a) *GENERAL RULE.*—In the case of a sale or ex-
19 change of property directly or indirectly between a tax-ex-
20 empt entity and a related person, the basis of the related
21 person in the property acquired shall not exceed the ad-
22 justed basis of such property (immediately before the ex-
23 change) in the hands of the tax-exempt entity, increased by
24 the amount of gain recognized to the tax-exempt entity on
25 the transfer which is subject to tax under section 511.

1 “(b) *DEFINITIONS.*—*For purposes of this section—*

2 “(1) *TAX-EXEMPT ENTITY.*—*The term ‘tax-ex-*
3 *empt entity’ has the meaning given such term by sec-*
4 *tion 168(h)(2) determined without regard to subpara-*
5 *graph (A)(iii) thereof.*

6 “(2) *RELATED PERSON.*—*The term ‘related per-*
7 *son’ means any person bearing a relationship to the*
8 *tax-exempt entity which is described in section 267(b)*
9 *or 707(b)(1). For purposes of applying section*
10 *267(b)(2) under the preceding sentence, such an entity*
11 *shall be treated as if it were an individual.”.*

12 (b) *CLERICAL AMENDMENT.*—*The table of sections for*
13 *part IV of subchapter O of chapter 1 is amended by striking*
14 *the last item and inserting the following:*

“*Sec. 1061. Basis limitation for sale or exchange of property by*
tax-exempt entity to related person.”

“*Sec. 1062. Cross references.*”.

15 (c) *EFFECTIVE DATE.*—

16 (1) *IN GENERAL.*—*The amendments made by*
17 *this section shall apply to sales and exchanges after*
18 *June 8, 1997.*

19 (2) *BINDING CONTRACTS.*—*The amendments*
20 *made by this section shall not apply to any sale or*
21 *exchange pursuant to a written contract which was*
22 *binding on June 8, 1997, and at all times thereafter*
23 *before the sale or exchange.*

1 **SEC. 853. TERMINATION OF EXCEPTION FROM RULES RE-**
2 **LATING TO EXEMPT ORGANIZATIONS WHICH**
3 **PROVIDE COMMERCIAL-TYPE INSURANCE.**

4 (a) *IN GENERAL.*—Subparagraph (A) of section
5 1012(c)(4) of the Tax Reform Act of 1986 shall not apply
6 to any taxable year beginning after December 31, 1997.

7 (b) *SPECIAL RULES.*—In the case of an organization
8 to which section 501(m) of the Internal Revenue Code of
9 1986 applies solely by reason of the amendment made by
10 subsection (a)—

11 (1) no adjustment shall be made under section
12 481 (or any other provision) of such Code on account
13 of a change in its method of accounting for its first
14 taxable year beginning after December 31, 1997, and

15 (2) for purposes of determining gain or loss, the
16 adjusted basis of any asset held on the 1st day of such
17 taxable year shall be treated as equal to its fair mar-
18 ket value as of such day.

19 (c) *RESERVE WEAKENING AFTER JUNE 8, 1997.*—Any
20 reserve weakening after June 8, 1997, by an organization
21 described in subsection (b) shall be treated as occurring in
22 such organizations 1st taxable year beginning after Decem-
23 ber 31, 1997.

24 (d) *REGULATIONS.*—The Secretary of the Treasury or
25 his delegate may prescribe rules for providing proper ad-
26 justments for organizations described in subsection (b) with

1 *respect to short taxable years which begin during 1998 by*
2 *reason of section 843 of the Internal Revenue Code of 1986.*

3 ***Subtitle G—Foreign Provisions***

4 ***SEC. 861. DEFINITION OF FOREIGN PERSONAL HOLDING***

5 ***COMPANY INCOME.***

6 *(a) INCOME FROM NOTIONAL PRINCIPAL CONTRACTS*

7 *AND PAYMENTS IN LIEU OF DIVIDENDS.—*

8 *(1) IN GENERAL.—Paragraph (1) of section*
9 *954(c) (defining foreign personal holding company*
10 *income) is amended by adding at the end the follow-*
11 *ing new subparagraphs:*

12 *“(F) INCOME FROM NOTIONAL PRINCIPAL*
13 *CONTRACTS.—Net income from notional prin-*
14 *cipal contracts. Any item of income, gain, deduc-*
15 *tion, or loss from a notional principal contract*
16 *entered into for purposes of hedging any item de-*
17 *scribed in any preceding subparagraph shall not*
18 *be taken into account for purposes of this sub-*
19 *paragraph but shall be taken into account under*
20 *such other subparagraph.*

21 *“(G) PAYMENTS IN LIEU OF DIVIDENDS.—*
22 *Payments in lieu of dividends which are made*
23 *pursuant to an agreement to which section 1058*
24 *applies.”.*

1 (2) *CONFORMING AMENDMENT.*—Subparagraph
2 (B) of section 954(c)(1) is amended—

3 (A) by striking the second sentence, and

4 (B) by striking “also” in the last sentence.

5 (b) *EXCEPTION FOR DEALERS.*—Paragraph (2) of sec-
6 tion 954(c) is amended by adding at the end the following
7 new subparagraph:

8 “(C) *EXCEPTION FOR DEALERS.*—Except as
9 provided in subparagraph (A), (E), or (G) of
10 paragraph (1) or by regulations, in the case of
11 a regular dealer in property (within the mean-
12 ing of paragraph (1)(B)), forward contracts, op-
13 tion contracts, or similar financial instruments
14 (including notional principal contracts and all
15 instruments referenced to commodities), there
16 shall not be taken into account in computing for-
17 eign personal holding income any item of in-
18 come, gain, deduction, or loss from any trans-
19 action (including hedging transactions) entered
20 into in the ordinary course of such dealer’s trade
21 or business as such a dealer.”.

22 (c) *EFFECTIVE DATE.*—The amendments made by this
23 section shall apply to taxable years beginning after the date
24 of the enactment of this Act.

1 **SEC. 862. PERSONAL PROPERTY USED PREDOMINANTLY IN**
2 **THE UNITED STATES TREATED AS NOT PROP-**
3 **ERTY OF A LIKE KIND WITH RESPECT TO**
4 **PROPERTY USED PREDOMINANTLY OUTSIDE**
5 **THE UNITED STATES.**

6 (a) *IN GENERAL.*—Subsection (h) of section 1031 (re-
7 lating to exchange of property held for productive use or
8 investment) is amended to read as follows:

9 “(h) *SPECIAL RULES FOR FOREIGN REAL AND PER-*
10 *SONAL PROPERTY.*—For purposes of this section—

11 “(1) *REAL PROPERTY.*—Real property located in
12 the United States and real property located outside
13 the United States are not property of a like kind.

14 “(2) *PERSONAL PROPERTY.*—

15 “(A) *IN GENERAL.*—Personal property used
16 predominantly within the United States and
17 personal property used predominantly outside
18 the United States are not property of a like kind.

19 “(B) *PREDOMINANT USE.*—Except as pro-
20 vided in subparagraph (C) and (D), the pre-
21 dominant use of any property shall be deter-
22 mined based on—

23 “(i) in the case of the property relin-
24 quished in the exchange, the 2-year period
25 ending on the date of such relinquishment,
26 and

1 “(ii) *in the case of the property ac-*
2 *quired in the exchange, the 2-year period*
3 *beginning on the date of such acquisition.*

4 “(C) *PROPERTY HELD FOR LESS THAN 2*
5 *YEARS.—Except in the case of an exchange*
6 *which is part of a transaction (or series of trans-*
7 *actions) structured to avoid the purposes of this*
8 *subsection—*

9 “(i) *only the periods the property was*
10 *held by the person relinquishing the prop-*
11 *erty (or any related person) shall be taken*
12 *into account under subparagraph (B)(i),*
13 *and*

14 “(ii) *only the periods the property was*
15 *held by the person acquiring the property*
16 *(or any related person) shall be taken into*
17 *account under subparagraph (B)(ii).*

18 “(D) *SPECIAL RULE FOR CERTAIN PROP-*
19 *ERTY.—Property described in any subparagraph*
20 *of section 168(g)(4) shall be treated as used pre-*
21 *dominantly in the United States.”.*

22 “(b) *EFFECTIVE DATE.—*

23 “(1) *IN GENERAL.—The amendment made by this*
24 *section shall apply to transfers after June 8, 1997, in*
25 *taxable years ending after such date.*

1 (2) *BINDING CONTRACTS.*—*The amendment*
2 *made by this section shall not apply to any transfer*
3 *pursuant to a written binding contract in effect on*
4 *June 8, 1997, and at all times thereafter before the*
5 *disposition of property. A contract shall not fail to*
6 *meet the requirements of the preceding sentence solely*
7 *because—*

8 (A) *it provides for a sale in lieu of an ex-*
9 *change, or*

10 (B) *the property to be acquired as replace-*
11 *ment property was not identified under such*
12 *contract before June 9, 1997.*

13 **SEC. 863. HOLDING PERIOD REQUIREMENT FOR CERTAIN**
14 **FOREIGN TAXES.**

15 (a) *IN GENERAL.*—*Section 901 is amended by redesign-*
16 *ating subsection (k) as subsection (l) and by inserting*
17 *after subsection (j) the following new subsection:*

18 “(k) *MINIMUM HOLDING PERIOD FOR CERTAIN*
19 *TAXES.*—

20 “(1) *WITHHOLDING TAXES.*—

21 “(A) *IN GENERAL.*—*In no event shall a*
22 *credit be allowed under subsection (a) for any*
23 *withholding tax on a dividend with respect to*
24 *stock in a corporation if—*

1 “(i) such stock is held by the recipient
2 of the dividend for 15 days or less during
3 the 30-day period beginning on the date
4 which is 15 days before the date on which
5 such share becomes ex-dividend with respect
6 to such dividend, or

7 “(ii) to the extent that the recipient of
8 the dividend is under an obligation (wheth-
9 er pursuant to a short sale or otherwise) to
10 make related payments with respect to posi-
11 tions in substantially similar or related
12 property.

13 “(B) *WITHHOLDING TAX.*—For purposes of
14 this paragraph, the term ‘withholding tax’ in-
15 cludes any tax determined on a gross basis; but
16 does not include any tax which is in the nature
17 of a prepayment of a tax imposed on a net basis.

18 “(2) *DEEMED PAID TAXES.*—In the case of in-
19 come, war profits, or excess profits taxes deemed paid
20 under section 853, 902, or 960 through a chain of
21 ownership of stock in 1 or more corporations, no cred-
22 it shall be allowed under subsection (a) for such taxes
23 if—

24 “(A) any stock of any corporation in such
25 chain (the ownership of which is required to ob-

1 *tain credit under subsection (a) for such taxes)*
2 *is held for less than the period described in para-*
3 *graph (1)(A)(i), or*

4 *“(B) the corporation holding the stock is*
5 *under an obligation referred to in paragraph*
6 *(1)(A)(ii).*

7 *“(3) 45-DAY RULE IN THE CASE OF CERTAIN*
8 *PREFERENCE DIVIDENDS.—In the case of stock having*
9 *preference in dividends and dividends with respect to*
10 *such stock which are attributable to a period or peri-*
11 *ods aggregating in excess of 366 days, paragraph*
12 *(1)(A)(i) shall be applied—*

13 *“(A) by substituting ‘45 days’ for ‘15 days’*
14 *each place it appears, and*

15 *“(B) by substituting ‘90-day period’ for ‘30-*
16 *day period’.*

17 *“(4) EXCEPTION FOR CERTAIN TAXES PAID BY*
18 *SECURITIES DEALERS.—*

19 *“(A) IN GENERAL.—Paragraphs (1) and (2)*
20 *shall not apply to any qualified tax with respect*
21 *to any security held in the active conduct in a*
22 *foreign country of a securities business of any*
23 *person—*

1 “(i) who is registered as a securities
2 broker or dealer under section 15(a) of the
3 Securities Exchange Act of 1934,

4 “(ii) who is registered as a Govern-
5 ment securities broker or dealer under sec-
6 tion 15C(a) of such Act, or

7 “(iii) who is licensed or authorized in
8 such foreign country to conduct securities
9 activities in such country and is subject to
10 bona fide regulation by a securities regulat-
11 ing authority of such country.

12 “(B) QUALIFIED TAX.—For purposes of sub-
13 paragraph (A), the term ‘qualified tax’ means a
14 tax paid to a foreign country (other than the for-
15 eign country referred to in subparagraph (A))
16 if—

17 “(i) the dividend to which such tax is
18 attributable is subject to taxation on a net
19 basis by the country referred to in subpara-
20 graph (A), and

21 “(ii) such country allows a credit
22 against its net basis tax for the full amount
23 of the tax paid to such other foreign coun-
24 try.

1 “(C) *REGULATIONS.*—*The Secretary may*
2 *prescribe such regulations as may be appropriate*
3 *to prevent the abuse of the exception provided by*
4 *this paragraph.*

5 “(5) *CERTAIN RULES TO APPLY.*—*For purposes*
6 *of this subsection, the rules of paragraphs (3) and (4)*
7 *of section 246(c) shall apply.*

8 “(6) *TREATMENT OF BONA FIDE SALES.*—*If a*
9 *person’s holding period is reduced by reason of the*
10 *application of the rules of section 246(c)(4) to any*
11 *contract for the bona fide sale of stock, the determina-*
12 *tion of whether such person’s holding period meets the*
13 *requirements of paragraph (2) with respect to taxes*
14 *deemed paid under section 902 or 960 shall be made*
15 *as of the date such contract is entered into.*

16 “(7) *TAXES ALLOWED AS DEDUCTION, ETC.*—
17 *Sections 275 and 78 shall not apply to any tax which*
18 *is not allowable as a credit under subsection (a) by*
19 *reason of this subsection.”.*

20 “(b) *NOTICE OF WITHHOLDING TAXES PAID BY REGU-*
21 *LATED INVESTMENT COMPANY.*—*Subsection (c) of section*
22 *853 (relating to foreign tax credit allowed to shareholders)*
23 *is amended by adding at the end the following new sentence:*
24 *“Such notice shall also include the amount of such taxes*
25 *which (without regard to the election under this section)*

1 *would not be allowable as a credit under section 901(a) to*
2 *the regulated investment company by reason of section*
3 *901(k).”.*

4 *(c) EFFECTIVE DATE.—The amendments made by this*
5 *section shall apply to dividends paid or accrued more than*
6 *30 days after the date of the enactment of this Act.*

7 **SEC. 864. SOURCE RULES FOR INVENTORY PROPERTY.**

8 *(a) IN GENERAL.—Section 865(b) is amended by add-*
9 *ing at the end the following new paragraph:*

10 *“(2) CERTAIN SALES FOR USE IN UNITED*
11 *STATES.—If—*

12 *“(A) a United States resident sells (directly*
13 *or indirectly) inventory property to another*
14 *United States resident for use, consumption, or*
15 *disposition in the United States, and*

16 *“(B) such sale is not attributable to an of-*
17 *fice or other fixed place of business maintained*
18 *by the seller outside the United States,*

19 *any income of such United States resident (or any re-*
20 *lated person) from such sale shall be sourced in the*
21 *United States.”.*

22 *(b) CONFORMING AMENDMENTS.—Section 865(b) is*
23 *amended—*

24 *(1) by striking “In the case of” and inserting:*

25 *“(1) IN GENERAL.—In the case of”, and*

1 (2) by redesignating paragraphs (1) and (2) as
2 subparagraphs (A) and (B), respectively.

3 (c) *EFFECTIVE DATE.*—The amendments made by this
4 section shall apply to taxable years beginning after the date
5 of the enactment of this Act.

6 **SEC. 865. INTEREST ON UNDERPAYMENTS NOT REDUCED**
7 **BY FOREIGN TAX CREDIT CARRYBACKS.**

8 (a) *IN GENERAL.*—Subsection (d) of section 6601 is
9 amended by redesignating paragraphs (2) and (3) as para-
10 graphs (3) and (4), respectively, and by inserting after
11 paragraph (1) the following new paragraph:

12 “(2) *FOREIGN TAX CREDIT CARRYBACKS.*—If any
13 credit allowed for any taxable year is increased by
14 reason of a carryback of tax paid or accrued to for-
15 eign countries or possessions of the United States,
16 such increase shall not affect the computation of in-
17 terest under this section for the period ending with
18 the filing date for the taxable year in which such
19 taxes were in fact paid or accrued, or, with respect
20 to any portion of such credit carryback from a tax-
21 able year attributable to a net operating loss
22 carryback or a capital loss carryback from a subse-
23 quent taxable year, such increase shall not affect the
24 computation of interest under this section for the pe-

1 *riod ending with the filing date for such subsequent*
2 *taxable year.”.*

3 *(b) CONFORMING AMENDMENT TO REFUNDS ATTRIB-*
4 *UTABLE TO FOREIGN TAX CREDIT CARRYBACKS.—*

5 *(1) IN GENERAL.—Subsection (f) of section 6611*
6 *is amended by redesignating paragraphs (2) and (3)*
7 *as paragraphs (3) and (4), respectively, and by in-*
8 *serting after paragraph (1) the following new para-*
9 *graph:*

10 *“(2) FOREIGN TAX CREDIT CARRYBACKS.—For*
11 *purposes of subsection (a), if any overpayment of tax*
12 *imposed by subtitle A results from a carryback of tax*
13 *paid or accrued to foreign countries or possessions of*
14 *the United States, such overpayment shall be deemed*
15 *not to have been made before the filing date for the*
16 *taxable year in which such taxes were in fact paid or*
17 *accrued, or, with respect to any portion of such credit*
18 *carryback from a taxable year attributable to a net*
19 *operating loss carryback or a capital loss carryback*
20 *from a subsequent taxable year, such overpayment*
21 *shall be deemed not to have been made before the fil-*
22 *ing date for such subsequent taxable year.”.*

23 *(2) CONFORMING AMENDMENTS.—*

24 *(A) Paragraph (4) of section 6611(f) (as so*
25 *redesignated) is amended—*

1 (i) by striking “PARAGRAPHS (1) AND
2 (2)” and inserting “PARAGRAPHS (1), (2),
3 AND (3)”, and

4 (ii) by striking “paragraph (1) or (2)”
5 each place it appears and inserting “para-
6 graph (1), (2), or (3)”.

7 (B) Clause (ii) of section 6611(f)(4)(B) (as
8 so redesignated) is amended by striking “and” at
9 the end of subclause (I), by redesignating sub-
10 clause (II) as subclause (III), and by inserting
11 after subclause (I) the following new subclause:

12 “(II) in the case of a carryback of
13 taxes paid or accrued to foreign coun-
14 tries or possessions of the United
15 States, the taxable year in which such
16 taxes were in fact paid or accrued (or,
17 with respect to any portion of such
18 carryback from a taxable year attrib-
19 utable to a net operating loss
20 carryback or a capital loss carryback
21 from a subsequent taxable year, such
22 subsequent taxable year), and”.

23 (C) Subclause (III) of section
24 6611(f)(4)(B)(ii) (as so redesignated) is amended
25 by inserting “(as defined in paragraph (3)(B))”

1 after “credit carryback” the first place it ap-
2 pears.

3 (D) Section 6611 is amended by striking
4 subsection (g) and by redesignating subsections
5 (h) and (i) as subsections (g) and (h), respec-
6 tively.

7 (c) *EFFECTIVE DATE.*—The amendments made by this
8 section shall apply to carrybacks arising in taxable years
9 beginning after the date of the enactment of this Act.

10 **SEC. 866. CLARIFICATION OF PERIOD OF LIMITATIONS ON**
11 **CLAIM FOR CREDIT OR REFUND ATTRIB-**
12 **UTABLE TO FOREIGN TAX CREDIT**
13 **CARRYFORWARD.**

14 (a) *IN GENERAL.*—Subparagraph (A) of section
15 6511(d)(3) is amended by striking “for the year with re-
16 spect to which the claim is made” and inserting “for the
17 year in which such taxes were actually paid or accrued”.

18 (b) *EFFECTIVE DATE.*—The amendment made by sub-
19 section (a) shall apply to taxes paid or accrued in taxable
20 years beginning after the date of the enactment of this Act.

21 **SEC. 867. MODIFICATION TO FOREIGN TAX CREDIT**
22 **CARRYBACK AND CARRYOVER PERIODS.**

23 (a) *IN GENERAL.*—Subsection (c) of section 904 (relat-
24 ing to limitation on credit) is amended—

1 *and (5), respectively, and by adding at the end the following*
2 *new paragraph:*

3 “(6) *TERMINATION.*—

4 “(A) *IN GENERAL.*—*No suspense account*
5 *may be established under this subsection by any*
6 *corporation required by this section to change its*
7 *method of accounting for any taxable year end-*
8 *ing after June 8, 1997.*

9 “(B) *PHASEOUT OF EXISTING SUSPENSE*
10 *ACCOUNTS.*—

11 “(i) *IN GENERAL.*—*Each suspense ac-*
12 *count under this subsection shall be reduced*
13 *(but not below zero) for each taxable year*
14 *beginning after June 8, 1997, by an amount*
15 *equal to the lesser of—*

16 “(I) *the applicable portion of such*
17 *account, or*

18 “(II) *50 percent of the taxable in-*
19 *come of the corporation for the taxable*
20 *year, or, if the corporation has no tax-*
21 *able income for such year, the amount*
22 *of any net operating loss (as defined in*
23 *section 172(c)) for such taxable year.*

24 *For purposes of the preceding sentence, the*
25 *amount of taxable income and net operating*

1 *loss shall be determined without regard to*
2 *this paragraph.*

3 “(ii) *COORDINATION WITH OTHER RE-*
4 *DUCTIONS.—The amount of the applicable*
5 *portion for any taxable year shall be re-*
6 *duced (but not below zero) by the amount of*
7 *any reduction required for such taxable*
8 *year under any other provision of this sub-*
9 *section.*

10 “(iv) *INCLUSION IN INCOME.—Any re-*
11 *duction in a suspense account under this*
12 *paragraph shall be included in gross income*
13 *for the taxable year of the reduction.*

14 “(C) *APPLICABLE PORTION.—For purposes*
15 *of subparagraph (B), the term ‘applicable por-*
16 *tion’ means, for any taxable year, the amount*
17 *which would ratably reduce the amount in the*
18 *account (after taking into account prior reduc-*
19 *tions) to zero over the period consisting of such*
20 *taxable year and the remaining taxable years in*
21 *such first 20 taxable years.*

22 “(D) *AMOUNTS AFTER 20TH YEAR.—Any*
23 *amount in the account as of the close of the 20th*
24 *year referred to in subparagraph (C) shall be*
25 *treated as the applicable portion for each suc-*

1 *ceeding year thereafter to the extent not reduced*
 2 *under this paragraph for any prior taxable year*
 3 *after such 20th year.”.*

4 ***(b) EFFECTIVE DATE.***—*The amendments made by this*
 5 *section shall apply to taxable years ending after June 8,*
 6 *1997.*

7 **SEC. 872. MODIFICATION OF TAXABLE YEARS TO WHICH**
 8 **NET OPERATING LOSSES MAY BE CARRIED.**

9 ***(a) IN GENERAL.***—*Subparagraph (A) of section*
 10 *172(b)(1) (relating to years to which loss may be carried)*
 11 *is amended—*

12 ***(1)*** *by striking “3” in clause (i) and inserting*
 13 ***“2”, and***

14 ***(2)*** *by striking “15” in clause (i) and inserting*
 15 ***“20”.***

16 ***(b) RETENTION OF 3-YEAR CARRYBACK FOR CASUALTY***
 17 ***LOSSES OF INDIVIDUALS.***—*Paragraph (1) of section 172(b)*
 18 *is amended by adding at the end the following new subpara-*
 19 *graph:*

20 ***(F) RETENTION OF 3-YEAR CARRYBACK IN***
 21 ***CERTAIN CASES.***—

22 ***(i) IN GENERAL.***—*Subparagraph*
 23 ***(A)(i)*** *shall be applied by substituting ‘3*
 24 ***years’ for ‘2 years’ with respect to the por-***
 25 ***tion of the net operating loss for the taxable***

1 year which is an eligible loss with respect to
2 the taxpayer.

3 “(ii) *ELIGIBLE LOSS.*—For purposes of
4 clause (i), the term ‘eligible loss’ means—

5 “(I) in the case of an individual,
6 losses of property arising from fire,
7 storm, shipwreck, or other casualty, or
8 from theft,

9 “(II) in the case of a taxpayer
10 which is a small business, losses attrib-
11 utable to Presidentially declared disas-
12 ters (as defined in section 1033(h)(3)),
13 and

14 “(III) in the case of a taxpayer
15 engaged in the trade or business of
16 farming (as defined in section
17 263A(e)(4)), losses attributable to such
18 Presidentially declared disasters.

19 “(iii) *SMALL BUSINESS.*—For purposes
20 of this subparagraph, the term ‘small busi-
21 ness’ means a corporation or partnership
22 which meets the gross receipts test of section
23 448(c) for the taxable year in which the loss
24 arose (or, in the case of a sole proprietor-

1 *ship, which would meet such test if such*
2 *proprietorship were a corporation).”.*

3 (c) *EFFECTIVE DATE.*—*The amendments made by this*
4 *section shall apply to net operating losses for taxable years*
5 *beginning after the date of the enactment of this Act.*

6 **SEC. 873. EXPANSION OF DENIAL OF DEDUCTION FOR CER-**
7 **TAIN AMOUNTS PAID IN CONNECTION WITH**
8 **INSURANCE.**

9 (a) *DENIAL OF DEDUCTION FOR PREMIUMS.*—*Para-*
10 *graph (1) of section 264(a) is amended to read as follows:*

11 “(1) *Premiums on any life insurance policy, or*
12 *endowment or annuity contract, if the taxpayer is di-*
13 *rectly or indirectly a beneficiary under the policy or*
14 *contract.”.*

15 (b) *INTEREST ON POLICY LOANS.*—*Paragraph (4) of*
16 *section 264(a) is amended by striking “individual, who”*
17 *and all that follows and inserting “individual.”.*

18 (c) *PRO RATA ALLOCATION OF INTEREST EXPENSE TO*
19 *POLICY CASH VALUES.*—*Section 264 is amended by adding*
20 *at the end the following new subsection:*

21 “(e) *PRO RATA ALLOCATION OF INTEREST EXPENSE*
22 *TO POLICY CASH VALUES.*—

23 “(1) *IN GENERAL.*—*No deduction shall be al-*
24 *lowed for that portion of the taxpayer’s interest ex-*

1 *pense which is allocable to unborrowed policy cash*
2 *values.*

3 “(2) *ALLOCATION.*—*For purposes of paragraph*
4 *(1), the portion of the taxpayer’s interest expense*
5 *which is allocable to unborrowed policy cash values is*
6 *an amount which bears the same ratio to such inter-*
7 *est expense as—*

8 “(A) *the taxpayer’s average unborrowed pol-*
9 *icy cash values of life insurance policies, and an-*
10 *nuity and endowment contracts, issued after*
11 *June 8, 1997, bears to*

12 “(B) *the average adjusted bases (within the*
13 *meaning of section 1016) for all assets of the tax-*
14 *payer.*

15 “(3) *UNBORROWED POLICY CASH VALUES.*—*The*
16 *term ‘unborrowed policy cash value’ means, with re-*
17 *spect to any life insurance policy or annuity or en-*
18 *dowment contract, the excess of—*

19 “(A) *the cash surrender value of such policy*
20 *or contract determined without regard to any*
21 *surrender charge, over*

22 “(B) *the amount of any loan in respect of*
23 *such policy or contract.*

24 “(4) *EXCEPTION FOR CERTAIN POLICIES AND*
25 *CONTRACTS COVERING OFFICERS, DIRECTORS, AND*

1 *EMPLOYEES.—Paragraph (1) shall not apply to any*
2 *policy or contract owned by an entity engaged in a*
3 *trade or business which covers any individual who is*
4 *an officer, director, or employee of such trade or busi-*
5 *ness at the time first covered by the policy or con-*
6 *tract, and such policies and contracts shall not be*
7 *taken into account under paragraph (2).*

8 *“(5) EXCEPTION FOR POLICIES AND CONTRACTS*
9 *HELD BY NATURAL PERSONS; TREATMENT OF PART-*
10 *NEERSHIPS AND S CORPORATIONS.—*

11 *“(A) POLICIES AND CONTRACTS HELD BY*
12 *NATURAL PERSONS.—*

13 *“(i) IN GENERAL.—This subsection*
14 *shall not apply to any policy or contract*
15 *held by a natural person.*

16 *“(ii) EXCEPTION WHERE BUSINESS IS*
17 *BENEFICIARY.—If a trade or business is di-*
18 *rectly or indirectly the beneficiary under*
19 *any policy or contract, to the extent of the*
20 *unborrowed cash value of such policy or*
21 *contract, such policy or contract shall be*
22 *treated as held by such trade or business*
23 *and not by a natural person.*

24 *“(iii) SPECIAL RULES.—*

1 “(I) *CERTAIN TRADES OR BUSI-*
2 *NESSES NOT TAKEN INTO ACCOUNT.—*
3 *Clause (ii) shall not apply to any*
4 *trade or business carried on as a sole*
5 *proprietorship and to any trade or*
6 *business performing services as an em-*
7 *ployee.*

8 “(II) *LIMITATION ON*
9 *UNBORROWED CASH VALUE.—The*
10 *amount of the unborrowed cash value*
11 *of any policy or contract which is*
12 *taken into account by reason of clause*
13 *(ii) shall not exceed the benefit to*
14 *which the trade or business is entitled*
15 *under the policy or contract.*

16 “(iv) *REPORTING.—The Secretary*
17 *shall require such reporting from policy-*
18 *holders and issuers as is necessary to carry*
19 *out clause (ii). Any report required under*
20 *the preceding sentence shall be treated as a*
21 *statement referred to in section 6724(d)(1).*

22 “(B) *TREATMENT OF PARTNERSHIPS AND S*
23 *CORPORATIONS.—In the case of a partnership or*
24 *S corporation, this subsection shall be applied at*
25 *the partnership and corporate levels.*

1 “(6) *SPECIAL RULES.*—

2 “(A) *COORDINATION WITH SUBSECTION (a)*
3 *AND SECTION 265.*—*If interest on any indebted-*
4 *ness is disallowed under subsection (a) or section*
5 *265—*

6 “(i) *such disallowed interest shall not*
7 *be taken into account for purposes of apply-*
8 *ing this subsection, and*

9 “(ii) *for purposes of applying para-*
10 *graph (2)(B), the adjusted bases otherwise*
11 *taken into account shall be reduced (but not*
12 *below zero) by the amount of such indebted-*
13 *ness.*

14 “(B) *COORDINATION WITH SECTION 263A.*—
15 *This subsection shall be applied before the appli-*
16 *cation of section 263A (relating to capitalization*
17 *of certain expenses where taxpayer produces*
18 *property).”.*

19 “(7) *INTEREST EXPENSE.*—*The term ‘interest ex-*
20 *pense’ means the aggregate amount allowable to the*
21 *taxpayer as a deduction for interest (within the*
22 *meaning of section 265(b)(4)) for the taxable year (de-*
23 *termined without regard to this subsection, section*
24 *265(b), and section 291).*

25 “(8) *AGGREGATION RULES.*—

1 “(A) *IN GENERAL.*—All members of a con-
2 trolled group (within the meaning of subsection
3 (d)(5)(B)) shall be treated as 1 taxpayer for pur-
4 poses of this subsection.

5 “(B) *TREATMENT OF INSURANCE COMPA-*
6 *NIES.*—This subsection shall not apply to an in-
7 surance company, and subparagraph (A) shall be
8 applied without regard to any insurance com-
9 pany.”.

10 (b) *TREATMENT OF INSURANCE COMPANIES.*—

11 (1) Clause (ii) of section 805(a)(4)(C) is amend-
12 ed by inserting “, or out of the increase for the tax-
13 able year in policy cash values (within the meaning
14 of section 264(e)(3)(A)) of life insurance policies and
15 annuity and endowment contracts to which section
16 264(e) applies” after “tax-exempt interest”.

17 (2) Clause (iii) of section 805(a)(4)(D) is
18 amended by striking “and” and inserting “, the in-
19 crease for the taxable year in policy cash values
20 (within the meaning of section 264(e)(3)(A)) of life
21 insurance policies and annuity and endowment con-
22 tracts to which section 264(e) applies, and”.

23 (3) Subparagraph (B) of section 807(a)(2) is
24 amended by striking “interest,” and inserting “inter-
25 est and the amount of the policyholder’s share of the

1 *increase for the taxable year in policy cash values*
2 *(within the meaning of section 264(e)(3)(A)) of life*
3 *insurance policies and annuity and endowment con-*
4 *tracts to which section 264(e) applies.”.*

5 *(4) Subparagraph (B) of section 807(b)(1) is*
6 *amended by striking “interest,” and inserting “inter-*
7 *est and the amount of the policyholder’s share of the*
8 *increase for the taxable year in policy cash values*
9 *(within the meaning of section 264(e)(3)(A)) of life*
10 *insurance policies and annuity and endowment con-*
11 *tracts to which section 264(e) applies.”.*

12 *(5) Paragraph (1) of section 812(d) is amended*
13 *by striking “and” at the end of subparagraph (B), by*
14 *striking the period at the end of subparagraph (C)*
15 *and inserting “, and”, and by adding at the end the*
16 *following new subparagraph:*

17 *“(D) the increase for any taxable year in*
18 *the policy cash values (within the meaning of*
19 *section 264(e)(3)(A)) of life insurance policies*
20 *and annuity and endowment contracts to which*
21 *section 264(e) applies.”.*

22 *(6) Subparagraph (B) of section 832(b)(5) is*
23 *amended by striking “and” at the end of clause (i),*
24 *by striking the period at the end of clause (ii) and*

1 *inserting “, and”, and by adding at the end the fol-*
2 *lowing new clause:*

3 *“(iii) the increase for the taxable year*
4 *in policy cash values (within the meaning*
5 *of section 264(e)(3)(A)) of life insurance*
6 *policies and annuity and endowment con-*
7 *tracts to which section 264(e) applies.”.*

8 *(c) CONFORMING AMENDMENT.—Subparagraph (A) of*
9 *section 265(b)(4) is amended by inserting “, section 264,”*
10 *before “and section 291”.*

11 *(d) EFFECTIVE DATE.—The amendments made by this*
12 *section shall apply to contracts issued after June 8, 1997,*
13 *in taxable years ending after such date. For purposes of*
14 *the preceding sentence, any material increase in the death*
15 *benefit or other material change in the contract shall be*
16 *treated as a new contract but the addition of covered lives*
17 *shall be treated as a new contract only with respect to such*
18 *additional covered lives. For purposes of this subsection, an*
19 *increase in the death benefit under a policy or contract is-*
20 *sued in connection with a lapse described in section*
21 *501(d)(2) of the Health Insurance Portability and Account-*
22 *ability Act of 1996 shall not be treated as a new contract.*

1 **SEC. 874. ALLOCATION OF BASIS AMONG PROPERTIES DIS-**
2 **TRIBUTED BY PARTNERSHIP.**

3 (a) *IN GENERAL.*—Subsection (c) of section 732 is
4 amended to read as follows:

5 “(c) *ALLOCATION OF BASIS.*—

6 “(1) *IN GENERAL.*—The basis of distributed
7 properties to which subsection (a)(2) or (b) is appli-
8 cable shall be allocated—

9 “(A)(i) first to any unrealized receivables
10 (as defined in section 751(c)) and inventory
11 items (as defined in section 751(d)(2)) in an
12 amount equal to the adjusted basis of each such
13 property to the partnership, and

14 “(ii) if the basis to be allocated is less than
15 the sum of the adjusted bases of such properties
16 to the partnership, then, to the extent any de-
17 crease is required in order to have the adjusted
18 bases of such properties equal the basis to be allo-
19 cated, in the manner provided in paragraph (3),
20 and

21 “(B) to the extent of any basis not allocated
22 under subparagraph (A), to other distributed
23 properties—

24 “(i) first by assigning to each such
25 other property such other property’s ad-
26 justed basis to the partnership, and

1 “(ii) then, to the extent any increase or
2 decrease in basis is required in order to
3 have the adjusted bases of such other distrib-
4 uted properties equal such remaining basis,
5 in the manner provided in paragraph (2)
6 or (3), whichever is appropriate.

7 “(2) *METHOD OF ALLOCATING INCREASE.*—Any
8 increase required under paragraph (1)(B) shall be al-
9 located among the properties—

10 “(A) first to properties with unrealized ap-
11 preciation in proportion to their respective
12 amounts of unrealized appreciation before such
13 increase (but only to the extent of each property’s
14 unrealized appreciation), and

15 “(B) then, to the extent such increase is not
16 allocated under subparagraph (A), in proportion
17 to their respective fair market values.

18 “(3) *METHOD OF ALLOCATING DECREASE.*—Any
19 decrease required under paragraph (1)(A) or (1)(B)
20 shall be allocated—

21 “(A) first to properties with unrealized de-
22 preciation in proportion to their respective
23 amounts of unrealized depreciation before such
24 decrease (but only to the extent of each property’s
25 unrealized depreciation), and

1 *result in a gain taxable under subsection (a) of sec-*
2 *tion 1246 (relating to gain on foreign investment*
3 *company stock), and*

4 *“(4) any other property held by the partnership*
5 *which, if held by the selling or distributee partner,*
6 *would be considered property of the type described in*
7 *paragraph (1), (2), or (3).”.*

8 *(2) Sections 724(d)(2), 731(a)(2)(B), 731(c)(6),*
9 *732(c)(1)(A) (as amended by the preceding section),*
10 *735(a)(2), and 735(c)(1) are each amended by strik-*
11 *ing “section 751(d)(2)” and inserting “section*
12 *751(d)”.*

13 *(c) EFFECTIVE DATE.—The amendments made by this*
14 *section shall apply to sales, exchanges, and distributions*
15 *after the date of the enactment of this Act.*

16 **SEC. 876. LIMITATION ON PROPERTY FOR WHICH INCOME**
17 **FORECAST METHOD MAY BE USED.**

18 *(a) LIMITATION.—Subsection (g) of section 167 is*
19 *amended by adding at the end the following new paragraph:*

20 *“(6) LIMITATION ON PROPERTY FOR WHICH IN-*
21 *COME FORECAST METHOD MAY BE USED.—The depre-*
22 *ciation deduction allowable under this section may be*
23 *determined under the income forecast method or any*
24 *similar method only with respect to—*

1 “(A) property described in paragraph (3) or
 2 (4) of section 168(f),
 3 “(B) copyrights,
 4 “(C) books,
 5 “(D) patents, and
 6 “(E) other property specified in regulations.

7 *Such methods may not be used with respect to any*
 8 *amortizable section 197 intangible (as defined in sec-*
 9 *tion 197(c)).”.*

10 **(b) DEPRECIATION PERIOD FOR RENT-TO-OWN PROP-**
 11 **ERTY.—**

12 (1) *IN GENERAL.*—Subparagraph (A) of section
 13 168(e)(3) (relating to 3-year property) is amended by
 14 striking “and” at the end of clause (i), by striking the
 15 period at the end of clause (ii) and inserting “, and”,
 16 and by adding at the end the following new clause:

17 “(iii) any qualified rent-to-own prop-
 18 erty.”.

19 (2) *4-YEAR CLASS LIFE.*—The table contained in
 20 section 168(g)(3)(B) is amended by inserting before
 21 the first item the following new item:

“(A)(iii) 4”.

22 (3) *DEFINITION OF QUALIFIED RENT-TO-OWN*
 23 *PROPERTY.*—Subsection (i) of section 168 is amended
 24 by adding at the end the following new paragraph:

25 “(14) *QUALIFIED RENT-TO-OWN PROPERTY.*—

1 “(A) *IN GENERAL.*—*The term ‘qualified*
2 *rent-to-own property’ means property held by a*
3 *rent-to-own dealer for purposes of being subject*
4 *to a rent-to-own contract.*

5 “(B) *RENT-TO-OWN DEALER.*—*The term*
6 *‘rent-to-own dealer’ means a person that, in the*
7 *ordinary course of business, regularly enters into*
8 *rent-to-own contracts with customers for the use*
9 *of consumer property, if a substantial portion of*
10 *those contracts terminate and the property is re-*
11 *turned to such person before the receipt of all*
12 *payments required to transfer ownership of the*
13 *property from such person to the customer.*

14 “(C) *CONSUMER PROPERTY.*—*The term*
15 *‘consumer property’ means tangible personal*
16 *property of a type generally used within the*
17 *home. Such term shall not include cellular tele-*
18 *phones and any computer or peripheral equip-*
19 *ment (as defined in section 168(i)).*

20 “(D) *RENT-TO-OWN CONTRACT.*—*The term*
21 *‘rent-to-own contract’ means any lease for the*
22 *use of consumer property between a rent-to-own*
23 *dealer and a customer who is an individual*
24 *which—*

1 “(i) is titled ‘Rent-to-Own Agreement’
2 or ‘Lease Agreement with Ownership Op-
3 tion,’ or uses other similar language,

4 “(ii) provides for level, regular periodic
5 payments (for a payment period which is a
6 week or month),

7 “(iii) provides that legal title to such
8 property remains with the rent-to-own deal-
9 er until the customer makes all the pay-
10 ments described in clause (ii) or early pur-
11 chase payments required under the contract
12 to acquire legal title to the item of property,

13 “(iv) provides a beginning date and a
14 maximum period of time for which the con-
15 tract may be in effect that does not exceed
16 156 weeks or 36 months from such begin-
17 ning date (including renewals or options to
18 extend),

19 “(v) provides for level payments within
20 the 156-week or 36-month period that, in
21 the aggregate, generally exceed the normal
22 retail price of the consumer property plus
23 interest,

1 “(vi) provides for payments under the
2 contract that, in the aggregate, do not ex-
3 ceed \$10,000 per item of consumer property,

4 “(vii) provides that the customer does
5 not have any legal obligation to make all
6 the payments referred to in clause (vi) set
7 forth under the contract, and that at the
8 end of each payment period the customer
9 may either continue to use the consumer
10 property by making the payment for the
11 next payment period or return such prop-
12 erty to the rent-to-own dealer in good work-
13 ing order, in which case the customer does
14 not incur any further obligations under the
15 contract and is not entitled to a return of
16 any payments previously made under the
17 contract, and

18 “(viii) provides that the customer has
19 no right to sell, sublease, mortgage, pawn,
20 pledge, encumber, or otherwise dispose of the
21 consumer property until all the payments
22 stated in the contract have been made.”.

23 (c) *EFFECTIVE DATE.*—The amendment made by this
24 section shall apply to property placed in service after the
25 date of the enactment of this Act.

1 **SEC. 877. EXPANSION OF REQUIREMENT THAT INVOLUN-**
2 **TARILY CONVERTED PROPERTY BE RE-**
3 **PLACED WITH PROPERTY ACQUIRED FROM**
4 **AN UNRELATED PERSON.**

5 (a) *IN GENERAL.*—Subsection (i) of section 1033 is
6 amended to read as follows:

7 “(i) *REPLACEMENT PROPERTY MUST BE ACQUIRED*
8 *FROM UNRELATED PERSON IN CERTAIN CASES.*—

9 “(1) *IN GENERAL.*—If the property which is in-
10 voluntarily converted is held by a taxpayer to which
11 this subsection applies, subsection (a) shall not apply
12 if the replacement property or stock is acquired from
13 a related person. The preceding sentence shall not
14 apply to the extent that the related person acquired
15 the replacement property or stock from an unrelated
16 person during the period applicable under subsection
17 (a)(2)(B).

18 “(2) *TAXPAYERS TO WHICH SUBSECTION AP-*
19 *PLIES.*—This subsection shall apply to—

20 “(A) a C corporation,

21 “(B) a partnership in which 1 or more C
22 corporations own, directly or indirectly (deter-
23 mined in accordance with section 707(b)(3)),
24 more than 50 percent of the capital interest, or
25 profits interest, in such partnership at the time
26 of the involuntary conversion, and

1 “(C) any other taxpayer if, with respect to
2 property which is involuntarily converted during
3 the taxable year, the aggregate of the amount of
4 realized gain on such property on which there is
5 realized gain exceeds \$100,000.

6 *In the case of a partnership, subparagraph (C) shall*
7 *apply with respect to the partnership and with re-*
8 *spect to each partner. A similar rule shall apply in*
9 *the case of an S corporation and its shareholders.*

10 “(3) *RELATED PERSON.*—*For purposes of this*
11 *subsection, a person is related to another person if the*
12 *person bears a relationship to the other person de-*
13 *scribed in section 267(b) or 707(b)(1).”.*

14 (b) *EFFECTIVE DATE.*—*The amendment made by this*
15 *section shall apply to involuntary conversions occurring*
16 *after June 8, 1997.*

17 **SEC. 878. TREATMENT OF EXCEPTION FROM INSTALLMENT**
18 **SALES RULES FOR SALES OF PROPERTY BY A**
19 **MANUFACTURER TO A DEALER.**

20 (a) *IN GENERAL.*—*Paragraph (2) of section 811(c) of*
21 *the Tax Reform Act of 1986 is hereby repealed.*

22 (b) *EFFECTIVE DATE.*—

23 (1) *IN GENERAL.*—*The amendment made by this*
24 *section shall apply to taxable years beginning more*

1 *than 1 year after the date of the enactment of this*
 2 *Act.*

3 (2) *COORDINATION WITH SECTION 481.—In the*
 4 *case of any taxpayer required by this section to*
 5 *change its method of accounting for any taxable*
 6 *year—*

7 (A) *such changes shall be treated as initi-*
 8 *ated by the taxpayer,*

9 (B) *such changes shall be treated as made*
 10 *with the consent of the Secretary, and*

11 (C) *the net amount of the adjustments re-*
 12 *quired to be taken into account under section*
 13 *481(a) of the Internal Revenue Code of 1986*
 14 *shall be taken into account ratably over the 4*
 15 *taxable year period beginning with the first tax-*
 16 *able year beginning after the date of the enact-*
 17 *ment of this Act.*

18 **SEC. 879. MINIMUM PENSION ACCRUED BENEFIT DISTRIB-**
 19 **UTABLE WITHOUT CONSENT INCREASED TO**
 20 **\$5,000.**

21 (a) *AMENDMENT TO 1986 CODE.—*

22 (1) *IN GENERAL.—Subparagraph (A) of section*
 23 *411(a)(11) (relating to restrictions on certain manda-*
 24 *tory distributions) is amended by striking “\$3,500”*
 25 *and inserting “the applicable limit”.*

1 (2) *APPLICABLE LIMIT.*—Paragraph (11) of sec-
2 tion 411(a) is amended by adding at the end the fol-
3 lowing new subparagraph:

4 “(D) *APPLICABLE LIMIT.*—

5 “(i) *IN GENERAL.*—For purposes of
6 subparagraph (A), the applicable limit is
7 \$5,000.

8 “(ii) *INFLATION ADJUSTMENT.*—In the
9 case of plan years beginning in a calendar
10 year after 1997, the dollar amount con-
11 tained in clause (i) shall be increased by an
12 amount equal to—

13 “(I) such dollar amount, multi-
14 plied by

15 “(II) the cost-of-living adjustment
16 determined under section 1(f)(3) for
17 such calendar year by substituting ‘cal-
18 endar year 1996’ for ‘calendar year
19 1992’ in subparagraph (B) thereof.

20 If any amount as adjusted under the pre-
21 ceding sentence is not a multiple of \$50,
22 such amount shall be rounded to the next
23 lowest multiple of \$50.”.

24 (3) *CONFORMING AMENDMENTS.*—

1 (A) Section 411(a)(7)(B), paragraphs (1)
2 and (2) of section 417(e), and section 457(e)(9)
3 are each amended by striking “\$3,500” each
4 place it appears (other than the headings) and
5 inserting “the applicable limit under section
6 411(a)(11)(D)”.

7 (B) The headings for paragraphs (1) and
8 (2) of section 417(e) and subparagraph (A) of
9 section 457(e)(9) are each amended by striking
10 “\$3,500” and inserting “APPLICABLE LIMIT”.

11 (b) AMENDMENTS TO ERISA.—

12 (1) IN GENERAL.—Section 203(e)(1) of the Em-
13 ployee Retirement Income Security Act of 1974 (29
14 U.S.C. 1053(e)(1)) is amended by striking “\$3,500”
15 and inserting “the applicable limit under section
16 411(a)(11) of the Internal Revenue Code of 1986 for
17 the plan year”.

18 (2) CONFORMING AMENDMENTS.—Sections
19 204(d)(1) and 205(g) (1) and (2) (29 U.S.C.
20 1054(d)(1) and 1055(g) (1) and (2)) are each amend-
21 ed by striking “\$3,500” and inserting “the applicable
22 limit under section 411(a)(11) of the Internal Reve-
23 nue Code of 1986 for the plan year”.

1 (c) *EFFECTIVE DATE.*—*The amendments made by this*
2 *section shall apply to plan years beginning after the date*
3 *of the enactment of this Act.*

4 **SEC. 880. ELECTION TO RECEIVE TAXABLE CASH COM-**
5 **PENSATION IN LIEU OF NONTAXABLE PARK-**
6 **ING BENEFITS.**

7 (a) *IN GENERAL.*—*Section 132(f)(4) (relating to bene-*
8 *fits not in lieu of compensation) is amended by adding at*
9 *the end the following new sentence: “This paragraph shall*
10 *not apply to any qualified parking provided in lieu of com-*
11 *pen- sation which otherwise would have been includible in*
12 *gross income of the employee, and no amount shall be in-*
13 *cluded in the gross income of the employee solely because*
14 *the employee may choose between the qualified parking and*
15 *compensation.”.*

16 (b) *EFFECTIVE DATE.*—*The amendment made by this*
17 *section shall apply to taxable years beginning after Decem-*
18 *ber 31, 1997.*

19 **SEC. 881. EXTENSION OF TEMPORARY UNEMPLOYMENT**
20 **TAX.**

21 Section 3301 (relating to rate of unemployment tax)
22 is amended—

23 (1) by striking “1998” in paragraph (1) and in-
24 serting “2007”, and

1 (2) by striking “1999” in paragraph (2) and in-
2 serting “2008”.

3 **SEC. 882. REPEAL OF EXCESS DISTRIBUTION AND EXCESS**
4 **RETIREMENT ACCUMULATION TAX.**

5 (a) *REPEAL OF EXCESS DISTRIBUTION AND EXCESS*
6 *RETIREMENT ACCUMULATION TAX.*—Section 4980A (relat-
7 *ing to excess distributions from qualified retirement plans*)
8 *is repealed.*

9 (b) *CONFORMING AMENDMENTS.*—

10 (1) Section 691(c)(1) is amended by striking
11 subparagraph (C).

12 (2) Section 2013 is amended by striking sub-
13 section (g).

14 (3) Section 2053(c)(1)(B) is amended by striking
15 the last sentence.

16 (4) Section 6018(a) is amended by striking
17 paragraph (4).

18 (c) *EFFECTIVE DATES.*—

19 (1) *EXCESS DISTRIBUTION TAX REPEAL.*—*Except*
20 *as provided in paragraph (2), the repeal made by*
21 *subsection (a) shall apply to excess distributions re-*
22 *ceived after December 31, 1996.*

23 (2) *EXCESS RETIREMENT ACCUMULATION TAX*
24 *REPEAL.*—*The repeal made by subsection (a) with re-*
25 *spect to section 4980A(d) of the Internal Revenue*

1 Code of 1986 and the amendments made by subsection
2 (b) shall apply to estates of decedents dying after De-
3 cember 31, 1996.

4 **SEC. 883. LIMITATION ON CHARITABLE REMAINDER TRUST**
5 **ELIGIBILITY FOR CERTAIN TRUSTS.**

6 (a) *IN GENERAL.*—Paragraphs (1)(A) and (2)(A) of
7 section 664(d) (relating to charitable remainder annuity
8 trust) are each amended by inserting “nor more than 50
9 percent” after “not less than 5 percent”.

10 (b) *EFFECTIVE DATE.*—The amendments made by this
11 section shall apply to transfers in trust after June 18, 1997.

12 **SEC. 884. INCREASE IN TAX ON PROHIBITED TRANS-**
13 **ACTIONS.**

14 (a) *IN GENERAL.*—Section 4975(a) is amended by
15 striking “10 percent” and inserting “15 percent”.

16 (b) *EFFECTIVE DATE.*—The amendment made by this
17 section shall apply to prohibited transactions occurring
18 after the date of the enactment of this Act.

19 **SEC. 885. BASIS RECOVERY RULES FOR ANNUITIES OVER**
20 **MORE THAN ONE LIFE.**

21 (a) *IN GENERAL.*—Section 72(d)(1)(B) is amended by
22 adding at the end the following new clause:

23 “(iv) *NUMBER OF ANTICIPATED PAY-*
24 *MENTS WHERE MORE THAN ONE LIFE.*—If
25 the annuity is payable over the lives of

1 *more than 1 individual, the number of an-*
 2 *ticipated payments shall be determined as*
 3 *follows:*

“If the combined ages of an-	The number is:
nuitants are:	
<i>Not more than 110</i>	<i>410</i>
<i>More than 110 but not more than 120</i>	<i>360</i>
<i>More than 120 but not more than 130</i>	<i>310</i>
<i>More than 130 but not more than 140</i>	<i>260</i>
<i>More than 140</i>	<i>210.”.</i>

4 (b) **CONFORMING AMENDMENT.**—*Section*
 5 *72(d)(1)(B)(iii) is amended—*

6 (1) *by inserting “If the annuity is payable over*
 7 *the life of a single individual, the number of antici-*
 8 *ipated payments shall be determined as follows:” after*
 9 *the heading and before the table, and*

10 (2) *by striking “primary” in the table.*

11 (c) **EFFECTIVE DATE.**—*The amendments made by this*
 12 *section shall apply with respect to annuity starting dates*
 13 *beginning after December 31, 1997.*

14 **TITLE IX—FOREIGN-RELATED**
 15 **SIMPLIFICATION PROVISIONS**

16 **Subtitle A—General Provisions**

17 **SEC. 901. CERTAIN INDIVIDUALS EXEMPT FROM FOREIGN**
 18 **TAX CREDIT LIMITATION.**

19 (a) **GENERAL RULE.**—*Section 904 (relating to limita-*
 20 *tions on foreign tax credit) is amended by redesignating*
 21 *subsection (j) as subsection (k) and by inserting after sub-*
 22 *section (i) the following new subsection:*

1 “(j) *CERTAIN INDIVIDUALS EXEMPT.*—

2 “(1) *IN GENERAL.*—*In the case of an individual*
3 *to whom this subsection applies for any taxable*
4 *year—*

5 “(A) *the limitation of subsection (a) shall*
6 *not apply,*

7 “(B) *no taxes paid or accrued by the indi-*
8 *vidual during such taxable year may be deemed*
9 *paid or accrued under subsection (c) in any*
10 *other taxable year, and*

11 “(C) *no taxes paid or accrued by the indi-*
12 *vidual during any other taxable year may be*
13 *deemed paid or accrued under subsection (c) in*
14 *such taxable year.*

15 “(2) *INDIVIDUALS TO WHOM SUBSECTION AP-*
16 *PLIES.*—*This subsection shall apply to an individual*
17 *for any taxable year if—*

18 “(A) *the entire amount of such individual’s*
19 *gross income for the taxable year from sources*
20 *without the United States consists of qualified*
21 *passive income,*

22 “(B) *the amount of the creditable foreign*
23 *taxes paid or accrued by the individual during*
24 *the taxable year does not exceed \$300 (\$600 in*
25 *the case of a joint return), and*

1 “(C) *such individual elects to have this sub-*
2 *section apply for the taxable year.*

3 “(3) *DEFINITIONS.—For purposes of this sub-*
4 *section—*

5 “(A) *QUALIFIED PASSIVE INCOME.—The*
6 *term ‘qualified passive income’ means any item*
7 *of gross income if—*

8 “(i) *such item of income is passive in-*
9 *come (as defined in subsection (d)(2)(A)*
10 *without regard to clause (iii) thereof), and*

11 “(ii) *such item of income is shown on*
12 *a payee statement furnished to the individ-*
13 *ual.*

14 “(B) *CREDITABLE FOREIGN TAXES.—The*
15 *term ‘creditable foreign taxes’ means any taxes*
16 *for which a credit is allowable under section 901;*
17 *except that such term shall not include any tax*
18 *unless such tax is shown on a payee statement*
19 *furnished to such individual.*

20 “(C) *PAYEE STATEMENT.—The term ‘payee*
21 *statement’ has the meaning given to such term*
22 *by section 6724(d)(2).*

23 “(D) *ESTATES AND TRUSTS NOT ELIGI-*
24 *BLE.—This subsection shall not apply to any es-*
25 *tate or trust.”.*

1 (b) *EFFECTIVE DATE.*—The amendment made by sub-
2 section (a) shall apply to taxable years beginning after De-
3 cember 31, 1997.

4 **SEC. 902. EXCHANGE RATE USED IN TRANSLATING FOR-**
5 **EIGN TAXES.**

6 (a) *ACCRUED TAXES TRANSLATED BY USING AVERAGE*
7 *RATE FOR YEAR TO WHICH TAXES RELATE.*—

8 (1) *IN GENERAL.*—Subsection (a) of section 986
9 (relating to translation of foreign taxes) is amended
10 to read as follows:

11 “(a) *FOREIGN INCOME TAXES.*—

12 “(1) *TRANSLATION OF ACCRUED TAXES.*—

13 “(A) *IN GENERAL.*—For purposes of deter-
14 mining the amount of the foreign tax credit, in
15 the case of a taxpayer who takes foreign income
16 taxes into account when accrued, the amount of
17 any foreign income taxes (and any adjustment
18 thereto) shall be translated into dollars by using
19 the average exchange rate for the taxable year to
20 which such taxes relate.

21 “(B) *EXCEPTION FOR CERTAIN TAXES.*—

22 Subparagraph (A) shall not apply to any foreign
23 income taxes—

1 “(i) paid after the date 2 years after
2 the close of the taxable year to which such
3 taxes relate, or

4 “(ii) paid before the beginning of the
5 taxable year to which such taxes relate.

6 “(C) *EXCEPTION FOR INFLATIONARY CUR-*
7 *RENCIES.—Subparagraph (A) shall not apply to*
8 *any foreign income taxes the liability for which*
9 *is denominated in any inflationary currency (as*
10 *determined under regulations).*

11 “(D) *CROSS REFERENCE.—*

**“For adjustments where tax is not paid within 2
years, see section 905(c).**

12 “(2) *TRANSLATION OF TAXES TO WHICH PARA-*
13 *GRAPH (1) DOES NOT APPLY.—For purposes of deter-*
14 *mining the amount of the foreign tax credit, in the*
15 *case of any foreign income taxes to which subpara-*
16 *graph (A) of paragraph (1) does not apply—*

17 “(A) *such taxes shall be translated into dol-*
18 *lars using the exchange rates as of the time such*
19 *taxes were paid to the foreign country or posses-*
20 *sion of the United States, and*

21 “(B) *any adjustment to the amount of such*
22 *taxes shall be translated into dollars using—*

23 “(i) *except as provided in clause (ii),*
24 *the exchange rate as of the time when such*

1 *adjustment is paid to the foreign country or*
2 *possession, or*

3 *“(ii) in the case of any refund or cred-*
4 *it of foreign income taxes, using the ex-*
5 *change rate as of the time of the original*
6 *payment of such foreign income taxes.*

7 *“(3) FOREIGN INCOME TAXES.—For purposes of*
8 *this subsection, the term ‘foreign income taxes’ means*
9 *any income, war profits, or excess profits taxes paid*
10 *or accrued to any foreign country or to any posses-*
11 *sion of the United States.”.*

12 *(2) ADJUSTMENT WHEN NOT PAID WITHIN 2*
13 *YEARS AFTER YEAR TO WHICH TAXES RELATE.—Sub-*
14 *section (c) of section 905 is amended to read as fol-*
15 *lows:*

16 *“(c) ADJUSTMENTS TO ACCRUED TAXES.—*

17 *“(1) IN GENERAL.—If—*

18 *“(A) accrued taxes when paid differ from*
19 *the amounts claimed as credits by the taxpayer,*

20 *“(B) accrued taxes are not paid before the*
21 *date 2 years after the close of the taxable year to*
22 *which such taxes relate, or*

23 *“(C) any tax paid is refunded in whole or*
24 *in part,*

1 *the taxpayer shall notify the Secretary, who shall re-*
2 *determine the amount of the tax for the year or years*
3 *affected. The Secretary may prescribe adjustments to*
4 *the pools of post-1986 foreign income taxes under sec-*
5 *tions 902 and 960 in lieu of the redetermination*
6 *under the preceding sentence.*

7 “(2) *SPECIAL RULE FOR TAXES NOT PAID WITH-*
8 *IN 2 YEARS.—*

9 “(A) *IN GENERAL.—Except as provided in*
10 *subparagraph (B), in making the redetermina-*
11 *tion under paragraph (1), no credit shall be al-*
12 *lowed for accrued taxes not paid before the date*
13 *referred to in subparagraph (B) of paragraph*
14 *(1).*

15 “(B) *TAXES SUBSEQUENTLY PAID.—Any*
16 *such taxes if subsequently paid—*

17 “(i) *shall be taken into account—*

18 “(I) *in the case of taxes deemed*
19 *paid under section 902 or section 960,*
20 *for the taxable year in which paid*
21 *(and no redetermination shall be made*
22 *under this section by reason of such*
23 *payment), and*

1 “(II) in any other case, for the
2 taxable year to which such taxes relate,
3 and

4 “(ii) shall be translated as provided in
5 section 986(a)(2)(A).

6 “(3) *ADJUSTMENTS.*—The amount of tax (if
7 any) due on any redetermination under paragraph
8 (1) shall be paid by the taxpayer on notice and de-
9 mand by the Secretary, and the amount of tax over-
10 paid (if any) shall be credited or refunded to the tax-
11 payer in accordance with subchapter B of chapter 66
12 (section 6511 et seq.).

13 “(4) *BOND REQUIREMENTS.*—In the case of any
14 tax accrued but not paid, the Secretary, as a condi-
15 tion precedent to the allowance of the credit provided
16 in this subpart, may require the taxpayer to give a
17 bond, with sureties satisfactory to and approved by
18 the Secretary, in such sum as the Secretary may re-
19 quire, conditioned on the payment by the taxpayer of
20 any amount of tax found due on any such redeter-
21 mination. Any such bond shall contain such further
22 conditions as the Secretary may require.

23 “(5) *OTHER SPECIAL RULES.*—In any redeter-
24 mination under paragraph (1) by the Secretary of the
25 amount of tax due from the taxpayer for the year or

1 *years affected by a refund, the amount of the taxes re-*
2 *funded for which credit has been allowed under this*
3 *section shall be reduced by the amount of any tax de-*
4 *scribed in section 901 imposed by the foreign country*
5 *or possession of the United States with respect to such*
6 *refund; but no credit under this subpart, or deduction*
7 *under section 164, shall be allowed for any taxable*
8 *year with respect to any such tax imposed on the re-*
9 *fund. No interest shall be assessed or collected on any*
10 *amount of tax due on any redetermination by the*
11 *Secretary, resulting from a refund to the taxpayer, for*
12 *any period before the receipt of such refund, except to*
13 *the extent interest was paid by the foreign country or*
14 *possession of the United States on such refund for*
15 *such period.”.*

16 *(b) AUTHORITY TO USE AVERAGE RATES.—*

17 *(1) IN GENERAL.—Subsection (a) of section 986*
18 *(as amended by subsection (a)) is amended by redес-*
19 *ignating paragraph (3) as paragraph (4) and insert-*
20 *ing after paragraph (2) the following new paragraph:*

21 *“(3) AUTHORITY TO PERMIT USE OF AVERAGE*
22 *RATES.—To the extent prescribed in regulations, the*
23 *average exchange rate for the period (specified in such*
24 *regulations) during which the taxes or adjustment is*

1 *paid may be used instead of the exchange rate as of*
2 *the time of such payment.”.*

3 (2) *DETERMINATION OF AVERAGE RATES.*—Sub-
4 *section (c) of section 989 is amended by striking*
5 *“and” at the end of paragraph (4), by striking the pe-*
6 *riod at the end of paragraph (5) and inserting “,*
7 *and”, and by adding at the end thereof the following*
8 *new paragraph:*

9 *“(6) setting forth procedures for determining the*
10 *average exchange rate for any period.”.*

11 (3) *CONFORMING AMENDMENTS.*—Subsection (b)
12 *of section 989 is amended by striking “weighted” each*
13 *place it appears.*

14 (c) *EFFECTIVE DATES.*—

15 (1) *IN GENERAL.*—The amendments made by
16 *subsections (a)(1) and (b) shall apply to taxes paid*
17 *or accrued in taxable years beginning after December*
18 *31, 1997.*

19 (2) *SUBSECTION (a)(2).*—The amendment made
20 *by subsection (a)(2) shall apply to taxes which relate*
21 *to taxable years beginning after December 31, 1997.*

22 **SEC. 903. ELECTION TO USE SIMPLIFIED SECTION 904 LIMI-**
23 **TATION FOR ALTERNATIVE MINIMUM TAX.**

24 (a) *GENERAL RULE.*—Subsection (a) of section 59 (re-
25 *lating to alternative minimum tax foreign tax credit) is*

1 *amended by adding at the end thereof the following new*
2 *paragraph:*

3 “(3) *ELECTION TO USE SIMPLIFIED SECTION 904*
4 *LIMITATION.—*

5 “(A) *IN GENERAL.—In determining the al-*
6 *ternative minimum tax foreign tax credit for*
7 *any taxable year to which an election under this*
8 *paragraph applies—*

9 “(i) *subparagraph (B) of paragraph*
10 *(1) shall not apply, and*

11 “(ii) *the limitation of section 904 shall*
12 *be based on the proportion which—*

13 “(I) *the taxpayer’s taxable income*
14 *(as determined for purposes of the reg-*
15 *ular tax) from sources without the*
16 *United States (but not in excess of the*
17 *taxpayer’s entire alternative minimum*
18 *taxable income), bears to*

19 “(II) *the taxpayer’s entire alter-*
20 *native minimum taxable income for*
21 *the taxable year.*

22 “(B) *ELECTION.—*

23 “(i) *IN GENERAL.—An election under*
24 *this paragraph may be made only for the*
25 *taxpayer’s first taxable year which begins*

1 *after December 31, 1997, and for which the*
2 *taxpayer claims an alternative minimum*
3 *tax foreign tax credit.*

4 “(i) *ELECTION REVOCABLE ONLY*
5 *WITH CONSENT.—An election under this*
6 *paragraph, once made, shall apply to the*
7 *taxable year for which made and all subse-*
8 *quent taxable years unless revoked with the*
9 *consent of the Secretary.”.*

10 (b) *EFFECTIVE DATE.—The amendment made by this*
11 *section shall apply to taxable years beginning after Decem-*
12 *ber 31, 1997.*

13 **SEC. 904. TREATMENT OF PERSONAL TRANSACTIONS BY IN-**
14 **DIVIDUALS UNDER FOREIGN CURRENCY**
15 **RULES.**

16 (a) *GENERAL RULE.—Subsection (e) of section 988*
17 *(relating to application to individuals) is amended to read*
18 *as follows:*

19 “(e) *APPLICATION TO INDIVIDUALS.—*

20 “(1) *IN GENERAL.—The preceding provisions of*
21 *this section shall not apply to any section 988 trans-*
22 *action entered into by an individual which is a per-*
23 *sonal transaction.*

24 “(2) *EXCLUSION FOR CERTAIN PERSONAL TRANS-*
25 *ACTIONS.—If—*

1 “(A) nonfunctional currency is disposed of
2 by an individual in any transaction, and

3 “(B) such transaction is a personal trans-
4 action,

5 no gain shall be recognized for purposes of this sub-
6 title by reason of changes in exchange rates after such
7 currency was acquired by such individual and before
8 such disposition. The preceding sentence shall not
9 apply if the gain which would otherwise be recognized
10 on the transaction exceeds \$200.

11 “(3) *PERSONAL TRANSACTIONS.*—For purposes of
12 this subsection, the term ‘personal transaction’ means
13 any transaction entered into by an individual, except
14 that such term shall not include any transaction to
15 the extent that expenses properly allocable to such
16 transaction meet the requirements of section 162 or
17 212 (other than that part of section 212 dealing with
18 expenses incurred in connection with taxes).”.

19 “(b) *EFFECTIVE DATE.*—The amendments made by this
20 section shall apply to taxable years beginning after Decem-
21 ber 31, 1997.

1 **Subtitle B—Treatment of**
2 **Controlled Foreign Corporations**

3 **SEC. 911. GAIN ON CERTAIN STOCK SALES BY CONTROLLED**
4 **FOREIGN CORPORATIONS TREATED AS DIVI-**
5 **DENDS.**

6 (a) *GENERAL RULE.*—Section 964 (relating to mis-
7 cellaneous provisions) is amended by adding at the end
8 thereof the following new subsection:

9 “(e) *GAIN ON CERTAIN STOCK SALES BY CONTROLLED*
10 *FOREIGN CORPORATIONS TREATED AS DIVIDENDS.*—

11 “(1) *IN GENERAL.*—If a controlled foreign cor-
12 poration sells or exchanges stock in any other foreign
13 corporation, gain recognized on such sale or exchange
14 shall be included in the gross income of such con-
15 trolled foreign corporation as a dividend to the same
16 extent that it would have been so included under sec-
17 tion 1248(a) if such controlled foreign corporation
18 were a United States person. For purposes of deter-
19 mining the amount which would have been so includ-
20 ible, the determination of whether such other foreign
21 corporation was a controlled foreign corporation shall
22 be made without regard to the preceding sentence.

23 “(2) *SAME COUNTRY EXCEPTION NOT APPLICA-*
24 *BLE.*—Clause (i) of section 954(c)(3)(A) shall not

1 *apply to any amount treated as a dividend by reason*
2 *of paragraph (1).*

3 “(3) *CLARIFICATION OF DEEMED SALES.*—*For*
4 *purposes of this subsection, a controlled foreign cor-*
5 *poration shall be treated as having sold or exchanged*
6 *any stock if, under any provision of this subtitle, such*
7 *controlled foreign corporation is treated as having*
8 *gain from the sale or exchange of such stock.”.*

9 *(b) AMENDMENT OF SECTION 904(d).*—*Clause (i) of*
10 *section 904(d)(2)(E) is amended by striking “and except*
11 *as provided in regulations, the taxpayer was a United*
12 *States shareholder in such corporation”.*

13 *(c) EFFECTIVE DATES.*—

14 *(1) The amendment made by subsection (a) shall*
15 *apply to gain recognized on transactions occurring*
16 *after the date of the enactment of this Act.*

17 *(2) The amendment made by subsection (b) shall*
18 *apply to distributions after the date of the enactment*
19 *of this Act.*

20 **SEC. 912. MISCELLANEOUS MODIFICATIONS TO SUBPART F.**

21 *(a) SECTION 1248 GAIN TAKEN INTO ACCOUNT IN DE-*
22 *TERMINING PRO RATA SHARE.*—

23 *(1) IN GENERAL.*—*Paragraph (2) of section*
24 *951(a) (defining pro rata share of subpart F income)*
25 *is amended by adding at the end thereof the following*

1 *new sentence: “For purposes of subparagraph (B),*
2 *any gain included in the gross income of any person*
3 *as a dividend under section 1248 shall be treated as*
4 *a distribution received by such person with respect to*
5 *the stock involved.”.*

6 (2) *EFFECTIVE DATE.*—*The amendment made by*
7 *paragraph (1) shall apply to dispositions after the*
8 *date of the enactment of this Act.*

9 (b) *BASIS ADJUSTMENTS IN STOCK HELD BY FOREIGN*
10 *CORPORATION.*—

11 (1) *IN GENERAL.*—*Section 961 (relating to ad-*
12 *justments to basis of stock in controlled foreign cor-*
13 *porations and of other property) is amended by add-*
14 *ing at the end thereof the following new subsection:*

15 “(c) *BASIS ADJUSTMENTS IN STOCK HELD BY FOR-*
16 *EIGN CORPORATION.*—*Under regulations prescribed by the*
17 *Secretary, if a United States shareholder is treated under*
18 *section 958(a)(2) as owning any stock in a controlled for-*
19 *ign corporation which is actually owned by another con-*
20 *trolled foreign corporation, adjustments similar to the ad-*
21 *justments provided by subsections (a) and (b) shall be made*
22 *to the basis of such stock in the hands of such other con-*
23 *trolled foreign corporation, but only for the purposes of de-*
24 *termining the amount included under section 951 in the*
25 *gross income of such United States shareholder (or any*

1 *other United States shareholder who acquires from any per-*
2 *son any portion of the interest of such United States share-*
3 *holder by reason of which such shareholder was treated as*
4 *owning such stock, but only to the extent of such portion,*
5 *and subject to such proof of identity of such interest as the*
6 *Secretary may prescribe by regulations).”.*

7 (2) *EFFECTIVE DATE.*—*The amendment made by*
8 *paragraph (1) shall apply for purposes of determin-*
9 *ing inclusions for taxable years of United States*
10 *shareholders beginning after December 31, 1997.*

11 (c) *CLARIFICATION OF TREATMENT OF BRANCH TAX*
12 *EXEMPTIONS OR REDUCTIONS.*—

13 (1) *IN GENERAL.*—*Subsection (b) of section 952*
14 *is amended by adding at the end thereof the following*
15 *new sentence: “For purposes of this subsection, any*
16 *exemption (or reduction) with respect to the tax im-*
17 *posed by section 884 shall not be taken into account.”.*

18 (2) *EFFECTIVE DATE.*—*The amendment made by*
19 *paragraph (1) shall apply to taxable years beginning*
20 *after December 31, 1986.*

21 **SEC. 913. INDIRECT FOREIGN TAX CREDIT ALLOWED FOR**
22 **CERTAIN LOWER TIER COMPANIES.**

23 (a) *SECTION 902 CREDIT.*—

24 (1) *IN GENERAL.*—*Subsection (b) of section 902*
25 *(relating to deemed taxes increased in case of certain*

1 *2nd and 3rd tier foreign corporations) is amended to*
2 *read as follows:*

3 “(b) *DEEMED TAXES INCREASED IN CASE OF CERTAIN*
4 *LOWER TIER CORPORATIONS.—*

5 “(1) *IN GENERAL.—If—*

6 “(A) *any foreign corporation is a member*
7 *of a qualified group, and*

8 “(B) *such foreign corporation owns 10 per-*
9 *cent or more of the voting stock of another mem-*
10 *ber of such group from which it receives divi-*
11 *dends in any taxable year,*

12 *such foreign corporation shall be deemed to have paid*
13 *the same proportion of such other member’s post-1986*
14 *foreign income taxes as would be determined under*
15 *subsection (a) if such foreign corporation were a do-*
16 *mestic corporation.*

17 “(2) *QUALIFIED GROUP.—For purposes of para-*
18 *graph (1), the term ‘qualified group’ means—*

19 “(A) *the foreign corporation described in*
20 *subsection (a), and*

21 “(B) *any other foreign corporation if—*

22 “(i) *the domestic corporation owns at*
23 *least 5 percent of the voting stock of such*
24 *other foreign corporation indirectly through*
25 *a chain of foreign corporations connected*

1 *through stock ownership of at least 10 per-*
2 *cent of their voting stock,*

3 *“(ii) the foreign corporation described*
4 *in subsection (a) is the first tier corporation*
5 *in such chain, and*

6 *“(iii) such other corporation is not*
7 *below the sixth tier in such chain.*

8 *The term ‘qualified group’ shall not include any for-*
9 *foreign corporation below the third tier in the chain re-*
10 *ferred to in clause (i) unless such foreign corporation*
11 *is a controlled foreign corporation (as defined in sec-*
12 *tion 957) and the domestic corporation is a United*
13 *States shareholder (as defined in section 951(b)) in*
14 *such foreign corporation. Paragraph (1) shall apply*
15 *to those taxes paid by a member of the qualified*
16 *group below the third tier only with respect to periods*
17 *during which it was a controlled foreign corpora-*
18 *tion.”.*

19 (2) *CONFORMING AMENDMENTS.—*

20 (A) *Subparagraph (B) of section 902(c)(3)*
21 *is amended by adding “or” at the end of clause*
22 *(i) and by striking clauses (ii) and (iii) and in-*
23 *serting the following new clause:*

1 “(i) the requirements of subsection
2 (b)(2) are met with respect to such foreign
3 corporation.”.

4 (B) Subparagraph (B) of section 902(c)(4)
5 is amended by striking “3rd foreign corporation”
6 and inserting “sixth tier foreign corporation”.

7 (C) The heading for paragraph (3) of sec-
8 tion 902(c) is amended by striking “WHERE DO-
9 MESTIC CORPORATION ACQUIRES 10 PERCENT OF
10 FOREIGN CORPORATION” and inserting “WHERE
11 FOREIGN CORPORATION FIRST QUALIFIES”.

12 (D) Paragraph (3) of section 902(c) is
13 amended by striking “ownership” each place it
14 appears.

15 (b) SECTION 960 CREDIT.—Paragraph (1) of section
16 960(a) (relating to special rules for foreign tax credits) is
17 amended to read as follows:

18 “(1) DEEMED PAID CREDIT.—For purposes of
19 subpart A of this part, if there is included under sec-
20 tion 951(a) in the gross income of a domestic corpora-
21 tion any amount attributable to earnings and profits
22 of a foreign corporation which is a member of a
23 qualified group (as defined in section 902(b)) with re-
24 spect to the domestic corporation, then, except to the
25 extent provided in regulations, section 902 shall be

1 *applied as if the amount so included were a dividend*
2 *paid by such foreign corporation (determined by ap-*
3 *plying section 902(c) in accordance with section*
4 *904(d)(3)(B)).”.*

5 *(c) EFFECTIVE DATE.—*

6 *(1) IN GENERAL.—The amendments made by*
7 *this section shall apply to taxes of foreign corpora-*
8 *tions for taxable years of such corporations beginning*
9 *after the date of enactment of this Act.*

10 *(2) SPECIAL RULE.—In the case of any chain of*
11 *foreign corporations described in clauses (i) and (ii)*
12 *of section 902(b)(2)(B) of the Internal Revenue Code*
13 *of 1986 (as amended by this section), no liquidation,*
14 *reorganization, or similar transaction in a taxable*
15 *year beginning after the date of the enactment of this*
16 *Act shall have the effect of permitting taxes to be*
17 *taken into account under section 902 of the Internal*
18 *Revenue Code of 1986 which could not have been*
19 *taken into account under such section but for such*
20 *transaction.*

1 ***Subtitle C—Repeal of Excise Tax on***
2 ***Transfers to Foreign Entities***

3 ***SEC. 921. REPEAL OF EXCISE TAX ON TRANSFERS TO FOR-***
4 ***EIGN ENTITIES; RECOGNITION OF GAIN ON***
5 ***CERTAIN TRANSFERS TO FOREIGN TRUSTS***
6 ***AND ESTATES.***

7 (a) *REPEAL OF EXCISE TAX.*—Chapter 5 (relating to
8 transfers to avoid income tax) is hereby repealed.

9 (b) *RECOGNITION OF GAIN ON CERTAIN TRANSFERS*
10 *TO FOREIGN TRUSTS AND ESTATES.*—Subpart F of part
11 I of subchapter J of chapter 1 is amended by adding at
12 the end the following new section:

13 ***“SEC. 684. RECOGNITION OF GAIN ON CERTAIN TRANSFERS***
14 ***TO CERTAIN FOREIGN TRUSTS AND ESTATES.***

15 *“(a) IN GENERAL.*—Except as provided in regulations,
16 in the case of any transfer of property by a United States
17 person to a foreign estate or trust, for purposes of this sub-
18 title, such transfer shall be treated as a sale or exchange
19 for an amount equal to the fair market value of the property
20 transferred, and the transferor shall recognize as gain the
21 excess of—

22 *“(1) the fair market value of the property so*
23 *transferred, over*

1 “(2) the adjusted basis (for purposes of determin-
2 ing gain) of such property in the hands of the trans-
3 feror.

4 “(b) *EXCEPTION.*—Subsection (a) shall not apply to
5 a transfer to a trust by a United States person to the extent
6 that any person is treated as the owner of such trust under
7 section 671.”.

8 (b) *OTHER ANTI-AVOIDANCE PROVISIONS REPLACING*
9 *REPEALED EXCISE TAX.*—

10 (1) *GAIN RECOGNITION ON EXCHANGES INVOLV-*
11 *ING FOREIGN PERSONS.*—Section 1035 is amended by
12 redesignating subsection (c) as subsection (d) and by
13 inserting after subsection (b) the following new sub-
14 section:

15 “(c) *EXCHANGES INVOLVING FOREIGN PERSONS.*—To
16 the extent provided in regulations, subsection (a) shall not
17 apply to any exchange having the effect of transferring
18 property to any person other than a United States person.”.

19 (2) *TRANSFERS TO FOREIGN CORPORATIONS.*—
20 Section 367 is amended by adding at the end the fol-
21 lowing new subsection:

22 “(f) *OTHER TRANSFERS.*—To the extent provided in
23 regulations, if a United States person transfers property to
24 a foreign corporation as paid-in surplus or as a contribu-
25 tion to capital (in a transaction not otherwise described in

1 *this section), such foreign corporation shall not, for pur-*
2 *poses of determining the extent to which gain shall be recog-*
3 *nized on such transfer, be considered to be a corporation.”.*

4 (3) *CERTAIN TRANSFERS TO PARTNERSHIPS.—*
5 *Section 721 is amended by adding at the end the fol-*
6 *lowing new subsection:*

7 “(c) *REGULATIONS RELATING TO CERTAIN TRANS-*
8 *FERS TO PARTNERSHIPS.—The Secretary may provide by*
9 *regulations that subsection (a) shall not apply to gain real-*
10 *ized on the transfer of property to a partnership if such*
11 *gain, when recognized, will be includible in the gross income*
12 *of a person other than a United States person.”.*

13 (4) *REPEAL OF UNITED STATES SOURCE TREAT-*
14 *MENT OF DEEMED ROYALTIES.—Subparagraph (C) of*
15 *section 367(d)(2) is amended to read as follows:*

16 “(C) *AMOUNTS RECEIVED TREATED AS OR-*
17 *DINARY INCOME.—For purposes of this chapter,*
18 *any amount included in gross income by reason*
19 *of this subsection shall be treated as ordinary in-*
20 *come.”.*

21 (5) *TRANSFERS OF INTANGIBLES TO PARTNER-*
22 *SHIPS.—*

23 (A) *Subsection (d) of section 367 is amend-*
24 *ed by adding at the end the following new para-*
25 *graph:*

1 “(3) *REGULATIONS RELATING TO TRANSFERS OF*
2 *INTANGIBLES TO PARTNERSHIPS.*—*The Secretary may*
3 *provide by regulations that the rules of paragraph (2)*
4 *also apply to the transfer of intangible property by*
5 *a United States person to a partnership in cir-*
6 *cumstances consistent with the purposes of this sub-*
7 *section.*”.

8 (B) *Section 721 is amended by adding at*
9 *the end the following new subsection:*

10 “(d) *TRANSFERS OF INTANGIBLES.*—

**“For regulatory authority to treat intangibles
transferred to a partnership as sold, see section
367(d)(3).”.**

11 (c) *TECHNICAL AND CONFORMING AMENDMENTS.*—

12 (1) *Subsection (h) of section 814 is amended by*
13 *striking “or 1491”.*

14 (2) *Section 1057 (relating to election to treat*
15 *transfer to foreign trust, etc., as taxable exchange) is*
16 *hereby repealed.*

17 (3) *Section 6422 is amended by striking para-*
18 *graph (5) and by redesignating paragraphs (6)*
19 *through (13) as paragraphs (5) through (12), respec-*
20 *tively.*

21 (4) *The table of chapters for subtitle A is amend-*
22 *ed by striking the item relating to chapter 5.*

1 (5) *The table of sections for part IV of sub-*
 2 *chapter O of chapter 1 is amended by striking the*
 3 *item relating to section 1057.*

4 (6) *The table of sections for subpart F of part I*
 5 *of subchapter J of chapter 1 is amended by adding*
 6 *at the end the following new item:*

“Sec. 684. Recognition of gain on certain transfers to certain for-
ign trusts and estates.”.

7 (d) *EFFECTIVE DATE.—The amendments made by this*
 8 *section shall take effect on the date of the enactment of this*
 9 *Act.*

10 ***Subtitle D—Information Reporting***

11 ***SEC. 931. CLARIFICATION OF APPLICATION OF RETURN RE-*** 12 ***QUIREMENT TO FOREIGN PARTNERSHIPS.***

13 (a) *IN GENERAL.—Section 6031 (relating to return of*
 14 *partnership income) is amended by adding at the end the*
 15 *following new subsection:*

16 “*(e) FOREIGN PARTNERSHIPS.—*

17 “*(1) EXCEPTION FOR FOREIGN PARTNERSHIP.—*
 18 *Except as provided in paragraph (2), the preceding*
 19 *provisions of this section shall not apply to a foreign*
 20 *partnership.*

21 “*(2) CERTAIN FOREIGN PARTNERSHIPS RE-*
 22 *QUIRED TO FILE RETURN.—Except as provided in*
 23 *regulations prescribed by the Secretary, this section*

1 *shall apply to a foreign partnership for any taxable*
2 *year if for such year, such partnership has—*

3 “(A) *gross income derived from sources*
4 *within the United States, or*

5 “(B) *gross income which is effectively con-*
6 *ected with the conduct of a trade or business*
7 *within the United States.*

8 *The Secretary may provide simplified filing proce-*
9 *dures for foreign partnerships to which this section*
10 *applies.”.*

11 (b) *SANCTION FOR FAILURE BY FOREIGN PARTNER-*
12 *SHIP TO COMPLY WITH SECTION 6031 TO INCLUDE DE-*
13 *NIAL OF DEDUCTIONS.—Subsection (f) of section 6231 is*
14 *amended—*

15 (1) *by striking “LOSSES AND” in the heading*
16 *and inserting “DEDUCTIONS, LOSSES, AND”, and*

17 (2) *by striking “loss or” each place it appears*
18 *and inserting “deduction, loss, or”.*

19 (c) *EFFECTIVE DATE.—The amendments made by this*
20 *section shall apply to taxable years beginning after the date*
21 *of the enactment of this Act.*

1 **SEC. 932. CONTROLLED FOREIGN PARTNERSHIPS SUBJECT**
2 **TO INFORMATION REPORTING COMPARABLE**
3 **TO INFORMATION REPORTING FOR CON-**
4 **TROLLED FOREIGN CORPORATIONS.**

5 (a) *IN GENERAL.*—So much of section 6038 (relating
6 to information with respect to certain foreign corporations)
7 as precedes paragraph (2) of subsection (a) is amended to
8 read as follows:

9 **“SEC. 6038. INFORMATION REPORTING WITH RESPECT TO**
10 **CERTAIN FOREIGN CORPORATIONS AND**
11 **PARTNERSHIPS.**

12 *“(a) REQUIREMENT.—*

13 *“(1) IN GENERAL.—Every United States person*
14 *shall furnish, with respect to any foreign business en-*
15 *tity which such person controls, such information as*
16 *the Secretary may prescribe relating to—*

17 *“(A) the name, the principal place of busi-*
18 *ness, and the nature of business of such entity,*
19 *and the country under whose laws such entity is*
20 *incorporated (or organized in the case of a part-*
21 *nership);*

22 *“(B) in the case of a foreign corporation, its*
23 *post-1986 undistributed earnings (as defined in*
24 *section 902(c));*

25 *“(C) a balance sheet for such entity listing*
26 *assets, liabilities, and capital;*

1 “(D) transactions between such entity
2 and—

3 “(i) such person,

4 “(ii) any corporation or partnership
5 which such person controls, and

6 “(iii) any United States person own-
7 ing, at the time the transaction takes
8 place—

9 “(I) in the case of a foreign cor-
10 poration, 10 percent or more of the
11 value of any class of stock outstanding
12 of such corporation, and

13 “(II) in the case of a foreign part-
14 nership, at least a 10-percent interest
15 in such partnership; and

16 “(E)(i) in the case of a foreign corporation,
17 a description of the various classes of stock out-
18 standing, and a list showing the name and ad-
19 dress of, and number of shares held by, each
20 United States person who is a shareholder of
21 record owning at any time during the annual
22 accounting period 5 percent or more in value of
23 any class of stock outstanding of such foreign
24 corporation, and

1 “(ii) information comparable to the infor-
2 mation described in clause (i) in the case of a
3 foreign partnership.

4 *The Secretary may also require the furnishing of any*
5 *other information which is similar or related in na-*
6 *ture to that specified in the preceding sentence or*
7 *which the Secretary determines to be appropriate to*
8 *carry out the provisions of this title.”.*

9 **(b) DEFINITIONS.—**

10 **(1) IN GENERAL.—***Subsection (e) of section 6038*
11 *(relating to definitions) is amended—*

12 **(A)** *by redesignating paragraphs (1) and*
13 **(2)** *as paragraphs (2) and (4), respectively,*

14 **(B)** *by inserting before paragraph (2) (as so*
15 *redesignated) the following new paragraph:*

16 “(1) **FOREIGN BUSINESS ENTITY.—***The term ‘for-*
17 *foreign business entity’ means a foreign corporation and*
18 *a foreign partnership.”, and*

19 **(C)** *by inserting after paragraph (2) (as so*
20 *redesignated) the following new paragraph:*

21 **(3) PARTNERSHIP-RELATED DEFINITIONS.—**

22 “(A) **CONTROL.—***A person is in control of a*
23 *partnership if such person owns directly or indi-*
24 *rectly more than a 50 percent interest in such*
25 *partnership.*

1 “(B) 50-PERCENT INTEREST.—For purposes
2 of subparagraph (A), a 50-percent interest in a
3 partnership is—

4 “(i) an interest equal to 50 percent of
5 the capital interest, or 50 percent of the
6 profits interest, in such partnership, or

7 “(ii) to the extent provided in regula-
8 tions, an interest to which 50 percent of the
9 deductions or losses of such partnership are
10 allocated.

11 For purposes of the preceding sentence, rules
12 similar to the rules of section 267(c) (other than
13 paragraph (3)) shall apply, except so as to con-
14 sider a United States person as owning such an
15 interest which is owned by a person which is not
16 a United States person.

17 “(C) 10-PERCENT INTEREST.—A 10-percent
18 interest in a partnership is an interest which
19 would be described in subparagraph (B) if ‘10
20 percent’ were substituted for ‘50 percent’ each
21 place it appears.”.

22 (2) CLERICAL AMENDMENT.—The paragraph
23 heading for paragraph (2) of section 6038(e) (as so
24 redesignated) is amended by inserting “OF CORPORA-
25 TION” after “CONTROL”.

1 (c) *MODIFICATION OF SANCTIONS ON PARTNERSHIPS*
2 *AND CORPORATIONS FOR FAILURE TO FURNISH INFORMA-*
3 *TION.—*

4 (1) *IN GENERAL.—*Subsection (b) of section 6038
5 *is amended—*

6 (A) *by striking “\$1,000” each place it ap-*
7 *pears and inserting “\$10,000”, and*

8 (B) *by striking “\$24,000” in paragraph (2)*
9 *and inserting “\$50,000”.*

10 (d) *REPORTING BY 10-PERCENT PARTNERS.—*Sub-
11 *section (a) of section 6038 is amended by adding at the*
12 *end the following new paragraph:*

13 “(5) *INFORMATION REQUIRED FROM 10-PERCENT*
14 *PARTNER OF CONTROLLED FOREIGN PARTNERSHIP.—*
15 *In the case of a foreign partnership which is con-*
16 *trolled by United States persons holding at least 10-*
17 *percent interests (but not by any one United States*
18 *person), the Secretary may require each United States*
19 *person who holds a 10-percent interest in such part-*
20 *nership to furnish information relating to such part-*
21 *nership, including information relating to such part-*
22 *ner’s ownership interests in the partnership and allo-*
23 *cations to such partner of partnership items.”.*

24 (e) *TECHNICAL AMENDMENTS.—*

1 (1) *The following provisions of section 6038 are*
2 *each amended by striking “foreign corporation” each*
3 *place it appears and inserting “foreign business en-*
4 *tity”:*

5 (A) *Paragraphs (2) and (3) of subsection*

6 (i).

7 (B) *Subsection (b).*

8 (C) *Subsection (c) other than paragraph*

9 (1)(B) *thereof.*

10 (D) *Subsection (d).*

11 (E) *Subsection (e)(4) (as redesignated by*

12 *subsection (b)).*

13 (2) *Subparagraph (B) of section 6038(c)(1) is*
14 *amended by inserting “in the case of a foreign busi-*
15 *ness entity which is a foreign corporation,” after*
16 *“(B)”.*

17 (3) *Paragraph (8) of section 318(b) is amended*
18 *by striking “6038(d)(1)” and inserting “6038(d)(2)”.*

19 (4) *Paragraph (4) of section 901(k) is amended*
20 *by striking “foreign corporation” and inserting “for-*
21 *foreign corporation or partnership”.*

22 (5) *The table of sections for subpart A of part III*
23 *of subchapter A of chapter 61 is amended by striking*
24 *the item relating to section 6038 and inserting the*
25 *following new item:*

“Sec. 6038. Information reporting with respect to certain foreign corporations and partnerships.”.

1 (f) *EFFECTIVE DATE.*—The amendments made by this
2 section shall apply to annual accounting periods of foreign
3 partnerships beginning after the date of the enactment of
4 this Act.

5 **SEC. 933. MODIFICATIONS RELATING TO RETURNS RE-**
6 **QUIRED TO BE FILED BY REASON OF**
7 **CHANGES IN OWNERSHIP INTERESTS IN FOR-**
8 **EIGN PARTNERSHIP.**

9 (a) *NO RETURN REQUIRED UNLESS CHANGES IN-*
10 *VOLVE 10-PERCENT INTEREST IN PARTNERSHIP.*—

11 (1) *IN GENERAL.*—Subsection (a) of section
12 6046A (relating to returns as to interests in foreign
13 partnerships) is amended by adding at the end the
14 following new sentence: “Paragraphs (1) and (2) shall
15 apply to any acquisition or disposition only if the
16 United States person directly or indirectly holds at
17 least a 10-percent interest in such partnership either
18 before or after such acquisition or disposition, and
19 paragraph (3) shall apply to any change only if the
20 change is equivalent to at least a 10-percent interest
21 in such partnership.”.

22 (2) *10-PERCENT INTEREST.*—Section 6046A is
23 amended by redesignating subsection (d) as subsection

1 (e) and by inserting after subsection (c) the following
2 new subsection:

3 “(d) *10-PERCENT INTEREST.*—For purposes of sub-
4 section (a), a 10-percent interest in a partnership is an
5 interest described in section 6038(e)(3)(C).”.

6 (b) *MODIFICATION OF PENALTY ON FAILURE TO RE-*
7 *PORT CHANGES IN OWNERSHIP INTERESTS IN FOREIGN*
8 *CORPORATIONS AND PARTNERSHIPS.*—Subsection (a) of
9 section 6679 (relating to failure to file returns, etc., with
10 respect to foreign corporations or foreign partnerships) is
11 amended to read as follows:

12 “(a) *CIVIL PENALTY.*—

13 “(1) *IN GENERAL.*—In addition to any criminal
14 penalty provided by law, any person required to file
15 a return under section 6035, 6046, or 6046A who
16 fails to file such return at the time provided in such
17 section, or who files a return which does not show the
18 information required pursuant to such section, shall
19 pay a penalty of \$10,000, unless it is shown that such
20 failure is due to reasonable cause.

21 “(2) *INCREASE IN PENALTY WHERE FAILURE*
22 *CONTINUES AFTER NOTIFICATION.*—If any failure de-
23 scribed in paragraph (1) continues for more than 90
24 days after the day on which the Secretary mails no-
25 tice of such failure to the United States person, such

1 person shall pay a penalty (in addition to the
2 amount required under paragraph (1)) of \$10,000 for
3 each 30-day period (or fraction thereof) during which
4 such failure continues after the expiration of such 90-
5 day period. The increase in any penalty under this
6 paragraph shall not exceed \$50,000.

7 “(3) *REDUCED PENALTY FOR RETURNS RELAT-*
8 *ING TO FOREIGN PERSONAL HOLDING COMPANIES.—*
9 *In the case of a return required under section 6035,*
10 *paragraph (1) shall be applied by substituting*
11 *‘\$1,000’ for ‘\$10,000’, and paragraph (2) shall not*
12 *apply.’”.*

13 (c) *EFFECTIVE DATE.—The amendments made by this*
14 *section shall apply to transfers and changes after the date*
15 *of the enactment of this Act.*

16 **SEC. 934. TRANSFERS OF PROPERTY TO FOREIGN PARTNER-**
17 **SHIPS SUBJECT TO INFORMATION REPORT-**
18 **ING COMPARABLE TO INFORMATION REPORT-**
19 **ING FOR SUCH TRANSFERS TO FOREIGN COR-**
20 **PORATIONS.**

21 (a) *IN GENERAL.—Paragraph (1) of section 6038B(a)*
22 *(relating to notice of certain transfers to foreign corpora-*
23 *tions) is amended to read as follows:*

24 “(1) transfers property to—

1 “(A) a foreign corporation in an exchange
2 described in section 332, 351, 354, 355, 356, or
3 361, or

4 “(B) a foreign partnership in a contribu-
5 tion described in section 721 or in any other
6 contribution described in regulations prescribed
7 by the Secretary.”.

8 (b) *EXCEPTIONS.*—Section 6038B is amended by re-
9 designating subsection (b) as subsection (c) and by inserting
10 after subsection (a) the following new subsection:

11 “(b) *EXCEPTIONS FOR CERTAIN TRANSFERS TO FOR-*
12 *EIGN PARTNERSHIPS; SPECIAL RULE.*—

13 “(1) *EXCEPTIONS.*—Subsection (a)(1)(B) shall
14 apply to a transfer by a United States person to a
15 foreign partnership only if—

16 “(A) the United States person holds (imme-
17 diately after the transfer) directly or indirectly
18 at least a 10-percent interest (as defined in sec-
19 tion 6046A(d)) in the partnership, or

20 “(B) the value of the property transferred
21 (when added to the value of the property trans-
22 ferred by such person or any related person to
23 such partnership or a related partnership during
24 the 12-month period ending on the date of the
25 transfer) exceeds \$100,000.

1 *For purposes of the preceding sentence, the value of*
2 *any transferred property is its fair market value at*
3 *the time of its transfer.*

4 “(2) *SPECIAL RULE.*—*If by reason of an adjust-*
5 *ment under section 482 or otherwise, a contribution*
6 *described in subsection (a)(1) is deemed to have been*
7 *made, such contribution shall be treated for purposes*
8 *of this section as having been made not earlier than*
9 *the date specified by the Secretary.”.*

10 *(c) MODIFICATION OF PENALTY APPLICABLE TO FOR-*
11 *EIGN CORPORATIONS AND PARTNERSHIPS.—*

12 “(1) *IN GENERAL.*—*Paragraph (1) of section*
13 *6038B(b) is amended by striking “equal to” and all*
14 *that follows and inserting “equal to 10 percent of the*
15 *fair market value of the property at the time of the*
16 *exchange (and, in the case of a contribution described*
17 *in subsection (a)(1)(B), such person shall recognize*
18 *gain as if the contributed property had been sold for*
19 *such value at the time of such contribution).”.*

20 “(2) *LIMIT ON PENALTY.*—*Section 6038B(b) is*
21 *amended by adding at the end the following new*
22 *paragraph:*

23 “(3) *LIMIT ON PENALTY.*—*The penalty under*
24 *paragraph (1) with respect to any exchange shall not*

1 *exceed \$100,000 unless the failure with respect to such*
2 *exchange was due to intentional disregard.”.*

3 *(d) EFFECTIVE DATE.—*

4 *(1) IN GENERAL.—The amendments made by*
5 *this section shall apply to transfers made after the*
6 *date of the enactment of this Act.*

7 *(2) ELECTION OF RETROACTIVE EFFECT.—Sec-*
8 *tion 1494(c) of the Internal Revenue Code of 1986*
9 *shall not apply to any transfer after August 20, 1996,*
10 *if all applicable reporting requirements under section*
11 *6038B of such Code (as amended by this section) are*
12 *satisfied. The Secretary of the Treasury or his dele-*
13 *gate may prescribe simplified reporting under the*
14 *preceding sentence.*

15 **SEC. 935. EXTENSION OF STATUTE OF LIMITATION FOR**
16 **FOREIGN TRANSFERS.**

17 *(a) IN GENERAL.—Paragraph (8) of section 6501(c)*
18 *(relating to failure to notify Secretary under section 6038B)*
19 *is amended to read as follows:*

20 *“(8) FAILURE TO NOTIFY SECRETARY OF CER-*
21 *TAIN FOREIGN TRANSFERS.—In the case of any infor-*
22 *mation which is required to be reported to the Sec-*
23 *retary under section 6038, 6038A, 6038B, 6046,*
24 *6046A, or 6048, the time for assessment of any tax*
25 *imposed by this title with respect to any event or pe-*

1 *riod to which such information relates shall not ex-*
 2 *pire before the date which is 3 years after the date on*
 3 *which the Secretary is furnished the information re-*
 4 *quired to be reported under such section.”.*

5 *(b) EFFECTIVE DATE.—The amendment made by sub-*
 6 *section (a) shall apply to information the due date for the*
 7 *reporting of which is after the date of the enactment of this*
 8 *Act.*

9 **SEC. 936. INCREASE IN FILING THRESHOLDS FOR RETURNS**
 10 **AS TO ORGANIZATION OF FOREIGN CORPORA-**
 11 **TIONS AND ACQUISITIONS OF STOCK IN SUCH**
 12 **CORPORATIONS.**

13 *(a) IN GENERAL.—Subsection (a) of section 6046 (re-*
 14 *lating to returns as to organization or reorganization of*
 15 *foreign corporations and as to acquisitions of their stock)*
 16 *is amended to read as follows:*

17 *“(a) REQUIREMENT OF RETURN.—*

18 *“(1) IN GENERAL.—A return complying with the*
 19 *requirements of subsection (b) shall be made by—*

20 *“(A) each United States citizen or resident*
 21 *who becomes an officer or director of a foreign*
 22 *corporation if a United States person (as defined*
 23 *in section 7701(a)(30)) meets the stock ownership*
 24 *requirements of paragraph (2) with respect to*
 25 *such corporation,*

1 “(B) each United States person—

2 “(i) who acquires stock which, when
3 added to any stock owned on the date of
4 such acquisition, meets the stock ownership
5 requirements of paragraph (2) with respect
6 to a foreign corporation, or

7 “(ii) who acquires stock which, without
8 regard to stock owned on the date of such
9 acquisition, meets the stock ownership re-
10 quirements of paragraph (2) with respect to
11 a foreign corporation,

12 “(C) each person (not described in subpara-
13 graph (B)) who is treated as a United States
14 shareholder under section 953(c) with respect to
15 a foreign corporation, and

16 “(D) each person who becomes a United
17 States person while meeting the stock ownership
18 requirements of paragraph (2) with respect to
19 stock of a foreign corporation.

20 *In the case of a foreign corporation with respect to*
21 *which any person is treated as a United States share-*
22 *holder under section 953(c), subparagraph (A) shall*
23 *be treated as including a reference to each United*
24 *States person who is an officer or director of such cor-*
25 *poration.*

1 “(2) *STOCK OWNERSHIP REQUIREMENTS.*—A
2 *person meets the stock ownership requirements of this*
3 *paragraph with respect to any corporation if such*
4 *person owns 10 percent or more of—*

5 “(A) *the total combined voting power of all*
6 *classes of stock of such corporation entitled to*
7 *vote, or*

8 “(B) *the total value of the stock of such cor-*
9 *poration.*”.

10 (b) *EFFECTIVE DATE.*—*The amendment made by this*
11 *section shall take effect on January 1, 1998.*

12 ***Subtitle E—Determination of For-***
13 ***ign or Domestic Status of Part-***
14 ***nerships***

15 ***SEC. 941. DETERMINATION OF FOREIGN OR DOMESTIC STA-***
16 ***TUS OF PARTNERSHIPS.***

17 (a) *IN GENERAL.*—*Paragraph (4) of section 7701(a)*
18 *is amended by inserting before the period “unless, in the*
19 *case of a partnership, the Secretary provides otherwise by*
20 *regulations”.*

21 (b) *EFFECTIVE DATE.*—*The amendment made by sub-*
22 *section (a) shall apply to taxable years beginning after the*
23 *date of the enactment of this Act.*

1 ***Subtitle F—Other Simplification***
2 ***Provisions***

3 **SEC. 951. TRANSITION RULE FOR CERTAIN TRUSTS.**

4 (a) *IN GENERAL.*—Paragraph (3) of section 1907(a)
5 *of the Small Business Job Protection Act of 1996 is amend-*
6 *ed by adding at the end the following flush sentence:*

7 *“To the extent prescribed in regulations by the Sec-*
8 *retary of the Treasury or his delegate, a trust which*
9 *was in existence on August 20, 1996 (other than a*
10 *trust treated as owned by the grantor under subpart*
11 *E of part I of subchapter J of chapter 1 of the Inter-*
12 *nal Revenue Code of 1986), and which was treated as*
13 *a United States person on the day before the date of*
14 *the enactment of this Act may elect to continue to be*
15 *treated as a United States person notwithstanding*
16 *section 7701(a)(30)(E) of such Code.”.*

17 (b) *EFFECTIVE DATE.*—The amendment made by sub-
18 *section (a) shall take effect as if included in the amendments*
19 *made by section 1907(a) of the Small Business Job Protec-*
20 *tion Act of 1996.*

21 **SEC. 952. REPEAL OF STOCK AND SECURITIES SAFE HAR-**
22 ***BOR REQUIREMENT THAT PRINCIPAL OFFICE***
23 ***BE OUTSIDE THE UNITED STATES.***

24 (a) *IN GENERAL.*—The last sentence of clause (i) of
25 *section 864(b)(2)(A) (relating to stock or securities) is*

1 *amended by striking “, or in the case of a corporation”*
2 *and all that follows and inserting a period.*

3 (b) *EFFECTIVE DATE.*—*The amendment made by sub-*
4 *section (a) shall apply to taxable years beginning after De-*
5 *cember 31, 1997.*

6 **SEC. 953. MISCELLANEOUS CLARIFICATIONS.**

7 (a) *ATTRIBUTION OF DEEMED PAID FOREIGN TAXES*
8 *TO PRIOR DISTRIBUTIONS.*—*Subparagraph (B) of section*
9 *902(c)(2) is amended by striking “deemed paid with respect*
10 *to” and inserting “attributable to”.*

11 (b) *FINANCIAL SERVICES INCOME DETERMINED WITH-*
12 *OUT REGARD TO HIGH-TAXED INCOME.*—*Subclause (II) of*
13 *section 904(d)(2)(C)(i) is amended by striking “subclause*
14 *(I)” and inserting “subclauses (I) and (III)”.*

15 (c) *EFFECTIVE DATE.*—*The amendments made by this*
16 *section shall take effect on the date of the enactment of this*
17 *Act.*

1 **TITLE X—SIMPLIFICATION PRO-**
2 **VISIONS RELATING TO INDI-**
3 **VIDUALS AND BUSINESSES**

4 **Subtitle A—Provisions Relating to**
5 **Individuals**

6 **SEC. 1001. BASIC STANDARD DEDUCTION AND MINIMUM**
7 **TAX EXEMPTION AMOUNT FOR CERTAIN DE-**
8 **PENDENTS.**

9 *(a) BASIC STANDARD DEDUCTION.—*

10 *(1) IN GENERAL.—Paragraph (5) of section 63(c)*
11 *(relating to limitation on basic standard deduction in*
12 *the case of certain dependents) is amended by striking*
13 *“shall not exceed” and all that follows and inserting*
14 *“shall not exceed the greater of—*

15 *“(A) \$500, or*

16 *“(B) the sum of \$250 and such individual’s*
17 *earned income.”.*

18 *(2) CONFORMING AMENDMENT.—Paragraph (4)*
19 *of section 63(c) is amended—*

20 *(A) by striking “(5)(A)” in the material*
21 *preceding subparagraph (A) and inserting “(5),*
22 *and*

23 *(B) by striking “by substituting” and all*
24 *that follows in subparagraph (B) and inserting*

1 *“by substituting for ‘calendar year 1992’ in sub-*
2 *paragraph (B) thereof—*

3 *“(i) ‘calendar year 1987’ in the case of*
4 *the dollar amounts contained in paragraph*
5 *(2) or (5)(A) or subsection (f), and*

6 *“(ii) ‘calendar year 1997’ in the case*
7 *of the dollar amount contained in para-*
8 *graph (5)(B).”.*

9 ***(b) MINIMUM TAX EXEMPTION AMOUNT.—****Subsection*
10 *(j) of section 59 is amended to read as follows:*

11 ***(j) TREATMENT OF UNEARNED INCOME OF MINOR***
12 ***CHILDREN.—***

13 ***(1) IN GENERAL.—****In the case of a child to*
14 *whom section 1(g) applies, the exemption amount for*
15 *purposes of section 55 shall not exceed the sum of—*

16 ***(A) such child’s earned income (as defined***
17 ***in section 911(d)(2)) for the taxable year, plus***

18 ***(B) \$5,000.***

19 ***(2) INFLATION ADJUSTMENT.—****In the case of*
20 *any taxable year beginning in a calendar year after*
21 *1998, the dollar amount in paragraph (1)(B) shall be*
22 *increased by an amount equal to the product of—*

23 ***(A) such dollar amount, and***

24 ***(B) the cost-of-living adjustment deter-***
25 ***mined under section 1(f)(3) for the calendar year***

1 *in which the taxable year begins, determined by*
 2 *substituting ‘1997’ for ‘1992’ in subparagraph*
 3 *(B) thereof.*

4 *If any increase determined under the preceding sen-*
 5 *tence is not a multiple of \$50, such increase shall be*
 6 *rounded to the nearest multiple of \$50.”.*

7 *(c) EFFECTIVE DATE.—The amendments made by this*
 8 *section shall apply to taxable years beginning after Decem-*
 9 *ber 31, 1997.*

10 **SEC. 1002. INCREASE IN AMOUNT OF TAX EXEMPT FROM ES-**
 11 **TIMATED TAX REQUIREMENTS.**

12 *(a) IN GENERAL.—Paragraph (1) of section 6654(e)*
 13 *(relating to exception where tax is small amount) is amend-*
 14 *ed by striking “\$500” and inserting “\$1,000”.*

15 *(b) EFFECTIVE DATE.—The amendments made by this*
 16 *section shall apply to taxable years beginning after Decem-*
 17 *ber 31, 1997.*

18 **SEC. 1003. TREATMENT OF CERTAIN REIMBURSED EX-**
 19 **PENSES OF RURAL MAIL CARRIERS.**

20 *(a) IN GENERAL.—Section 162 (relating to trade or*
 21 *business expenses), as amended by title VII, is amended by*
 22 *redesignating subsection (p) as subsection (q) and by insert-*
 23 *ing after subsection (o) the following new subsection:*

24 “*(p) TREATMENT OF CERTAIN REIMBURSED EX-*
 25 *PENSES OF RURAL MAIL CARRIERS.—*

1 “(1) *GENERAL RULE.*—*In the case of any em-*
2 *ployee of the United States Postal Service who per-*
3 *forms services involving the collection and delivery of*
4 *mail on a rural route and who receives qualified re-*
5 *imbursements for the expenses incurred by such em-*
6 *ployee for the use of a vehicle in performing such*
7 *services—*

8 “(A) *the amount allowable as a deduction*
9 *under this chapter for the use of a vehicle in per-*
10 *forming such services shall be equal to the*
11 *amount of such qualified reimbursements; and*

12 “(B) *such qualified reimbursements shall be*
13 *treated as paid under a reimbursement or other*
14 *expense allowance arrangement for purposes of*
15 *section 62(a)(2)(A) (and section 62(c) shall not*
16 *apply to such qualified reimbursements).*

17 “(2) *DEFINITION OF QUALIFIED REIMBURSE-*
18 *MENTS.*—*For purposes of this subsection, the term*
19 *‘qualified reimbursements’ means the amounts paid*
20 *by the United States Postal Service to employees as*
21 *an equipment maintenance allowance under the 1991*
22 *collective bargaining agreement between the United*
23 *States Postal Service and the National Rural Letter*
24 *Carriers’ Association. Amounts paid as an equipment*
25 *maintenance allowance by such Postal Service under*

1 *States in temporary duty status to investigate, or*
 2 *provide support services for the investigation of, a*
 3 *Federal crime.”.*

4 ***(b) EFFECTIVE DATE.***—*The amendment made by sub-*
 5 *section (a) shall apply to amounts paid or incurred with*
 6 *respect to taxable years ending after the date of the enact-*
 7 *ment of this Act.*

8 ***Subtitle B—Provisions Relating to***
 9 ***Businesses Generally***

10 ***SEC. 1011. MODIFICATIONS TO LOOK-BACK METHOD FOR***
 11 ***LONG-TERM CONTRACTS.***

12 ***(a) LOOK-BACK METHOD NOT TO APPLY IN CERTAIN***
 13 ***CASES.***—*Subsection (b) of section 460 (relating to percent-*
 14 *age of completion method) is amended by adding at the end*
 15 *the following new paragraph:*

16 ***“(6) ELECTION TO HAVE LOOK-BACK METHOD***
 17 ***NOT APPLY IN DE MINIMIS CASES.***—

18 ***“(A) AMOUNTS TAKEN INTO ACCOUNT***
 19 ***AFTER COMPLETION OF CONTRACT.***—*Paragraph*
 20 ***(1)(B) shall not apply with respect to any tax-***
 21 ***able year (beginning after the taxable year in***
 22 ***which the contract is completed) if—***

23 ***“(i) the cumulative taxable income (or***
 24 ***loss) under the contract as of the close of***
 25 ***such taxable year, is within***

1 “(ii) 10 percent of the cumulative look-
2 back taxable income (or loss) under the con-
3 tract as of the close of the most recent tax-
4 able year to which paragraph (1)(B) ap-
5 plied (or would have applied but for sub-
6 paragraph (B)).

7 “(B) *DE MINIMIS DISCREPANCIES.*—Para-
8 graph (1)(B) shall not apply in any case to
9 which it would otherwise apply if—

10 “(i) the cumulative taxable income (or
11 loss) under the contract as of the close of
12 each prior contract year, is within

13 “(ii) 10 percent of the cumulative look-
14 back income (or loss) under the contract as
15 of the close of such prior contract year.

16 “(C) *DEFINITIONS.*—For purposes of this
17 paragraph—

18 “(i) *CONTRACT YEAR.*—The term ‘con-
19 tract year’ means any taxable year for
20 which income is taken into account under
21 the contract.

22 “(ii) *LOOK-BACK INCOME OR LOSS.*—
23 The look-back income (or loss) is the
24 amount which would be the taxable income
25 (or loss) under the contract if the allocation

1 *method set forth in paragraph (2)(A) were*
2 *used in determining taxable income.*

3 “(iii) *DISCOUNTING NOT APPLICA-*
4 *BLE.—The amounts taken into account*
5 *after the completion of the contract shall be*
6 *determined without regard to any discount-*
7 *ing under the 2nd sentence of paragraph*
8 *(2).*

9 “(D) *CONTRACTS TO WHICH PARAGRAPH*
10 *APPLIES.—This paragraph shall only apply if*
11 *the taxpayer makes an election under this sub-*
12 *paragraph. Unless revoked with the consent of*
13 *the Secretary, such an election shall apply to all*
14 *long-term contracts completed during the taxable*
15 *year for which election is made or during any*
16 *subsequent taxable year.”.*

17 **(b) MODIFICATION OF INTEREST RATE.—**

18 **(1) IN GENERAL.—***Subparagraph (C) of section*
19 *460(b)(2) is amended by striking “the overpayment*
20 *rate established by section 6621” and inserting “the*
21 *adjusted overpayment rate (as defined in paragraph*
22 *(7))”.*

23 **(2) ADJUSTED OVERPAYMENT RATE.—***Subsection*
24 *(b) of section 460 is amended by adding at the end*
25 *the following new paragraph:*

1 “(7) *ADJUSTED OVERPAYMENT RATE.*—

2 “(A) *IN GENERAL.*—*The adjusted overpay-*
3 *ment rate for any interest accrual period is the*
4 *overpayment rate in effect under section 6621 for*
5 *the calendar quarter in which such interest ac-*
6 *crual period begins.*

7 “(B) *INTEREST ACCRUAL PERIOD.*—*For*
8 *purposes of subparagraph (A), the term ‘interest*
9 *accrual period’ means the period—*

10 “(i) *beginning on the day after the re-*
11 *turn due date for any taxable year of the*
12 *taxpayer, and*

13 “(ii) *ending on the return due date for*
14 *the following taxable year.*

15 *For purposes of the preceding sentence, the term*
16 *‘return due date’ means the date prescribed for*
17 *filing the return of the tax imposed by this chap-*
18 *ter (determined without regard to extensions).”.*

19 (c) *EFFECTIVE DATE.*—

20 (1) *IN GENERAL.*—*Except as provided in para-*
21 *graph (2), the amendments made by this section shall*
22 *apply to contracts completed in taxable years ending*
23 *after the date of the enactment of this Act.*

24 (2) *SUBSECTION (b).*—*The amendments made by*
25 *subsection (b) shall apply for purposes of section*

1 167(g) of the Internal Revenue Code of 1986 to prop-
2 erty placed in service after September 13, 1995.

3 **SEC. 1012. MINIMUM TAX TREATMENT OF CERTAIN PROP-**
4 **ERTY AND CASUALTY INSURANCE COMPA-**
5 **NIES.**

6 (a) *IN GENERAL.*—Clause (i) of section 56(g)(4)(B)
7 (relating to inclusion of items included for purposes of com-
8 puting earnings and profits) is amended by adding at the
9 end the following new sentence: “In the case of any insur-
10 ance company taxable under section 831(b), this clause
11 shall not apply to any amount not described in section
12 834(b).”.

13 (b) *EFFECTIVE DATE.*—The amendment made by sub-
14 section (a) shall apply to taxable years beginning after De-
15 cember 31, 1997.

16 **SEC. 1013. USE OF ESTIMATES OF SHRINKAGE FOR INVEN-**
17 **TORY ACCOUNTING.**

18 (a) *IN GENERAL.*—Section 471 (relating to general
19 rule for inventories) is amended by redesignating subsection
20 (b) as subsection (c) and by inserting after subsection (a)
21 the following new subsection:

22 “(b) *ESTIMATES OF INVENTORY SHRINKAGE PER-*
23 *MITTED.*—A method of determining inventories shall not be
24 deemed not to clearly reflect income solely because it utilizes
25 estimates of inventory shrinkage that are confirmed by a

1 *physical count only after the last day of the taxable year*
2 *if—*

3 “(1) *the taxpayer normally does a physical count*
4 *of inventories at each location on a regular and con-*
5 *sistent basis, and*

6 “(2) *the taxpayer makes proper adjustments to*
7 *such inventories and to its estimating methods to the*
8 *extent such estimates are greater than or less than the*
9 *actual shrinkage.”.*

10 *(b) EFFECTIVE DATE.—*

11 (1) *IN GENERAL.—The amendment made by this*
12 *section shall apply to taxable years ending after the*
13 *date of the enactment of this Act.*

14 (2) *COORDINATION WITH SECTION 481.—In the*
15 *case of any taxpayer permitted by this section to*
16 *change its method of accounting to a permissible*
17 *method for any taxable year—*

18 (A) *such changes shall be treated as initi-*
19 *ated by the taxpayer,*

20 (B) *such changes shall be treated as made*
21 *with the consent of the Secretary, and*

22 (C) *the period for taking into account the*
23 *adjustments under section 481 by reason of such*
24 *change shall be 4 years.*

1 **SEC. 1014. QUALIFIED LESSEE CONSTRUCTION ALLOW-**
 2 **ANCES FOR SHORT-TERM LEASES.**

3 (a) *IN GENERAL.*—Part III of subchapter B of chapter
 4 1 is amended by inserting after section 109 the following
 5 new section:

6 **“SEC. 110. QUALIFIED LESSEE CONSTRUCTION ALLOW-**
 7 **ANCES FOR SHORT-TERM LEASES.**

8 “(a) *IN GENERAL.*—Gross income of a lessee does not
 9 include any amount received in cash (or treated as a rent
 10 reduction) by a lessee from a lessor—

11 “(1) under a short-term lease of retail space, and

12 “(2) for the purpose of such lessee’s constructing
 13 or improving qualified long-term real property for use
 14 in such lessee’s trade or business at such retail space,
 15 but only to the extent that such amount does not exceed
 16 the amount expended by the lessee for such construction or
 17 improvement.

18 “(b) *CONSISTENT TREATMENT BY LESSOR.*—Qualified
 19 long-term real property constructed or improved in connec-
 20 tion with any amount excluded from a lessee’s income by
 21 reason of subsection (a) shall be treated as nonresidential
 22 real property by the lessor.

23 “(c) *DEFINITIONS.*—For purposes of this section—

24 “(1) *QUALIFIED LONG-TERM REAL PROPERTY.*—
 25 The term ‘qualified long-term real property’ means
 26 nonresidential real property which is part of, or oth-

1 *erwise present at, the retail space referred to in sub-*
2 *section (a) and which reverts to the lessor at the ter-*
3 *mination of the lease.*

4 “(2) *SHORT-TERM LEASE.*—*The term ‘short-term*
5 *lease’ means a lease (or other agreement for occu-*
6 *pancy or use) of retail space for 15 years or less (as*
7 *determined under the rules of section 168(i)(3)).*

8 “(3) *RETAIL SPACE.*—*The term ‘retail space’*
9 *means real property leased, occupied, or otherwise*
10 *used by a lessee in its trade or business of selling tan-*
11 *gible personal property or services to the general pub-*
12 *lic.*

13 “(d) *INFORMATION REQUIRED TO BE FURNISHED TO*
14 *SECRETARY.*—*Under regulations, the lessee and lessor de-*
15 *scribed in subsection (a) shall, at such times and in such*
16 *manner as may be provided in such regulations, furnish*
17 *to the Secretary—*

18 “(1) *information concerning the amounts re-*
19 *ceived (or treated as a rent reduction) and expended*
20 *as described in subsection (a), and*

21 “(2) *any other information which the Secretary*
22 *deems necessary to carry out the provisions of this*
23 *section.”.*

24 (b) *TREATMENT AS INFORMATION RETURN.*—*Sub-*
25 *paragraph (A) of section 6724(d)(1)(A) is amended by*

1 striking “or” at the end of clause (vii), by adding “or” at
2 the end of clause (viii), and by adding at the end the follow-
3 ing new clause:

4 “(ix) section 110(d) (relating to quali-
5 fied lessee construction allowances for short-
6 term leases),”.

7 (c) *CROSS REFERENCE.*—Paragraph (8) of section
8 168(i) (relating to treatment of leasehold improvements) is
9 amended by adding at the end the following new subpara-
10 graph:

11 “(C) *CROSS REFERENCE.*—

**“For treatment of qualified long-term real property
constructed or improved in connection with cash or
rent reduction from lessor to lessee, see section
110(b).”.**

12 (d) *CLERICAL AMENDMENT.*—The table of sections for
13 part III of subchapter B of chapter 1 is amended by insert-
14 ing after the item relating to section 109 the following new
15 item:

 “Sec. 110. Qualified lessee construction allowances for short-term
leases.”.

16 (e) *EFFECTIVE DATE.*—The amendments made by this
17 section shall apply to leases entered into after the date of
18 the enactment of this Act.

1 ***Subtitle C—Simplification Relating***
 2 ***to Electing Large Partnerships***

3 ***PART I—GENERAL PROVISIONS***

4 ***SEC. 1021. SIMPLIFIED FLOW-THROUGH FOR ELECTING***
 5 ***LARGE PARTNERSHIPS.***

6 (a) *GENERAL RULE.*—Subchapter K (relating to part-
 7 ners and partnerships) is amended by adding at the end
 8 the following new part:

9 ***“PART IV—SPECIAL RULES FOR ELECTING LARGE***
 10 ***PARTNERSHIPS***

“Sec. 771. Application of subchapter to electing large partnerships.

“Sec. 772. Simplified flow-through.

“Sec. 773. Computations at partnership level.

“Sec. 774. Other modifications.

“Sec. 775. Electing large partnership defined.

*“Sec. 776. Special rules for partnerships holding oil and gas prop-
 erties.*

“Sec. 777. Regulations.

11 ***“SEC. 771. APPLICATION OF SUBCHAPTER TO ELECTING***
 12 ***LARGE PARTNERSHIPS.***

13 *“The preceding provisions of this subchapter to the ex-
 14 tent inconsistent with the provisions of this part shall not
 15 apply to an electing large partnership and its partners.*

16 ***“SEC. 772. SIMPLIFIED FLOW-THROUGH.***

17 *“(a) GENERAL RULE.*—In determining the income tax
 18 of a partner of an electing large partnership, such partner
 19 shall take into account separately such partner’s distribu-
 20 tive share of the partnership’s—

1 “(1) taxable income or loss from passive loss lim-
2 itation activities,

3 “(2) taxable income or loss from other activities,

4 “(3) net capital gain (or net capital loss)—

5 “(A) to the extent allocable to passive loss
6 limitation activities, and

7 “(B) to the extent allocable to other activi-
8 ties,

9 “(4) tax-exempt interest,

10 “(5) applicable net AMT adjustment separately
11 computed for—

12 “(A) passive loss limitation activities, and

13 “(B) other activities,

14 “(6) general credits,

15 “(7) low-income housing credit determined under
16 section 42,

17 “(8) rehabilitation credit determined under sec-
18 tion 47,

19 “(9) foreign income taxes,

20 “(10) the credit allowable under section 29, and

21 “(11) other items to the extent that the Secretary
22 determines that the separate treatment of such items
23 is appropriate.

24 “(b) *SEPARATE COMPUTATIONS.*—*In determining the*
25 *amounts required under subsection (a) to be separately*

1 *taken into account by any partner, this section and section*
2 *773 shall be applied separately with respect to such partner*
3 *by taking into account such partner's distributive share of*
4 *the items of income, gain, loss, deduction, or credit of the*
5 *partnership.*

6 *“(c) TREATMENT AT PARTNER LEVEL.—*

7 *“(1) IN GENERAL.—Except as provided in this*
8 *subsection, rules similar to the rules of section 702(b)*
9 *shall apply to any partner's distributive share of the*
10 *amounts referred to in subsection (a).*

11 *“(2) INCOME OR LOSS FROM PASSIVE LOSS LIM-*
12 *ITATION ACTIVITIES.—For purposes of this chapter,*
13 *any partner's distributive share of any income or loss*
14 *described in subsection (a)(1) shall be treated as an*
15 *item of income or loss (as the case may be) from the*
16 *conduct of a trade or business which is a single pas-*
17 *sive activity (as defined in section 469). A similar*
18 *rule shall apply to a partner's distributive share of*
19 *amounts referred to in paragraphs (3)(A) and (5)(A)*
20 *of subsection (a).*

21 *“(3) INCOME OR LOSS FROM OTHER ACTIVI-*
22 *TIES.—*

23 *“(A) IN GENERAL.—For purposes of this*
24 *chapter, any partner's distributive share of any*
25 *income or loss described in subsection (a)(2)*

1 *shall be treated as an item of income or expense*
2 *(as the case may be) with respect to property*
3 *held for investment.*

4 “(B) *DEDUCTIONS FOR LOSS NOT SUBJECT*
5 *TO SECTION 67.—The deduction under section*
6 *212 for any loss described in subparagraph (A)*
7 *shall not be treated as a miscellaneous itemized*
8 *deduction for purposes of section 67.*

9 “(4) *TREATMENT OF NET CAPITAL GAIN OR*
10 *LOSS.—For purposes of this chapter, any partner’s*
11 *distributive share of any gain or loss described in*
12 *subsection (a)(3) shall be treated as a long-term cap-*
13 *ital gain or loss, as the case may be.*

14 “(5) *MINIMUM TAX TREATMENT.—In determin-*
15 *ing the alternative minimum taxable income of any*
16 *partner, such partner’s distributive share of any ap-*
17 *plicable net AMT adjustment shall be taken into ac-*
18 *count in lieu of making the separate adjustments pro-*
19 *vided in sections 56, 57, and 58 with respect to the*
20 *items of the partnership. Except as provided in regu-*
21 *lations, the applicable net AMT adjustment shall be*
22 *treated, for purposes of section 53, as an adjustment*
23 *or item of tax preference not specified in section*
24 *53(d)(1)(B)(ii).*

1 “(6) *GENERAL CREDITS.*—*A partner’s distribu-*
2 *tive share of the amount referred to in paragraph (6)*
3 *of subsection (a) shall be taken into account as a cur-*
4 *rent year business credit.*

5 “(d) *OPERATING RULES.*—*For purposes of this sec-*
6 *tion—*

7 “(1) *PASSIVE LOSS LIMITATION ACTIVITY.*—*The*
8 *term ‘passive loss limitation activity’ means—*

9 “(A) *any activity which involves the con-*
10 *duct of a trade or business, and*

11 “(B) *any rental activity.*

12 *For purposes of the preceding sentence, the term*
13 *‘trade or business’ includes any activity treated as a*
14 *trade or business under paragraph (5) or (6) of sec-*
15 *tion 469(c).*

16 “(2) *TAX-EXEMPT INTEREST.*—*The term ‘tax-ex-*
17 *empt interest’ means interest excludable from gross*
18 *income under section 103.*

19 “(3) *APPLICABLE NET AMT ADJUSTMENT.*—

20 “(A) *IN GENERAL.*—*The applicable net*
21 *AMT adjustment is—*

22 “(i) *with respect to taxpayers other*
23 *than corporations, the net adjustment deter-*
24 *mined by using the adjustments applicable*
25 *to individuals, and*

1 “(i) with respect to corporations, the
2 net adjustment determined by using the ad-
3 justments applicable to corporations.

4 “(B) NET ADJUSTMENT.—The term ‘net ad-
5 justment’ means the net adjustment in the items
6 attributable to passive loss activities or other ac-
7 tivities (as the case may be) which would result
8 if such items were determined with the adjust-
9 ments of sections 56, 57, and 58.

10 “(4) TREATMENT OF CERTAIN SEPARATELY
11 STATED ITEMS.—

12 “(A) EXCLUSION FOR CERTAIN PUR-
13 POSES.—In determining the amounts referred to
14 in paragraphs (1) and (2) of subsection (a), any
15 net capital gain or net capital loss (as the case
16 may be), and any item referred to in subsection
17 (a)(11), shall be excluded.

18 “(B) ALLOCATION RULES.—The net capital
19 gain shall be treated—

20 “(i) as allocable to passive loss limita-
21 tion activities to the extent the net capital
22 gain does not exceed the net capital gain de-
23 termined by only taking into account gains
24 and losses from sales and exchanges of prop-

1 *erty used in connection with such activities,*
2 *and*

3 *“(ii) as allocable to other activities to*
4 *the extent such gain exceeds the amount al-*
5 *located under clause (i).*

6 *A similar rule shall apply for purposes of allo-*
7 *cating any net capital loss.*

8 *“(C) NET CAPITAL LOSS.—The term ‘net*
9 *capital loss’ means the excess of the losses from*
10 *sales or exchanges of capital assets over the gains*
11 *from sales or exchange of capital assets.*

12 *“(5) GENERAL CREDITS.—The term ‘general*
13 *credits’ means any credit other than the low-income*
14 *housing credit, the rehabilitation credit, the foreign*
15 *tax credit, and the credit allowable under section 29.*

16 *“(6) FOREIGN INCOME TAXES.—The term ‘for-*
17 *foreign income taxes’ means taxes described in section*
18 *901 which are paid or accrued to foreign countries*
19 *and to possessions of the United States.*

20 *“(e) SPECIAL RULE FOR UNRELATED BUSINESS*
21 *TAX.—In the case of a partner which is an organization*
22 *subject to tax under section 511, such partner’s distributive*
23 *share of any items shall be taken into account separately*
24 *to the extent necessary to comply with the provisions of sec-*
25 *tion 512(c)(1).*

1 “(f) *SPECIAL RULES FOR APPLYING PASSIVE LOSS*
2 *LIMITATIONS.—If any person holds an interest in an elect-*
3 *ing large partnership other than as a limited partner—*

4 “(1) *paragraph (2) of subsection (c) shall not*
5 *apply to such partner, and*

6 “(2) *such partner’s distributive share of the part-*
7 *nership items allocable to passive loss limitation ac-*
8 *tivities shall be taken into account separately to the*
9 *extent necessary to comply with the provisions of sec-*
10 *tion 469.*

11 *The preceding sentence shall not apply to any items alloca-*
12 *ble to an interest held as a limited partner.*

13 **“SEC. 773. COMPUTATIONS AT PARTNERSHIP LEVEL.**

14 “(a) *GENERAL RULE.—*

15 “(1) *TAXABLE INCOME.—The taxable income of*
16 *an electing large partnership shall be computed in the*
17 *same manner as in the case of an individual except*
18 *that—*

19 “(A) *the items described in section 772(a)*
20 *shall be separately stated, and*

21 “(B) *the modifications of subsection (b)*
22 *shall apply.*

23 “(2) *ELECTIONS.—All elections affecting the*
24 *computation of the taxable income of an electing large*
25 *partnership or the computation of any credit of an*

1 *electing large partnership shall be made by the part-*
2 *nership; except that the election under section 901,*
3 *and any election under section 108, shall be made by*
4 *each partner separately.*

5 *“(3) LIMITATIONS, ETC.—*

6 *“(A) IN GENERAL.—Except as provided in*
7 *subparagraph (B), all limitations and other pro-*
8 *visions affecting the computation of the taxable*
9 *income of an electing large partnership or the*
10 *computation of any credit of an electing large*
11 *partnership shall be applied at the partnership*
12 *level (and not at the partner level).*

13 *“(B) CERTAIN LIMITATIONS APPLIED AT*
14 *PARTNER LEVEL.—The following provisions shall*
15 *be applied at the partner level (and not at the*
16 *partnership level):*

17 *“(i) Section 68 (relating to overall lim-*
18 *itation on itemized deductions).*

19 *“(ii) Sections 49 and 465 (relating to*
20 *at risk limitations).*

21 *“(iii) Section 469 (relating to limita-*
22 *tion on passive activity losses and credits).*

23 *“(iv) Any other provision specified in*
24 *regulations.*

1 “(4) *COORDINATION WITH OTHER PROVISIONS.*—
2 *Paragraphs (2) and (3) shall apply notwithstanding*
3 *any other provision of this chapter other than this*
4 *part.*

5 “(b) *MODIFICATIONS TO DETERMINATION OF TAXABLE*
6 *INCOME.*—*In determining the taxable income of an electing*
7 *large partnership—*

8 “(1) *CERTAIN DEDUCTIONS NOT ALLOWED.*—*The*
9 *following deductions shall not be allowed:*

10 “(A) *The deduction for personal exemptions*
11 *provided in section 151.*

12 “(B) *The net operating loss deduction pro-*
13 *vided in section 172.*

14 “(C) *The additional itemized deductions for*
15 *individuals provided in part VII of subchapter B*
16 *(other than section 212 thereof).*

17 “(2) *CHARITABLE DEDUCTIONS.*—*In determining*
18 *the amount allowable under section 170, the limita-*
19 *tion of section 170(b)(2) shall apply.*

20 “(3) *COORDINATION WITH SECTION 67.*—*In lieu*
21 *of applying section 67, 70 percent of the amount of*
22 *the miscellaneous itemized deductions shall be dis-*
23 *allowed.*

1 “(c) *SPECIAL RULES FOR INCOME FROM DISCHARGE*
2 *OF INDEBTEDNESS.—If an electing large partnership has*
3 *income from the discharge of any indebtedness—*

4 “(1) *such income shall be excluded in determin-*
5 *ing the amounts referred to in section 772(a), and*

6 “(2) *in determining the income tax of any part-*
7 *ner of such partnership—*

8 “(A) *such income shall be treated as an*
9 *item required to be separately taken into account*
10 *under section 772(a), and*

11 “(B) *the provisions of section 108 shall be*
12 *applied without regard to this part.*

13 **“SEC. 774. OTHER MODIFICATIONS.**

14 “(a) *TREATMENT OF CERTAIN OPTIONAL ADJUST-*
15 *MENTS, ETC.—In the case of an electing large partner-*
16 *ship—*

17 “(1) *computations under section 773 shall be*
18 *made without regard to any adjustment under section*
19 *743(b) or 108(b), but*

20 “(2) *a partner’s distributive share of any*
21 *amount referred to in section 772(a) shall be appro-*
22 *priately adjusted to take into account any adjustment*
23 *under section 743(b) or 108(b) with respect to such*
24 *partner.*

1 “(b) *CREDIT RECAPTURE DETERMINED AT PARTNER-*
2 *SHIP LEVEL.*—

3 “(1) *IN GENERAL.*—*In the case of an electing*
4 *large partnership—*

5 “(A) *any credit recapture shall be taken*
6 *into account by the partnership, and*

7 “(B) *the amount of such recapture shall be*
8 *determined as if the credit with respect to which*
9 *the recapture is made had been fully utilized to*
10 *reduce tax.*

11 “(2) *METHOD OF TAKING RECAPTURE INTO AC-*
12 *COUNT.*—*An electing large partnership shall take into*
13 *account a credit recapture by reducing the amount of*
14 *the appropriate current year credit to the extent*
15 *thereof, and if such recapture exceeds the amount of*
16 *such current year credit, the partnership shall be lia-*
17 *ble to pay such excess.*

18 “(3) *DISPOSITIONS NOT TO TRIGGER RECAP-*
19 *TURE.*—*No credit recapture shall be required by rea-*
20 *son of any transfer of an interest in an electing large*
21 *partnership.*

22 “(4) *CREDIT RECAPTURE.*—*For purposes of this*
23 *subsection, the term ‘credit recapture’ means any in-*
24 *crease in tax under section 42(j) or 50(a).*

1 “(c) *PARTNERSHIP NOT TERMINATED BY REASON OF*
2 *CHANGE IN OWNERSHIP.*—Subparagraph (B) of section
3 708(b)(1) shall not apply to an electing large partnership.

4 “(d) *PARTNERSHIP ENTITLED TO CERTAIN CRED-*
5 *ITS.*—The following shall be allowed to an electing large
6 partnership and shall not be taken into account by the part-
7 ners of such partnership:

8 “(1) *The credit provided by section 34.*

9 “(2) *Any credit or refund under section*
10 *852(b)(3)(D).*

11 “(e) *TREATMENT OF REMIC RESIDUALS.*—For pur-
12 poses of applying section 860E(e)(6) to any electing large
13 partnership—

14 “(1) *all interests in such partnership shall be*
15 *treated as held by disqualified organizations,*

16 “(2) *in lieu of applying subparagraph (C) of sec-*
17 *tion 860E(e)(6), the amount subject to tax under sec-*
18 *tion 860E(e)(6) shall be excluded from the gross in-*
19 *come of such partnership, and*

20 “(3) *subparagraph (D) of section 860E(e)(6)*
21 *shall not apply.*

22 “(f) *SPECIAL RULES FOR APPLYING CERTAIN IN-*
23 *STALLMENT SALE RULES.*—In the case of an electing large
24 partnership—

1 “(1) the provisions of sections 453(l)(3) and
2 453A shall be applied at the partnership level, and

3 “(2) in determining the amount of interest pay-
4 able under such sections, such partnership shall be
5 treated as subject to tax under this chapter at the
6 highest rate of tax in effect under section 1 or 11.

7 **“SEC. 775. ELECTING LARGE PARTNERSHIP DEFINED.**

8 “(a) *GENERAL RULE.*—For purposes of this part—

9 “(1) *IN GENERAL.*—The term ‘electing large
10 partnership’ means, with respect to any partnership
11 taxable year, any partnership if—

12 “(A) the number of persons who were part-
13 ners in such partnership in the preceding part-
14 nership taxable year equaled or exceeded 100,
15 and

16 “(B) such partnership elects the application
17 of this part.

18 To the extent provided in regulations, a partnership
19 shall cease to be treated as an electing large part-
20 nership for any partnership taxable year if in such tax-
21 able year fewer than 100 persons were partners in
22 such partnership.

23 “(2) *ELECTION.*—The election under this sub-
24 section shall apply to the taxable year for which made

1 *and all subsequent taxable years unless revoked with*
2 *the consent of the Secretary.*

3 “(b) *SPECIAL RULES FOR CERTAIN SERVICE PART-*
4 *NERSHIPS.—*

5 “(1) *CERTAIN PARTNERS NOT COUNTED.—For*
6 *purposes of this section, the term ‘partner’ does not*
7 *include any individual performing substantial serv-*
8 *ices in connection with the activities of the partner-*
9 *ship and holding an interest in such partnership, or*
10 *an individual who formerly performed substantial*
11 *services in connection with such activities and who*
12 *held an interest in such partnership at the time the*
13 *individual performed such services.*

14 “(2) *EXCLUSION.—For purposes of this part, an*
15 *election under subsection (a) shall not be effective*
16 *with respect to any partnership if substantially all*
17 *the partners of such partnership—*

18 “(A) *are individuals performing substantial*
19 *services in connection with the activities of such*
20 *partnership or are personal service corporations*
21 *(as defined in section 269A(b)) the owner-em-*
22 *ployees (as defined in section 269A(b)) of which*
23 *perform such substantial services,*

24 “(B) *are retired partners who had per-*
25 *formed such substantial services, or*

1 “(1) *the allowance for depletion under section*
2 *611 with respect to any partnership oil or gas prop-*
3 *erty shall be computed at the partnership level with-*
4 *out regard to any provision of section 613A requiring*
5 *such allowance to be computed separately by each*
6 *partner,*

7 “(2) *such allowance shall be determined without*
8 *regard to the provisions of section 613A(c) limiting*
9 *the amount of production for which percentage deple-*
10 *tion is allowable and without regard to paragraph (1)*
11 *of section 613A(d), and*

12 “(3) *paragraph (3) of section 705(a) shall not*
13 *apply.*

14 “(b) *TREATMENT OF CERTAIN PARTNERS.—*

15 “(1) *IN GENERAL.—In the case of a disqualified*
16 *person, the treatment under this chapter of such per-*
17 *son’s distributive share of any item of income, gain,*
18 *loss, deduction, or credit attributable to any partner-*
19 *ship oil or gas property shall be determined without*
20 *regard to this part. Such person’s distributive share*
21 *of any such items shall be excluded for purposes of*
22 *making determinations under sections 772 and 773.*

23 “(2) *DISQUALIFIED PERSON.—For purposes of*
24 *paragraph (1), the term ‘disqualified person’ means,*
25 *with respect to any partnership taxable year—*

1 “(A) any person referred to in paragraph
2 (2) or (4) of section 613A(d) for such person’s
3 taxable year in which such partnership taxable
4 year ends, and

5 “(B) any other person if such person’s aver-
6 age daily production of domestic crude oil and
7 natural gas for such person’s taxable year in
8 which such partnership taxable year ends exceeds
9 500 barrels.

10 “(3) AVERAGE DAILY PRODUCTION.—For pur-
11 poses of paragraph (2), a person’s average daily pro-
12 duction of domestic crude oil and natural gas for any
13 taxable year shall be computed as provided in section
14 613A(c)(2)—

15 “(A) by taking into account all production
16 of domestic crude oil and natural gas (including
17 such person’s proportionate share of any produc-
18 tion of a partnership),

19 “(B) by treating 6,000 cubic feet of natural
20 gas as a barrel of crude oil, and

21 “(C) by treating as 1 person all persons
22 treated as 1 taxpayer under section 613A(c)(8)
23 or among whom allocations are required under
24 such section.

1 **“SEC. 777. REGULATIONS.**

2 *“The Secretary shall prescribe such regulations as may*
 3 *be appropriate to carry out the purposes of this part.”.*

4 **(b) CLERICAL AMENDMENT.**—*The table of parts for*
 5 *subchapter K of chapter 1 is amended by adding at the end*
 6 *the following new item:*

“Part IV. Special rules for electing large partnerships.”.

7 **(c) EFFECTIVE DATE.**—*The amendments made by this*
 8 *section shall apply to partnership taxable years beginning*
 9 *after December 31, 1997.*

10 **SEC. 1022. SIMPLIFIED AUDIT PROCEDURES FOR ELECTING**
 11 **LARGE PARTNERSHIPS.**

12 **(a) GENERAL RULE.**—*Chapter 63 is amended by add-*
 13 *ing at the end thereof the following new subchapter:*

14 **“Subchapter D—Treatment of electing large**
 15 **partnerships**

“Part I. Treatment of partnership items and adjustments.

“Part II. Partnership level adjustments.

“Part III. Definitions and special rules.

16 **“PART I—TREATMENT OF PARTNERSHIP ITEMS**
 17 **AND ADJUSTMENTS**

“Sec. 6240. Application of subchapter.

“Sec. 6241. Partner’s return must be consistent with partnership
return.

“Sec. 6242. Procedures for taking partnership adjustments into ac-
count.

1 **“SEC. 6240. APPLICATION OF SUBCHAPTER.**

2 “(a) *GENERAL RULE.*—*This subchapter shall only*
3 *apply to electing large partnerships and partners in such*
4 *partnerships.*

5 “(b) *COORDINATION WITH OTHER PARTNERSHIP*
6 *AUDIT PROCEDURES.*—

7 “(1) *IN GENERAL.*—*Subchapter C of this chapter*
8 *shall not apply to any electing large partnership*
9 *other than in its capacity as a partner in another*
10 *partnership which is not an electing large partner-*
11 *ship.*

12 “(2) *TREATMENT WHERE PARTNER IN OTHER*
13 *PARTNERSHIP.*—*If an electing large partnership is a*
14 *partner in another partnership which is not an elect-*
15 *ing large partnership—*

16 “(A) *subchapter C of this chapter shall*
17 *apply to items of such electing large partnership*
18 *which are partnership items with respect to such*
19 *other partnership, but*

20 “(B) *any adjustment under such subchapter*
21 *C shall be taken into account in the manner pro-*
22 *vided by section 6242.*

23 **“SEC. 6241. PARTNER’S RETURN MUST BE CONSISTENT**
24 **WITH PARTNERSHIP RETURN.**

25 “(a) *GENERAL RULE.*—*A partner of any electing large*
26 *partnership shall, on the partner’s return, treat each part-*

1 *nership item attributable to such partnership in a manner*
2 *which is consistent with the treatment of such partnership*
3 *item on the partnership return.*

4 “(b) *UNDERPAYMENT DUE TO INCONSISTENT TREAT-*
5 *MENT ASSESSED AS MATH ERROR.*—Any underpayment of
6 *tax by a partner by reason of failing to comply with the*
7 *requirements of subsection (a) shall be assessed and collected*
8 *in the same manner as if such underpayment were on ac-*
9 *count of a mathematical or clerical error appearing on the*
10 *partner’s return. Paragraph (2) of section 6213(b) shall not*
11 *apply to any assessment of an underpayment referred to*
12 *in the preceding sentence.*

13 “(c) *ADJUSTMENTS NOT TO AFFECT PRIOR YEAR OF*
14 *PARTNERS.*—

15 “(1) *IN GENERAL.*—Except as provided in para-
16 *graph (2), subsections (a) and (b) shall apply without*
17 *regard to any adjustment to the partnership item*
18 *under part II.*

19 “(2) *CERTAIN CHANGES IN DISTRIBUTIVE SHARE*
20 *TAKEN INTO ACCOUNT BY PARTNER.*—

21 “(A) *IN GENERAL.*—To the extent that any
22 *adjustment under part II involves a change*
23 *under section 704 in a partner’s distributive*
24 *share of the amount of any partnership item*
25 *shown on the partnership return, such adjust-*

1 *ment shall be taken into account in applying*
2 *this title to such partner for the partner's taxable*
3 *year for which such item was required to be*
4 *taken into account.*

5 “(B) *COORDINATION WITH DEFICIENCY PRO-*
6 *CEDURES.—*

7 “(i) *IN GENERAL.—Subchapter B shall*
8 *not apply to the assessment or collection of*
9 *any underpayment of tax attributable to an*
10 *adjustment referred to in subparagraph (A).*

11 “(ii) *ADJUSTMENT NOT PRECLUDED.—*
12 *Notwithstanding any other law or rule of*
13 *law, nothing in subchapter B (or in any*
14 *proceeding under subchapter B) shall pre-*
15 *clude the assessment or collection of any*
16 *underpayment of tax (or the allowance of*
17 *any credit or refund of any overpayment of*
18 *tax) attributable to an adjustment referred*
19 *to in subparagraph (A) and such assessment*
20 *or collection or allowance (or any notice*
21 *thereof) shall not preclude any notice, pro-*
22 *ceeding, or determination under subchapter*
23 *B.*

24 “(C) *PERIOD OF LIMITATIONS.—The period*
25 *for—*

1 “(i) assessing any underpayment of
2 tax, or

3 “(ii) filing a claim for credit or refund
4 of any overpayment of tax,

5 attributable to an adjustment referred to in sub-
6 paragraph (A) shall not expire before the close of
7 the period prescribed by section 6248 for making
8 adjustments with respect to the partnership tax-
9 able year involved.

10 “(D) *TIERED STRUCTURES*.—If the partner
11 referred to in subparagraph (A) is another part-
12 nership or an S corporation, the rules of this
13 paragraph shall also apply to persons holding
14 interests in such partnership or S corporation
15 (as the case may be); except that, if such partner
16 is an electing large partnership, the adjustment
17 referred to in subparagraph (A) shall be taken
18 into account in the manner provided by section
19 6242.

1 “(d) *ADDITION TO TAX FOR FAILURE TO COMPLY*
2 *WITH SECTION.*—

*“For addition to tax in case of partner’s disregard
of requirements of this section, see part II of sub-
chapter A of chapter 68.*

3 **“SEC. 6242. PROCEDURES FOR TAKING PARTNERSHIP AD-**
4 ***JUSTMENTS INTO ACCOUNT.***

5 “(a) *ADJUSTMENTS FLOW THROUGH TO PARTNERS*
6 *FOR YEAR IN WHICH ADJUSTMENT TAKES EFFECT.*—

7 “(1) *IN GENERAL.*—*If any partnership adjust-*
8 *ment with respect to any partnership item takes effect*
9 *(within the meaning of subsection (d)(2)) during any*
10 *partnership taxable year and if an election under*
11 *paragraph (2) does not apply to such adjustment,*
12 *such adjustment shall be taken into account in deter-*
13 *mining the amount of such item for the partnership*
14 *taxable year in which such adjustment takes effect. In*
15 *applying this title to any person who is (directly or*
16 *indirectly) a partner in such partnership during such*
17 *partnership taxable year, such adjustment shall be*
18 *treated as an item actually arising during such tax-*
19 *able year.*

20 “(2) *PARTNERSHIP LIABLE IN CERTAIN CASES.*—
21 *If—*

22 “(A) *a partnership elects under this para-*
23 *graph to not take an adjustment into account*
24 *under paragraph (1),*

1 “(B) a partnership does not make such an
2 election but in filing its return for any partner-
3 ship taxable year fails to take fully into account
4 any partnership adjustment as required under
5 paragraph (1), or

6 “(C) any partnership adjustment involves a
7 reduction in a credit which exceeds the
8 amount of such credit determined for the part-
9 nership taxable year in which the adjustment
10 takes effect,

11 the partnership shall pay to the Secretary an amount
12 determined by applying the rules of subsection (b)(4)
13 to the adjustments not so taken into account and any
14 excess referred to in subparagraph (C).

15 “(3) *OFFSETTING ADJUSTMENTS TAKEN INTO AC-*
16 *COUNT.—If a partnership adjustment requires an-*
17 *other adjustment in a taxable year after the adjusted*
18 *year and before the partnership taxable year in which*
19 *such partnership adjustment takes effect, such other*
20 *adjustment shall be taken into account under this*
21 *subsection for the partnership taxable year in which*
22 *such partnership adjustment takes effect.*

23 “(4) *COORDINATION WITH PART II.—Amounts*
24 *taken into account under this subsection for any part-*
25 *nership taxable year shall continue to be treated as*

1 *adjustments for the adjusted year for purposes of de-*
2 *termining whether such amounts may be readjusted*
3 *under part II.*

4 “(b) *PARTNERSHIP LIABLE FOR INTEREST AND PEN-*
5 *ALTIES.—*

6 “(1) *IN GENERAL.—If a partnership adjustment*
7 *takes effect during any partnership taxable year and*
8 *such adjustment results in an imputed underpayment*
9 *for the adjusted year, the partnership—*

10 “(A) *shall pay to the Secretary interest*
11 *computed under paragraph (2), and*

12 “(B) *shall be liable for any penalty, addi-*
13 *tion to tax, or additional amount as provided in*
14 *paragraph (3).*

15 “(2) *DETERMINATION OF AMOUNT OF INTER-*
16 *EST.—The interest computed under this paragraph*
17 *with respect to any partnership adjustment is the in-*
18 *terest which would be determined under chapter 67—*

19 “(A) *on the imputed underpayment deter-*
20 *mined under paragraph (4) with respect to such*
21 *adjustment,*

22 “(B) *for the period beginning on the day*
23 *after the return due date for the adjusted year*
24 *and ending on the return due date for the part-*
25 *nership taxable year in which such adjustment*

1 *takes effect (or, if earlier, in the case of any ad-*
2 *justment to which subsection (a)(2) applies, the*
3 *date on which the payment under subsection*
4 *(a)(2) is made).*

5 *Proper adjustments in the amount determined under*
6 *the preceding sentence shall be made for adjustments*
7 *required for partnership taxable years after the ad-*
8 *justed year and before the year in which the partner-*
9 *ship adjustment takes effect by reason of such part-*
10 *nership adjustment.*

11 “(3) *PENALTIES.*—*A partnership shall be liable*
12 *for any penalty, addition to tax, or additional*
13 *amount for which it would have been liable if such*
14 *partnership had been an individual subject to tax*
15 *under chapter 1 for the adjusted year and the im-*
16 *puted underpayment determined under paragraph (4)*
17 *were an actual underpayment (or understatement) for*
18 *such year.*

19 “(4) *IMPUTED UNDERPAYMENT.*—*For purposes of*
20 *this subsection, the imputed underpayment deter-*
21 *mined under this paragraph with respect to any part-*
22 *nership adjustment is the underpayment (if any)*
23 *which would result—*

24 “(A) *by netting all adjustments to items of*
25 *income, gain, loss, or deduction and by treating*

1 *any net increase in income as an underpayment*
2 *equal to the amount of such net increase multi-*
3 *plied by the highest rate of tax in effect under*
4 *section 1 or 11 for the adjusted year, and*

5 *“(B) by taking adjustments to credits into*
6 *account as increases or decreases (whichever is*
7 *appropriate) in the amount of tax.*

8 *For purposes of the preceding sentence, any net de-*
9 *crease in a loss shall be treated as an increase in in-*
10 *come and a similar rule shall apply to a net increase*
11 *in a loss.*

12 *“(c) ADMINISTRATIVE PROVISIONS.—*

13 *“(1) IN GENERAL.—Any payment required by*
14 *subsection (a)(2) or (b)(1)(A)—*

15 *“(A) shall be assessed and collected in the*
16 *same manner as if it were a tax imposed by sub-*
17 *title C, and*

18 *“(B) shall be paid on or before the return*
19 *due date for the partnership taxable year in*
20 *which the partnership adjustment takes effect.*

21 *“(2) INTEREST.—For purposes of determining*
22 *interest, any payment required by subsection (a)(2)*
23 *or (b)(1)(A) shall be treated as an underpayment of*
24 *tax.*

25 *“(3) PENALTIES.—*

1 “(A) *IN GENERAL.*—*In the case of any fail-*
2 *ure by any partnership to pay on the date pre-*
3 *scribed therefor any amount required by sub-*
4 *section (a)(2) or (b)(1)(A), there is hereby im-*
5 *posed on such partnership a penalty of 10 per-*
6 *cent of the underpayment. For purposes of the*
7 *preceding sentence, the term ‘underpayment’*
8 *means the excess of any payment required under*
9 *this section over the amount (if any) paid on or*
10 *before the date prescribed therefor.*

11 “(B) *ACCURACY-RELATED AND FRAUD PEN-*
12 *ALTIES MADE APPLICABLE.*—*For purposes of*
13 *part II of subchapter A of chapter 68, any pay-*
14 *ment required by subsection (a)(2) shall be treat-*
15 *ed as an underpayment of tax.*

16 “(d) *DEFINITIONS AND SPECIAL RULES.*—*For pur-*
17 *poses of this section—*

18 “(1) *PARTNERSHIP ADJUSTMENT.*—*The term*
19 *‘partnership adjustment’ means any adjustment in*
20 *the amount of any partnership item of an electing*
21 *large partnership.*

22 “(2) *WHEN ADJUSTMENT TAKES EFFECT.*—*A*
23 *partnership adjustment takes effect—*

1 “(A) in the case of an adjustment pursuant
2 to the decision of a court in a proceeding brought
3 under part II, when such decision becomes final,

4 “(B) in the case of an adjustment pursuant
5 to any administrative adjustment request under
6 section 6251, when such adjustment is allowed
7 by the Secretary, or

8 “(C) in any other case, when such adjust-
9 ment is made.

10 “(3) *ADJUSTED YEAR*.—The term ‘adjusted year’
11 means the partnership taxable year to which the item
12 being adjusted relates.

13 “(4) *RETURN DUE DATE*.—The term ‘return due
14 date’ means, with respect to any taxable year, the
15 date prescribed for filing the partnership return for
16 such taxable year (determined without regard to ex-
17 tensions).

18 “(5) *ADJUSTMENTS INVOLVING CHANGES IN*
19 *CHARACTER*.—Under regulations, appropriate adjust-
20 ments in the application of this section shall be made
21 for purposes of taking into account partnership ad-
22 justments which involve a change in the character of
23 any item of income, gain, loss, or deduction.

1 “(e) *PAYMENTS NONDEDUCTIBLE.*—No deduction shall
 2 be allowed under subtitle A for any payment required to
 3 be made by an electing large partnership under this section.

4 **“PART II—PARTNERSHIP LEVEL ADJUSTMENTS**

 “Subpart A. Adjustments by Secretary.

 “Subpart B. Claims for adjustments by partnership.

5 **“Subpart A—Adjustments by Secretary**

 “Sec. 6245. Secretarial authority.

 “Sec. 6246. Restrictions on partnership adjustments.

 “Sec. 6247. Judicial review of partnership adjustment.

 “Sec. 6248. Period of limitations for making adjustments.

6 **“SEC. 6245. SECRETARIAL AUTHORITY.**

7 “(a) *GENERAL RULE.*—The Secretary is authorized
 8 and directed to make adjustments at the partnership level
 9 in any partnership item to the extent necessary to have such
 10 item be treated in the manner required.

11 “(b) *NOTICE OF PARTNERSHIP ADJUSTMENT.*—

12 “(1) *IN GENERAL.*—If the Secretary determines
 13 that a partnership adjustment is required, the Sec-
 14 retary is authorized to send notice of such adjustment
 15 to the partnership by certified mail or registered
 16 mail. Such notice shall be sufficient if mailed to the
 17 partnership at its last known address even if the
 18 partnership has terminated its existence.

19 “(2) *FURTHER NOTICES RESTRICTED.*—If the
 20 Secretary mails a notice of a partnership adjustment
 21 to any partnership for any partnership taxable year
 22 and the partnership files a petition under section

1 6247 with respect to such notice, in the absence of a
2 showing of fraud, malfeasance, or misrepresentation
3 of a material fact, the Secretary shall not mail an-
4 other such notice to such partnership with respect to
5 such taxable year.

6 “(3) *AUTHORITY TO RESCIND NOTICE WITH*
7 *PARTNERSHIP CONSENT.—The Secretary may, with*
8 *the consent of the partnership, rescind any notice of*
9 *a partnership adjustment mailed to such partnership.*
10 *Any notice so rescinded shall not be treated as a no-*
11 *tice of a partnership adjustment, for purposes of this*
12 *section, section 6246, and section 6247, and the tax-*
13 *payer shall have no right to bring a proceeding under*
14 *section 6247 with respect to such notice. Nothing in*
15 *this subsection shall affect any suspension of the run-*
16 *ning of any period of limitations during any period*
17 *during which the rescinded notice was outstanding.*

18 **“SEC. 6246. RESTRICTIONS ON PARTNERSHIP ADJUST-**
19 **MENTS.**

20 “(a) *GENERAL RULE.—Except as otherwise provided*
21 *in this chapter, no adjustment to any partnership item may*
22 *be made (and no levy or proceeding in any court for the*
23 *collection of any amount resulting from such adjustment*
24 *may be made, begun or prosecuted) before—*

1 “(1) *the close of the 90th day after the day on*
2 *which a notice of a partnership adjustment was*
3 *mailed to the partnership, and*

4 “(2) *if a petition is filed under section 6247*
5 *with respect to such notice, the decision of the court*
6 *has become final.*

7 “(b) *PREMATURE ACTION MAY BE ENJOINED.—Not-*
8 *withstanding section 7421(a), any action which violates*
9 *subsection (a) may be enjoined in the proper court, includ-*
10 *ing the Tax Court. The Tax Court shall have no jurisdiction*
11 *to enjoin any action under this subsection unless a timely*
12 *petition has been filed under section 6247 and then only*
13 *in respect of the adjustments that are the subject of such*
14 *petition.*

15 “(c) *EXCEPTIONS TO RESTRICTIONS ON ADJUST-*
16 *MENTS.—*

17 “(1) *ADJUSTMENTS ARISING OUT OF MATH OR*
18 *CLERICAL ERRORS.—*

19 “(A) *IN GENERAL.—If the partnership is*
20 *notified that, on account of a mathematical or*
21 *clerical error appearing on the partnership re-*
22 *turn, an adjustment to a partnership item is re-*
23 *quired, rules similar to the rules of paragraphs*
24 *(1) and (2) of section 6213(b) shall apply to such*
25 *adjustment.*

1 “(B) *SPECIAL RULE.*—If an electing large
2 partnership is a partner in another electing
3 large partnership, any adjustment on account of
4 such partnership’s failure to comply with the re-
5 quirements of section 6241(a) with respect to its
6 interest in such other partnership shall be treat-
7 ed as an adjustment referred to in subparagraph
8 (A), except that paragraph (2) of section 6213(b)
9 shall not apply to such adjustment.

10 “(2) *PARTNERSHIP MAY WAIVE RESTRICTIONS.*—
11 The partnership shall at any time (whether or not a
12 notice of partnership adjustment has been issued)
13 have the right, by a signed notice in writing filed
14 with the Secretary, to waive the restrictions provided
15 in subsection (a) on the making of any partnership
16 adjustment.

17 “(d) *LIMIT WHERE NO PROCEEDING BEGUN.*—If no
18 proceeding under section 6247 is begun with respect to any
19 notice of a partnership adjustment during the 90-day pe-
20 riod described in subsection (a), the amount for which the
21 partnership is liable under section 6242 (and any increase
22 in any partner’s liability for tax under chapter 1 by reason
23 of any adjustment under section 6242(a)) shall not exceed
24 the amount determined in accordance with such notice.

1 **“SEC. 6247. JUDICIAL REVIEW OF PARTNERSHIP ADJUST-**
2 **MENT.**

3 “(a) *GENERAL RULE.*—Within 90 days after the date
4 on which a notice of a partnership adjustment is mailed
5 to the partnership with respect to any partnership taxable
6 year, the partnership may file a petition for a readjustment
7 of the partnership items for such taxable year with—

8 “(1) *the Tax Court,*

9 “(2) *the district court of the United States for*
10 *the district in which the partnership’s principal place*
11 *of business is located, or*

12 “(3) *the Claims Court.*

13 “(b) *JURISDICTIONAL REQUIREMENT FOR BRINGING*
14 *ACTION IN DISTRICT COURT OR CLAIMS COURT.*—

15 “(1) *IN GENERAL.*—A readjustment petition
16 under this section may be filed in a district court of
17 the United States or the Claims Court only if the
18 partnership filing the petition deposits with the Sec-
19 retary, on or before the date the petition is filed, the
20 amount for which the partnership would be liable
21 under section 6242(b) (as of the date of the filing of
22 the petition) if the partnership items were adjusted as
23 provided by the notice of partnership adjustment. The
24 court may by order provide that the jurisdictional re-
25 quirements of this paragraph are satisfied where there
26 has been a good faith attempt to satisfy such require-

1 *ment and any shortfall of the amount required to be*
2 *deposited is timely corrected.*

3 *“(2) INTEREST PAYABLE.—Any amount depos-*
4 *ited under paragraph (1), while deposited, shall not*
5 *be treated as a payment of tax for purposes of this*
6 *title (other than chapter 67).*

7 *“(c) SCOPE OF JUDICIAL REVIEW.—A court with*
8 *which a petition is filed in accordance with this section*
9 *shall have jurisdiction to determine all partnership items*
10 *of the partnership for the partnership taxable year to which*
11 *the notice of partnership adjustment relates and the proper*
12 *allocation of such items among the partners (and the appli-*
13 *cability of any penalty, addition to tax, or additional*
14 *amount for which the partnership may be liable under sec-*
15 *tion 6242(b)).*

16 *“(d) DETERMINATION OF COURT REVIEWABLE.—Any*
17 *determination by a court under this section shall have the*
18 *force and effect of a decision of the Tax Court or a final*
19 *judgment or decree of the district court or the Claims Court,*
20 *as the case may be, and shall be reviewable as such. The*
21 *date of any such determination shall be treated as being*
22 *the date of the court’s order entering the decision.*

23 *“(e) EFFECT OF DECISION DISMISSING ACTION.—If*
24 *an action brought under this section is dismissed other than*
25 *by reason of a rescission under section 6245(b)(3), the deci-*

1 *sion of the court dismissing the action shall be considered*
2 *as its decision that the notice of partnership adjustment is*
3 *correct, and an appropriate order shall be entered in the*
4 *records of the court.*

5 **“SEC. 6248. PERIOD OF LIMITATIONS FOR MAKING ADJUST-**
6 **MENTS.**

7 *“(a) GENERAL RULE.—Except as otherwise provided*
8 *in this section, no adjustment under this subpart to any*
9 *partnership item for any partnership taxable year may be*
10 *made after the date which is 3 years after the later of—*

11 *“(1) the date on which the partnership return for*
12 *such taxable year was filed, or*

13 *“(2) the last day for filing such return for such*
14 *year (determined without regard to extensions).*

15 *“(b) EXTENSION BY AGREEMENT.—The period de-*
16 *scribed in subsection (a) (including an extension period*
17 *under this subsection) may be extended by an agreement*
18 *entered into by the Secretary and the partnership before*
19 *the expiration of such period.*

20 *“(c) SPECIAL RULE IN CASE OF FRAUD, ETC.—*

21 *“(1) FALSE RETURN.—In the case of a false or*
22 *fraudulent partnership return with intent to evade*
23 *tax, the adjustment may be made at any time.*

24 *“(2) SUBSTANTIAL OMISSION OF INCOME.—If*
25 *any partnership omits from gross income an amount*

1 properly includible therein which is in excess of 25
 2 percent of the amount of gross income stated in its re-
 3 turn, subsection (a) shall be applied by substituting
 4 ‘6 years’ for ‘3 years’.

5 “(3) NO RETURN.—In the case of a failure by a
 6 partnership to file a return for any taxable year, the
 7 adjustment may be made at any time.

8 “(4) RETURN FILED BY SECRETARY.—For pur-
 9 poses of this section, a return executed by the Sec-
 10 retary under subsection (b) of section 6020 on behalf
 11 of the partnership shall not be treated as a return of
 12 the partnership.

13 “(d) SUSPENSION WHEN SECRETARY MAILES NOTICE
 14 OF ADJUSTMENT.—If notice of a partnership adjustment
 15 with respect to any taxable year is mailed to the partner-
 16 ship, the running of the period specified in subsection (a)
 17 (as modified by the other provisions of this section) shall
 18 be suspended—

19 “(1) for the period during which an action may
 20 be brought under section 6247 (and, if a petition is
 21 filed under section 6247 with respect to such notice,
 22 until the decision of the court becomes final), and

23 “(2) for 1 year thereafter.

24 **“Subpart B—Claims for Adjustments by Partnership**

“Sec. 6251. Administrative adjustment requests.

“Sec. 6252. Judicial review where administrative adjustment re-
 quest is not allowed in full.

1 **“SEC. 6251. ADMINISTRATIVE ADJUSTMENT REQUESTS.**

2 “(a) *GENERAL RULE.*—A partnership may file a re-
3 quest for an administrative adjustment of partnership
4 items for any partnership taxable year at any time which
5 is—

6 “(1) *within 3 years after the later of—*

7 “(A) *the date on which the partnership re-*
8 *turn for such year is filed, or*

9 “(B) *the last day for filing the partnership*
10 *return for such year (determined without regard*
11 *to extensions), and*

12 “(2) *before the mailing to the partnership of a*
13 *notice of a partnership adjustment with respect to*
14 *such taxable year.*

15 “(b) *SECRETARIAL ACTION.*—If a partnership files an
16 administrative adjustment request under subsection (a), the
17 Secretary may allow any part of the requested adjustments.

18 “(c) *SPECIAL RULE IN CASE OF EXTENSION UNDER*
19 *SECTION 6248.*—If the period described in section 6248(a)
20 is extended pursuant to an agreement under section
21 6248(b), the period prescribed by subsection (a)(1) shall not
22 expire before the date 6 months after the expiration of the
23 extension under section 6248(b).

1 **“SEC. 6252. JUDICIAL REVIEW WHERE ADMINISTRATIVE**
2 **ADJUSTMENT REQUEST IS NOT ALLOWED IN**
3 **FULL.**

4 “(a) *IN GENERAL.*—If any part of an administrative
5 adjustment request filed under section 6251 is not allowed
6 by the Secretary, the partnership may file a petition for
7 an adjustment with respect to the partnership items to
8 which such part of the request relates with—

9 “(1) *the Tax Court,*

10 “(2) *the district court of the United States for*
11 *the district in which the principal place of business*
12 *of the partnership is located, or*

13 “(3) *the Claims Court.*

14 “(b) *PERIOD FOR FILING PETITION.*—A petition may
15 be filed under subsection (a) with respect to partnership
16 items for a partnership taxable year only—

17 “(1) *after the expiration of 6 months from the*
18 *date of filing of the request under section 6251, and*

19 “(2) *before the date which is 2 years after the*
20 *date of such request.*

21 *The 2-year period set forth in paragraph (2) shall be ex-*
22 *tended for such period as may be agreed upon in writing*
23 *by the partnership and the Secretary.*

24 “(c) *COORDINATION WITH SUBPART A.*—

25 “(1) *NOTICE OF PARTNERSHIP ADJUSTMENT BE-*
26 *FORE FILING OF PETITION.*—No petition may be filed

1 *under this section after the Secretary mails to the*
2 *partnership a notice of a partnership adjustment for*
3 *the partnership taxable year to which the request*
4 *under section 6251 relates.*

5 *“(2) NOTICE OF PARTNERSHIP ADJUSTMENT*
6 *AFTER FILING BUT BEFORE HEARING OF PETITION.—*

7 *If the Secretary mails to the partnership a notice of*
8 *a partnership adjustment for the partnership taxable*
9 *year to which the request under section 6251 relates*
10 *after the filing of a petition under this subsection but*
11 *before the hearing of such petition, such petition shall*
12 *be treated as an action brought under section 6247*
13 *with respect to such notice, except that subsection (b)*
14 *of section 6247 shall not apply.*

15 *“(3) NOTICE MUST BE BEFORE EXPIRATION OF*
16 *STATUTE OF LIMITATIONS.—A notice of a partnership*
17 *adjustment for the partnership taxable year shall be*
18 *taken into account under paragraphs (1) and (2) only*
19 *if such notice is mailed before the expiration of the*
20 *period prescribed by section 6248 for making adjust-*
21 *ments to partnership items for such taxable year.*

22 *“(d) SCOPE OF JUDICIAL REVIEW.—Except in the case*
23 *described in paragraph (2) of subsection (c), a court with*
24 *which a petition is filed in accordance with this section*
25 *shall have jurisdiction to determine only those partnership*

1 *items to which the part of the request under section 6251*
 2 *not allowed by the Secretary relates and those items with*
 3 *respect to which the Secretary asserts adjustments as offsets*
 4 *to the adjustments requested by the partnership.*

5 “(e) *DETERMINATION OF COURT REVIEWABLE.*—*Any*
 6 *determination by a court under this subsection shall have*
 7 *the force and effect of a decision of the Tax Court or a final*
 8 *judgment or decree of the district court or the Claims Court,*
 9 *as the case may be, and shall be reviewable as such. The*
 10 *date of any such determination shall be treated as being*
 11 *the date of the court’s order entering the decision.*

12 **“PART III—DEFINITIONS AND SPECIAL RULES**

“Sec. 6255. Definitions and special rules.

13 **“SEC. 6255. DEFINITIONS AND SPECIAL RULES.**

14 “(a) *DEFINITIONS.*—*For purposes of this subchapter—*

15 “(1) *ELECTING LARGE PARTNERSHIP.*—*The term*
 16 *‘electing large partnership’ has the meaning given to*
 17 *such term by section 775.*

18 “(2) *PARTNERSHIP ITEM.*—*The term ‘partner-*
 19 *ship item’ has the meaning given to such term by sec-*
 20 *tion 6231(a)(3).*

21 “(b) *PARTNERS BOUND BY ACTIONS OF PARTNERSHIP,*
 22 *ETC.—*

23 “(1) *DESIGNATION OF PARTNER.*—*Each electing*
 24 *large partnership shall designate (in the manner pre-*

1 scribed by the Secretary) a partner (or other person)
2 who shall have the sole authority to act on behalf of
3 such partnership under this subchapter. In any case
4 in which such a designation is not in effect, the Sec-
5 retary may select any partner as the partner with
6 such authority.

7 “(2) *BINDING EFFECT.*—An electing large part-
8 nership and all partners of such partnership shall be
9 bound—

10 “(A) by actions taken under this subchapter
11 by the partnership, and

12 “(B) by any decision in a proceeding
13 brought under this subchapter.

14 “(c) *PARTNERSHIPS HAVING PRINCIPAL PLACE OF*
15 *BUSINESS OUTSIDE THE UNITED STATES.*—For purposes
16 of sections 6247 and 6252, a principal place of business
17 located outside the United States shall be treated as located
18 in the District of Columbia.

19 “(d) *TREATMENT WHERE PARTNERSHIP CEASES TO*
20 *EXIST.*—If a partnership ceases to exist before a partner-
21 ship adjustment under this subchapter takes effect, such ad-
22 justment shall be taken into account by the former partners
23 of such partnership under regulations prescribed by the Sec-
24 retary.

1 “(e) *DATE DECISION BECOMES FINAL.*—For purposes
2 of this subchapter, the principles of section 7481(a) shall
3 be applied in determining the date on which a decision of
4 a district court or the Claims Court becomes final.

5 “(f) *PARTNERSHIPS IN CASES UNDER TITLE 11 OF*
6 *THE UNITED STATES CODE.*—The running of any period
7 of limitations provided in this subchapter on making a
8 partnership adjustment (or provided by section 6501 or
9 6502 on the assessment or collection of any amount required
10 to be paid under section 6242) shall, in a case under title
11 11 of the United States Code, be suspended during the pe-
12 riod during which the Secretary is prohibited by reason of
13 such case from making the adjustment (or assessment or
14 collection) and—

15 “(1) for adjustment or assessment, 60 days there-
16 after, and

17 “(2) for collection, 6 months thereafter.

18 “(g) *REGULATIONS.*—The Secretary shall prescribe
19 such regulations as may be necessary to carry out the provi-
20 sions of this subchapter, including regulations—

21 “(1) to prevent abuse through manipulation of
22 the provisions of this subchapter, and

23 “(2) providing that this subchapter shall not
24 apply to any case described in section 6231(c)(1) (or
25 the regulations prescribed thereunder) where the ap-

1 *this part, each schedule required to be included with such*
2 *return with respect to each partner shall be treated as a*
3 *separate information return.”.*

4 **SEC. 1024. RETURNS MAY BE REQUIRED ON MAGNETIC**
5 **MEDIA.**

6 *Paragraph (2) of section 6011(e) (relating to returns*
7 *on magnetic media) is amended by adding at the end there-*
8 *of the following new sentence:*

9 *“Notwithstanding the preceding sentence, the Sec-*
10 *retary shall require partnerships having more than*
11 *100 partners to file returns on magnetic media.”.*

12 **SEC. 1025. TREATMENT OF PARTNERSHIP ITEMS OF INDI-**
13 **VIDUAL RETIREMENT ACCOUNTS.**

14 *Subsection (b) of section 6012 is amended by adding*
15 *at the end thereof the following new paragraph:*

16 *“(6) IRA SHARE OF PARTNERSHIP INCOME.—In*
17 *the case of a trust which is exempt from taxation*
18 *under section 408(e), for purposes of this section, the*
19 *trust’s distributive share of items of gross income and*
20 *gain of any partnership to which subchapter C or D*
21 *of chapter 63 applies shall be treated as equal to the*
22 *trust’s distributive share of the taxable income of such*
23 *partnership.”.*

1 **SEC. 1026. EFFECTIVE DATE.**

2 *The amendments made by this part shall apply to*
3 *partnership taxable years ending on or after December 31,*
4 *1997.*

5 **PART II—PROVISIONS RELATED TO TEFRA**

6 **PARTNERSHIP PROCEEDINGS**

7 **SEC. 1031. TREATMENT OF PARTNERSHIP ITEMS IN DEFICIENCY PROCEEDINGS.**

8
9 *(a) IN GENERAL.—Subchapter C of chapter 63 is*
10 *amended by adding at the end the following new section:*

11 **“SEC. 6234. DECLARATORY JUDGMENT RELATING TO**
12 **TREATMENT OF ITEMS OTHER THAN PART-**
13 **NERSHIP ITEMS WITH RESPECT TO AN OVER-**
14 **SHELTERED RETURN.**

15 *“(a) GENERAL RULE.—If—*

16 *“(1) a taxpayer files an oversheltered return for*
17 *a taxable year,*

18 *“(2) the Secretary makes a determination with*
19 *respect to the treatment of items (other than partner-*
20 *ship items) of such taxpayer for such taxable year,*
21 *and*

22 *“(3) the adjustments resulting from such deter-*
23 *mination do not give rise to a deficiency (as defined*
24 *in section 6211) but would give rise to a deficiency*
25 *if there were no net loss from partnership items,*

1 *the Secretary is authorized to send a notice of adjustment*
2 *reflecting such determination to the taxpayer by certified*
3 *or registered mail.*

4 “(b) *OVERSHELTERED RETURN.*—*For purposes of this*
5 *section, the term ‘oversheltered return’ means an income tax*
6 *return which—*

7 “(1) *shows no taxable income for the taxable*
8 *year, and*

9 “(2) *shows a net loss from partnership items.*

10 “(c) *JUDICIAL REVIEW IN THE TAX COURT.*—*Within*
11 *90 days, or 150 days if the notice is addressed to a person*
12 *outside the United States, after the day on which the notice*
13 *of adjustment authorized in subsection (a) is mailed to the*
14 *taxpayer, the taxpayer may file a petition with the Tax*
15 *Court for redetermination of the adjustments. Upon the fil-*
16 *ing of such a petition, the Tax Court shall have jurisdiction*
17 *to make a declaration with respect to all items (other than*
18 *partnership items and affected items which require partner*
19 *level determinations as described in section*
20 *6230(a)(2)(A)(i)) for the taxable year to which the notice*
21 *of adjustment relates, in accordance with the principles of*
22 *section 6214(a). Any such declaration shall have the force*
23 *and effect of a decision of the Tax Court and shall be*
24 *reviewable as such.*

25 “(d) *FAILURE TO FILE PETITION.*—

1 “(1) *IN GENERAL.*—*Except as provided in para-*
2 *graph (2), if the taxpayer does not file a petition with*
3 *the Tax Court within the time prescribed in sub-*
4 *section (c), the determination of the Secretary set*
5 *forth in the notice of adjustment that was mailed to*
6 *the taxpayer shall be deemed to be correct.*

7 “(2) *EXCEPTION.*—*Paragraph (1) shall not*
8 *apply after the date that the taxpayer—*

9 “(A) *files a petition with the Tax Court*
10 *within the time prescribed in subsection (c) with*
11 *respect to a subsequent notice of adjustment re-*
12 *lating to the same taxable year, or*

13 “(B) *files a claim for refund of an overpay-*
14 *ment of tax under section 6511 for the taxable*
15 *year involved.*

16 *If a claim for refund is filed by the taxpayer, then*
17 *solely for purposes of determining (for the taxable*
18 *year involved) the amount of any computational ad-*
19 *justment in connection with a partnership proceeding*
20 *under this subchapter (other than under this section)*
21 *or the amount of any deficiency attributable to af-*
22 *ected items in a proceeding under section 6230(a)(2),*
23 *the items that are the subject of the notice of adjust-*
24 *ment shall be presumed to have been correctly re-*
25 *ported on the taxpayer’s return during the pendency*

1 of the refund claim (and, if within the time pre-
2 scribed by section 6532 the taxpayer commences a
3 civil action for refund under section 7422, until the
4 decision in the refund action becomes final).

5 “(e) *LIMITATIONS PERIOD.*—

6 “(1) *IN GENERAL.*—Any notice to a taxpayer
7 under subsection (a) shall be mailed before the expira-
8 tion of the period prescribed by section 6501 (relating
9 to the period of limitations on assessment).

10 “(2) *SUSPENSION WHEN SECRETARY MAILS NO-*
11 *TICE OF ADJUSTMENT.*—If the Secretary mails a no-
12 tice of adjustment to the taxpayer for a taxable year,
13 the period of limitations on the making of assessments
14 shall be suspended for the period during which the
15 Secretary is prohibited from making the assessment
16 (and, in any event, if a proceeding in respect of the
17 notice of adjustment is placed on the docket of the Tax
18 Court, until the decision of the Tax Court becomes
19 final), and for 60 days thereafter.

20 “(3) *RESTRICTIONS ON ASSESSMENT.*—Except as
21 otherwise provided in section 6851, 6852, or 6861, no
22 assessment of a deficiency with respect to any tax im-
23 posed by subtitle A attributable to any item (other
24 than a partnership item or any item affected by a
25 partnership item) shall be made—

1 “(A) until the expiration of the applicable
2 90-day or 150-day period set forth in subsection
3 (c) for filing a petition with the Tax Court, or

4 “(B) if a petition has been filed with the
5 Tax Court, until the decision of the Tax Court
6 has become final.

7 “(f) *FURTHER NOTICES OF ADJUSTMENT RE-*
8 *STRICTED.*—If the Secretary mails a notice of adjustment
9 to the taxpayer for a taxable year and the taxpayer files
10 a petition with the Tax Court within the time prescribed
11 in subsection (c), the Secretary may not mail another such
12 notice to the taxpayer with respect to the same taxable year
13 in the absence of a showing of fraud, malfeasance, or mis-
14 representation of a material fact.

15 “(g) *COORDINATION WITH OTHER PROCEEDINGS*
16 *UNDER THIS SUBCHAPTER.*—

17 “(1) *IN GENERAL.*—The treatment of any item
18 that has been determined pursuant to subsection (c)
19 or (d) shall be taken into account in determining the
20 amount of any computational adjustment that is
21 made in connection with a partnership proceeding
22 under this subchapter (other than under this section),
23 or the amount of any deficiency attributable to af-
24 fected items in a proceeding under section 6230(a)(2),
25 for the taxable year involved. Notwithstanding any

1 *other law or rule of law pertaining to the period of*
2 *limitations on the making of assessments, for pur-*
3 *poses of the preceding sentence, any adjustment made*
4 *in accordance with this section shall be taken into ac-*
5 *count regardless of whether any assessment has been*
6 *made with respect to such adjustment.*

7 “(2) *SPECIAL RULE IN CASE OF COMPUTATIONAL*
8 *ADJUSTMENT.—In the case of a computational adjust-*
9 *ment that is made in connection with a partnership*
10 *proceeding under this subchapter (other than under*
11 *this section), the provisions of paragraph (1) shall*
12 *apply only if the computational adjustment is made*
13 *within the period prescribed by section 6229 for as-*
14 *sessing any tax under subtitle A which is attributable*
15 *to any partnership item or affected item for the tax-*
16 *able year involved.*

17 “(3) *CONVERSION TO DEFICIENCY PROCEED-*
18 *ING.—If—*

19 “(A) *after the notice referred to in sub-*
20 *section (a) is mailed to a taxpayer for a taxable*
21 *year but before the expiration of the period for*
22 *filing a petition with the Tax Court under sub-*
23 *section (c) (or, if a petition is filed with the Tax*
24 *Court, before the Tax Court makes a declaration*
25 *for that taxable year), the treatment of any part-*

1 *nership item for the taxable year is finally deter-*
2 *mined, or any such item ceases to be a partner-*
3 *ship item pursuant to section 6231(b), and*

4 *“(B) as a result of that final determination*
5 *or cessation, a deficiency can be determined with*
6 *respect to the items that are the subject of the no-*
7 *tice of adjustment,*

8 *the notice of adjustment shall be treated as a notice*
9 *of deficiency under section 6212 and any petition*
10 *filed in respect of the notice shall be treated as an ac-*
11 *tion brought under section 6213.*

12 *“(4) FINALLY DETERMINED.—For purposes of*
13 *this subsection, the treatment of partnership items*
14 *shall be treated as finally determined if—*

15 *“(A) the Secretary enters into a settlement*
16 *agreement (within the meaning of section 6224)*
17 *with the taxpayer regarding such items,*

18 *“(B) a notice of final partnership adminis-*
19 *trative adjustment has been issued and—*

20 *“(i) no petition has been filed under*
21 *section 6226 and the time for doing so has*
22 *expired, or*

23 *“(ii) a petition has been filed under*
24 *section 6226 and the decision of the court*
25 *has become final, or*

1 “(C) the period within which any tax at-
2 tributable to such items may be assessed against
3 the taxpayer has expired.

4 “(h) SPECIAL RULES IF SECRETARY INCORRECTLY
5 DETERMINES APPLICABLE PROCEDURE.—

6 “(1) SPECIAL RULE IF SECRETARY ERRO-
7 NEOUSLY MAILS NOTICE OF ADJUSTMENT.—If the Sec-
8 retary erroneously determines that subchapter B does
9 not apply to a taxable year of a taxpayer and con-
10 sistent with that determination timely mails a notice
11 of adjustment to the taxpayer pursuant to subsection
12 (a) of this section, the notice of adjustment shall be
13 treated as a notice of deficiency under section 6212
14 and any petition that is filed in respect of the notice
15 shall be treated as an action brought under section
16 6213.

17 “(2) SPECIAL RULE IF SECRETARY ERRO-
18 NEOUSLY MAILS NOTICE OF DEFICIENCY.—If the Sec-
19 retary erroneously determines that subchapter B ap-
20 plies to a taxable year of a taxpayer and consistent
21 with that determination timely mails a notice of defi-
22 ciency to the taxpayer pursuant to section 6212, the
23 notice of deficiency shall be treated as a notice of ad-
24 justment under subsection (a) and any petition that

1 “(1) *DETERMINATION THAT SUBCHAPTER AP-*
2 *PLIES.—If, on the basis of a partnership return for*
3 *a taxable year, the Secretary reasonably determines*
4 *that this subchapter applies to such partnership for*
5 *such year but such determination is erroneous, then*
6 *the provisions of this subchapter are hereby extended*
7 *to such partnership (and its items) for such taxable*
8 *year and to partners of such partnership.*

9 “(2) *DETERMINATION THAT SUBCHAPTER DOES*
10 *NOT APPLY.—If, on the basis of a partnership return*
11 *for a taxable year, the Secretary reasonably deter-*
12 *mines that this subchapter does not apply to such*
13 *partnership for such year but such determination is*
14 *erroneous, then the provisions of this subchapter shall*
15 *not apply to such partnership (and its items) for such*
16 *taxable year or to partners of such partnership.”.*

17 (b) *EFFECTIVE DATE.—The amendment made by this*
18 *section shall apply to partnership taxable years ending*
19 *after the date of the enactment of this Act.*

20 **SEC. 1033. PROVISIONS RELATING TO STATUTE OF LIMITA-**
21 **TIONS.**

22 (a) *SUSPENSION OF STATUTE WHERE UNTIMELY PE-*
23 *TITION FILED.—Paragraph (1) of section 6229(d) (relating*
24 *to suspension where Secretary makes administrative adjust-*
25 *ment) is amended by striking all that follows “section*

1 6226” and inserting the following: “(and, if a petition is
2 filed under section 6226 with respect to such administrative
3 adjustment, until the decision of the court becomes final),
4 and”.

5 (b) *SUSPENSION OF STATUTE DURING BANKRUPTCY*
6 *PROCEEDING.*—Section 6229 is amended by adding at the
7 end the following new subsection:

8 “(h) *SUSPENSION DURING PENDENCY OF BANKRUPTCY*
9 *PROCEEDING.*—If a petition is filed naming a partner as
10 a debtor in a bankruptcy proceeding under title 11 of the
11 United States Code, the running of the period of limitations
12 provided in this section with respect to such partner shall
13 be suspended—

14 “(1) for the period during which the Secretary is
15 prohibited by reason of such bankruptcy proceeding
16 from making an assessment, and

17 “(2) for 60 days thereafter.”.

18 (c) *TAX MATTERS PARTNER IN BANKRUPTCY.*—Sec-
19 tion 6229(b) is amended by redesignating paragraph (2)
20 as paragraph (3) and by inserting after paragraph (1) the
21 following new paragraph:

22 “(2) *SPECIAL RULE WITH RESPECT TO DEBTORS*
23 *IN TITLE 11 CASES.*—Notwithstanding any other law
24 or rule of law, if an agreement is entered into under
25 paragraph (1)(B) and the agreement is signed by a

1 *person who would be the tax matters partner but for*
2 *the fact that, at the time that the agreement is exe-*
3 *cuted, the person is a debtor in a bankruptcy proceed-*
4 *ing under title 11 of the United States Code, such*
5 *agreement shall be binding on all partners in the*
6 *partnership unless the Secretary has been notified of*
7 *the bankruptcy proceeding in accordance with regula-*
8 *tions prescribed by the Secretary.”.*

9 *(d) EFFECTIVE DATES.—*

10 *(1) SUBSECTIONS (a) AND (b).—The amend-*
11 *ments made by subsections (a) and (b) shall apply to*
12 *partnership taxable years with respect to which the*
13 *period under section 6229 of the Internal Revenue*
14 *Code of 1986 for assessing tax has not expired on or*
15 *before the date of the enactment of this Act.*

16 *(2) SUBSECTION (c).—The amendment made by*
17 *subsection (c) shall apply to agreements entered into*
18 *after the date of the enactment of this Act.*

19 **SEC. 1034. EXPANSION OF SMALL PARTNERSHIP EXCEP-**
20 **TION.**

21 *(a) IN GENERAL.—Clause (i) of section 6231(a)(1)(B)*
22 *(relating to exception for small partnerships) is amended*
23 *to read as follows:*

24 *“(i) IN GENERAL.—The term ‘partner-*
25 *ship’ shall not include any partnership hav-*

1 *ing 10 or fewer partners each of whom is an*
 2 *individual (other than a nonresident alien),*
 3 *a C corporation, or an estate of a deceased*
 4 *partner. For purposes of the preceding sen-*
 5 *tence, a husband and wife (and their es-*
 6 *tates) shall be treated as 1 partner.”.*

7 *(b) EFFECTIVE DATE.—The amendment made by this*
 8 *section shall apply to partnership taxable years ending*
 9 *after the date of the enactment of this Act.*

10 **SEC. 1035. EXCLUSION OF PARTIAL SETTLEMENTS FROM 1-**
 11 **YEAR LIMITATION ON ASSESSMENT.**

12 *(a) IN GENERAL.—Subsection (f) of section 6229 (re-*
 13 *lating to items becoming nonpartnership items) is amend-*
 14 *ed—*

15 *(1) by striking “(f) ITEMS BECOMING NONPART-*
 16 *nership items.—If” and inserting the following:*

17 *“(f) SPECIAL RULES.—*

18 *“(1) ITEMS BECOMING NONPARTNERSHIP*
 19 *items.—If”,*

20 *(2) by moving the text of such subsection 2 ems*
 21 *to the right, and*

22 *(3) by adding at the end the following new para-*
 23 *graph:*

24 *“(2) SPECIAL RULE FOR PARTIAL SETTLEMENT*
 25 *agreements.—If a partner enters into a settlement*

1 *agreement with the Secretary with respect to the*
2 *treatment of some of the partnership items in dispute*
3 *for a partnership taxable year but other partnership*
4 *items for such year remain in dispute, the period of*
5 *limitations for assessing any tax attributable to the*
6 *settled items shall be determined as if such agreement*
7 *had not been entered into.”.*

8 **(b) EFFECTIVE DATE.**—*The amendment made by this*
9 *section shall apply to settlements entered into after the date*
10 *of the enactment of this Act.*

11 **SEC. 1036. EXTENSION OF TIME FOR FILING A REQUEST**
12 **FOR ADMINISTRATIVE ADJUSTMENT.**

13 **(a) IN GENERAL.**—*Section 6227 (relating to adminis-*
14 *trative adjustment requests) is amended by redesignating*
15 *subsections (b) and (c) as subsections (c) and (d), respec-*
16 *tively, and by inserting after subsection (a) the following*
17 *new subsection:*

18 **“(b) SPECIAL RULE IN CASE OF EXTENSION OF PE-**
19 **RIOD OF LIMITATIONS UNDER SECTION 6229.**—*The period*
20 *prescribed by subsection (a)(1) for filing of a request for*
21 *an administrative adjustment shall be extended—*

22 **“(1) for the period within which an assessment**
23 *may be made pursuant to an agreement (or any ex-*
24 *tension thereof) under section 6229(b), and*

25 **“(2) for 6 months thereafter.”.**

1 (b) *EFFECTIVE DATE.*—*The amendment made by this*
2 *section shall take effect as if included in the amendments*
3 *made by section 402 of the Tax Equity and Fiscal Respon-*
4 *sibility Act of 1982.*

5 **SEC. 1037. AVAILABILITY OF INNOCENT SPOUSE RELIEF IN**
6 **CONTEXT OF PARTNERSHIP PROCEEDINGS.**

7 (a) *IN GENERAL.*—*Subsection (a) of section 6230 is*
8 *amended by adding at the end the following new paragraph:*

9 “(3) *SPECIAL RULE IN CASE OF ASSERTION BY*
10 *PARTNER’S SPOUSE OF INNOCENT SPOUSE RELIEF.*—

11 “(A) *Notwithstanding section 6404(b), if the*
12 *spouse of a partner asserts that section 6013(e)*
13 *applies with respect to a liability that is attrib-*
14 *utable to any adjustment to a partnership item,*
15 *then such spouse may file with the Secretary*
16 *within 60 days after the notice of computational*
17 *adjustment is mailed to the spouse a request for*
18 *abatement of the assessment specified in such no-*
19 *tice. Upon receipt of such request, the Secretary*
20 *shall abate the assessment. Any reassessment of*
21 *the tax with respect to which an abatement is*
22 *made under this subparagraph shall be subject to*
23 *the deficiency procedures prescribed by sub-*
24 *chapter B. The period for making any such reas-*

1 *essment shall not expire before the expiration of*
2 *60 days after the date of such abatement.*

3 “(B) *If the spouse files a petition with the*
4 *Tax Court pursuant to section 6213 with respect*
5 *to the request for abatement described in sub-*
6 *paragraph (A), the Tax Court shall only have ju-*
7 *risdiction pursuant to this section to determine*
8 *whether the requirements of section 6013(e) have*
9 *been satisfied. For purposes of such determina-*
10 *tion, the treatment of partnership items under*
11 *the settlement, the final partnership administra-*
12 *tive adjustment, or the decision of the court*
13 *(whichever is appropriate) that gave rise to the*
14 *liability in question shall be conclusive.*

15 “(C) *Rules similar to the rules contained in*
16 *subparagraphs (B) and (C) of paragraph (2)*
17 *shall apply for purposes of this paragraph.”.*

18 **(b) CLAIMS FOR REFUND.**—*Subsection (c) of section*
19 *6230 is amended by adding at the end the following new*
20 *paragraph:*

21 “(5) **RULES FOR SEEKING INNOCENT SPOUSE RE-**
22 **LIEF.**—

23 “(A) **IN GENERAL.**—*The spouse of a partner*
24 *may file a claim for refund on the ground that*
25 *the Secretary failed to relieve the spouse under*

1 *section 6013(e) from a liability that is attrib-*
2 *utable to an adjustment to a partnership item.*

3 *“(B) TIME FOR FILING CLAIM.—Any claim*
4 *under subparagraph (A) shall be filed within 6*
5 *months after the day on which the Secretary*
6 *mails to the spouse the notice of computational*
7 *adjustment referred to in subsection (a)(3)(A).*

8 *“(C) SUIT IF CLAIM NOT ALLOWED.—If the*
9 *claim under subparagraph (B) is not allowed,*
10 *the spouse may bring suit with respect to the*
11 *claim within the period specified in paragraph*
12 *(3).*

13 *“(D) PRIOR DETERMINATIONS ARE BIND-*
14 *ING.—For purposes of any claim or suit under*
15 *this paragraph, the treatment of partnership*
16 *items under the settlement, the final partnership*
17 *administrative adjustment, or the decision of the*
18 *court (whichever is appropriate) that gave rise to*
19 *the liability in question shall be conclusive.”.*

20 *(c) TECHNICAL AMENDMENTS.—*

21 *(1) Paragraph (1) of section 6230(a) is amended*
22 *by striking “paragraph (2)” and inserting “para-*
23 *graph (2) or (3)”.*

1 (2) *Subsection (a) of section 6503 is amended by*
2 *striking “section 6230(a)(2)(A)” and inserting “para-*
3 *graph (2)(A) or (3) of section 6230(a)”.*

4 (d) *EFFECTIVE DATE.—The amendments made by this*
5 *section shall take effect as if included in the amendments*
6 *made by section 402 of the Tax Equity and Fiscal Respon-*
7 *sibility Act of 1982.*

8 **SEC. 1038. DETERMINATION OF PENALTIES AT PARTNER-**
9 **SHIP LEVEL.**

10 (a) *IN GENERAL.—Section 6221 (relating to tax treat-*
11 *ment determined at partnership level) is amended by strik-*
12 *ing “item” and inserting “item (and the applicability of*
13 *any penalty, addition to tax, or additional amount which*
14 *relates to an adjustment to a partnership item)”.*

15 (b) *CONFORMING AMENDMENTS.—*

16 (1) *Subsection (f) of section 6226 is amended—*

17 (A) *by striking “relates and” and inserting*
18 *“relates,”, and*

19 (B) *by inserting before the period “, and the*
20 *applicability of any penalty, addition to tax, or*
21 *additional amount which relates to an adjust-*
22 *ment to a partnership item”.*

23 (2) *Clause (i) of section 6230(a)(2)(A) is amend-*
24 *ed to read as follows:*

1 “(i) affected items which require part-
2 ner level determinations (other than pen-
3 alties, additions to tax, and additional
4 amounts that relate to adjustments to part-
5 nership items), or”.

6 (3)(A) Subparagraph (A) of section 6230(a)(3),
7 as added by section 14317, is amended by inserting
8 “(including any liability for any penalty, addition to
9 tax, or additional amount relating to such adjust-
10 ment)” after “partnership item”.

11 (B) Subparagraph (B) of such section is amend-
12 ed by inserting “(and the applicability of any pen-
13 alties, additions to tax, or additional amounts)” after
14 “partnership items”.

15 (C) Subparagraph (A) of section 6230(c)(5), as
16 added by section 14317, is amended by inserting be-
17 fore the period “(including any liability for any pen-
18 alties, additions to tax, or additional amounts relat-
19 ing to such adjustment)”.

20 (D) Subparagraph (D) of section 6230(c)(5), as
21 added by section 14317, is amended by inserting
22 “(and the applicability of any penalties, additions to
23 tax, or additional amounts)” after “partnership
24 items”.

1 (4) Paragraph (1) of section 6230(c) is amended
2 by striking “or” at the end of subparagraph (A), by
3 striking the period at the end of subparagraph (B)
4 and inserting “, or”, and by adding at the end the
5 following new subparagraph:

6 “(C) the Secretary erroneously imposed any
7 penalty, addition to tax, or additional amount
8 which relates to an adjustment to a partnership
9 item.”.

10 (5) So much of subparagraph (A) of section
11 6230(c)(2) as precedes “shall be filed” is amended to
12 read as follows:

13 “(A) UNDER PARAGRAPH (1) (A) OR (C).—
14 Any claim under subparagraph (A) or (C) of
15 paragraph (1)”.

16 (6) Paragraph (4) of section 6230(c) is amended
17 by adding at the end the following: “In addition, the
18 determination under the final partnership adminis-
19 trative adjustment or under the decision of the court
20 (whichever is appropriate) concerning the applicabil-
21 ity of any penalty, addition to tax, or additional
22 amount which relates to an adjustment to a partner-
23 ship item shall also be conclusive. Notwithstanding
24 the preceding sentence, the partner shall be allowed to
25 assert any partner level defenses that may apply or

1 *paragraph (2) of this subsection) solely for the pur-*
2 *pose of asserting that the period of limitations for as-*
3 *sessing any tax attributable to partnership items has*
4 *expired with respect to such person, and the court*
5 *having jurisdiction of such action shall have jurisdic-*
6 *tion to consider such assertion.”.*

7 *(c) TAX COURT JURISDICTION TO DETERMINE OVER-*
8 *PAYMENTS ATTRIBUTABLE TO AFFECTED ITEMS.—*

9 *(1) Paragraph (6) of section 6230(d) is amended*
10 *by striking “(or an affected item)”.*

11 *(2) Paragraph (3) of section 6512(b) is amended*
12 *by adding at the end the following new sentence:*

13 *“In the case of a credit or refund relating to an af-*
14 *ected item (within the meaning of section*
15 *6231(a)(5)), the preceding sentence shall be applied*
16 *by substituting the periods under sections 6229 and*
17 *6230(d) for the periods under section 6511(b)(2), (c),*
18 *and (d).”.*

19 *(d) VENUE ON APPEAL.—*

20 *(1) Paragraph (1) of section 7482(b) is amended*
21 *by striking “or” at the end of subparagraph (D), by*
22 *striking the period at the end of subparagraph (E)*
23 *and inserting “, or”, and by inserting after subpara-*
24 *graph (E) the following new subparagraph:*

1 “(F) in the case of a petition under section
2 6234(c)—

3 “(i) the legal residence of the petitioner
4 if the petitioner is not a corporation, and

5 “(ii) the place or office applicable
6 under subparagraph (B) if the petitioner is
7 a corporation.”.

8 (2) The last sentence of section 7482(b)(1) is
9 amended by striking “or 6228(a)” and inserting “,
10 6228(a), or 6234(c)”.

11 (e) *OTHER PROVISIONS.*—

12 (1) Subsection (c) of section 7459 is amended by
13 striking “or section 6228(a)” and inserting “,
14 6228(a), or 6234(c)”.

15 (2) Subsection (o) of section 6501 is amended by
16 adding at the end the following new paragraph:

17 “(3) For declaratory judgment relating to treat-
18 ment of items other than partnership items with re-
19 spect to an oversheltered return, see section 6234.”.

20 (f) *EFFECTIVE DATE.*—The amendments made by this
21 section shall apply to partnership taxable years ending
22 after the date of the enactment of this Act.

1 **SEC. 1040. TREATMENT OF PREMATURE PETITIONS FILED**
2 **BY NOTICE PARTNERS OR 5-PERCENT**
3 **GROUPS.**

4 (a) *IN GENERAL.*—Subsection (b) of section 6226 (re-
5 lating to judicial review of final partnership administrative
6 adjustments) is amended by redesignating paragraph (5)
7 as paragraph (6) and by inserting after paragraph (4) the
8 following new paragraph:

9 “(5) *TREATMENT OF PREMATURE PETITIONS.*—

10 *If—*

11 “(A) a petition for a readjustment of part-
12 nership items for the taxable year involved is
13 filed by a notice partner (or a 5-percent group)
14 during the 90-day period described in subsection
15 (a), and

16 “(B) no action is brought under paragraph
17 (1) during the 60-day period described therein
18 with respect to such taxable year which is not
19 dismissed,

20 such petition shall be treated for purposes of para-
21 graph (1) as filed on the last day of such 60-day
22 period.”.

23 (b) *EFFECTIVE DATE.*—The amendment made by this
24 section shall apply to petitions filed after the date of the
25 enactment of this Act.

1 **SEC. 1041. BONDS IN CASE OF APPEALS FROM CERTAIN**
2 **PROCEEDING.**

3 (a) *IN GENERAL.*—Subsection (b) of section 7485 (re-
4 lating to bonds to stay assessment of collection) is amend-
5 ed—

6 (1) by inserting “penalties,” after “any inter-
7 est,” and

8 (2) by striking “aggregate of such deficiencies”
9 and inserting “aggregate liability of the parties to the
10 action”.

11 (b) *EFFECTIVE DATE.*—The amendment made by this
12 section shall take effect as if included in the amendments
13 made by section 402 of the Tax Equity and Fiscal Respon-
14 sibility Act of 1982.

15 **SEC. 1042. SUSPENSION OF INTEREST WHERE DELAY IN**
16 **COMPUTATIONAL ADJUSTMENT RESULTING**
17 **FROM CERTAIN SETTLEMENTS.**

18 (a) *IN GENERAL.*—Subsection (c) of section 6601 (re-
19 lating to interest on underpayment, nonpayment, or exten-
20 sion of time for payment, of tax) is amended by adding
21 at the end the following new sentence: “In the case of a
22 settlement under section 6224(c) which results in the con-
23 version of partnership items to nonpartnership items pur-
24 suant to section 6231(b)(1)(C), the preceding sentence shall
25 apply to a computational adjustment resulting from such
26 settlement in the same manner as if such adjustment were

1 *a deficiency and such settlement were a waiver referred to*
2 *in the preceding sentence.”.*

3 (b) *EFFECTIVE DATE.*—*The amendment made by this*
4 *section shall apply to adjustments with respect to partner-*
5 *ship taxable years beginning after the date of the enactment*
6 *of this Act.*

7 **SEC. 1043. SPECIAL RULES FOR ADMINISTRATIVE ADJUST-**
8 **MENT REQUESTS WITH RESPECT TO BAD**
9 **DEBTS OR WORTHLESS SECURITIES.**

10 (a) *GENERAL RULE.*—*Section 6227 (relating to ad-*
11 *ministrative adjustment requests) is amended by adding at*
12 *the end the following new subsection:*

13 “(e) *REQUESTS WITH RESPECT TO BAD DEBTS OR*
14 *WORTHLESS SECURITIES.*—*In the case of that portion of*
15 *any request for an administrative adjustment which relates*
16 *to the deductibility by the partnership under section 166*
17 *of a debt as a debt which became worthless, or under section*
18 *165(g) of a loss from worthlessness of a security, the period*
19 *prescribed in subsection (a)(1) shall be 7 years from the*
20 *last day for filing the partnership return for the year with*
21 *respect to which such request is made (determined without*
22 *regard to extensions).”.*

23 (b) *EFFECTIVE DATE.*—

24 (1) *IN GENERAL.*—*The amendment made by sub-*
25 *section (a) shall take effect as if included in the*

1 *amendments made by section 402 of the Tax Equity*
2 *and Fiscal Responsibility Act of 1982.*

3 (2) *TREATMENT OF REQUESTS FILED BEFORE*
4 *DATE OF ENACTMENT.—In the case of that portion of*
5 *any request (filed before the date of the enactment of*
6 *this Act) for an administrative adjustment which re-*
7 *lates to the deductibility of a debt as a debt which be-*
8 *came worthless or the deductibility of a loss from the*
9 *worthlessness of a security—*

10 (A) *paragraph (2) of section 6227(a) of the*
11 *Internal Revenue Code of 1986 shall not apply,*

12 (B) *the period for filing a petition under*
13 *section 6228 of the Internal Revenue Code of*
14 *1986 with respect to such request shall not expire*
15 *before the date 6 months after the date of the en-*
16 *actment of this Act, and*

17 (C) *such a petition may be filed without re-*
18 *gard to whether there was a notice of the begin-*
19 *ning of an administrative proceeding or a final*
20 *partnership administrative adjustment.*

1 **PART III—PROVISION RELATING TO CLOSING OF**
 2 **PARTNERSHIP TAXABLE YEAR WITH RE-**
 3 **SPECT TO DECEASED PARTNER, ETC.**

4 **SEC. 1046. CLOSING OF PARTNERSHIP TAXABLE YEAR WITH**
 5 **RESPECT TO DECEASED PARTNER, ETC.**

6 (a) *GENERAL RULE.*—Subparagraph (A) of section
 7 706(c)(2) (relating to disposition of entire interest) is
 8 amended to read as follows:

9 “(A) *DISPOSITION OF ENTIRE INTEREST.*—
 10 The taxable year of a partnership shall close
 11 with respect to a partner whose entire interest in
 12 the partnership terminates (whether by reason of
 13 death, liquidation, or otherwise).”.

14 (b) *CLERICAL AMENDMENT.*—The paragraph heading
 15 for paragraph (2) of section 706(c) is amended to read as
 16 follows:

17 “(2) *TREATMENT OF DISPOSITIONS.*—”.

18 (c) *EFFECTIVE DATE.*—The amendments made by this
 19 section shall apply to partnership taxable years beginning
 20 after December 31, 1997.

21 **Subtitle D—Provisions Relating to**
 22 **Real Estate Investment Trusts**

23 **SEC. 1051. CLARIFICATION OF LIMITATION ON MAXIMUM**
 24 **NUMBER OF SHAREHOLDERS.**

25 (a) *RULES RELATING TO DETERMINATION OF OWNER-*
 26 *SHIP.*—

1 (1) *FAILURE TO ISSUE SHAREHOLDER DEMAND*
2 *LETTER NOT TO DISQUALIFY REIT.*—Section 857(a)
3 *(relating to requirements applicable to real estate in-*
4 *vestment trusts) is amended by striking paragraph*
5 *(2) and by redesignating paragraph (3) as paragraph*
6 *(2).*

7 (2) *SHAREHOLDER DEMAND LETTER REQUIRE-*
8 *MENT; PENALTY.*—Section 857 *(relating to taxation of*
9 *real estate investment trusts and their beneficiaries)*
10 *is amended by redesignating subsection (f) as sub-*
11 *section (g) and by inserting after subsection (e) the*
12 *following new subsection:*

13 “(f) *REAL ESTATE INVESTMENT TRUSTS TO ASCER-*
14 *TAIN OWNERSHIP.*—

15 “(1) *IN GENERAL.*—Each real estate investment
16 trust shall each taxable year comply with regulations
17 prescribed by the Secretary for the purposes of
18 ascertaining the actual ownership of the outstanding
19 shares, or certificates of beneficial interest, of such
20 trust.

21 “(2) *FAILURE TO COMPLY.*—

22 “(A) *IN GENERAL.*—If a real estate invest-
23 ment trust fails to comply with the requirements
24 of paragraph (1) for a taxable year, such trust
25 shall pay (on notice and demand by the Sec-

1 retary and in the same manner as tax) a pen-
2 alty of \$25,000.

3 “(B) *INTENTIONAL DISREGARD.*—If any
4 failure under paragraph (1) is due to intentional
5 disregard of the requirement under paragraph
6 (1), the penalty under subparagraph (A) shall be
7 \$50,000.

8 “(C) *FAILURE TO COMPLY AFTER NOTICE.*—
9 The Secretary may require a real estate invest-
10 ment trust to take such actions as the Secretary
11 determines appropriate to ascertain actual own-
12 ership if the trust fails to meet the requirements
13 of paragraph (1). If the trust fails to take such
14 actions, the trust shall pay (on notice and de-
15 mand by the Secretary and in the same manner
16 as tax) an additional penalty equal to the pen-
17 alty determined under subparagraph (A) or (B),
18 whichever is applicable.

19 “(D) *REASONABLE CAUSE.*—No penalty
20 shall be imposed under this paragraph with re-
21 spect to any failure if it is shown that such fail-
22 ure is due to reasonable cause and not to willful
23 neglect.”.

24 (b) *COMPLIANCE WITH CLOSELY HELD PROHIBI-*
25 *TION.*—

1 (1) *IN GENERAL.*—Section 856 (defining real es-
2 tate investment trust) is amended by adding at the
3 end the following new subsection:

4 “(k) *REQUIREMENT THAT ENTITY NOT BE CLOSELY*
5 *HELD TREATED AS MET IN CERTAIN CASES.*—A corpora-
6 tion, trust, or association—

7 “(1) which for a taxable year meets the require-
8 ments of section 857(f)(1), and

9 “(2) which does not know, or exercising reason-
10 able diligence would not have known, whether the en-
11 tity failed to meet the requirement of subsection
12 (a)(6),

13 shall be treated as having met the requirement of subsection
14 (a)(6) for the taxable year.”.

15 (2) *CONFORMING AMENDMENT.*—Paragraph (6)
16 of section 856(a) is amended by inserting “subject to
17 the provisions of subsection (k),” before “which is
18 not”.

19 **SEC. 1052. DE MINIMIS RULE FOR TENANT SERVICES IN-**
20 **COME.**

21 (a) *IN GENERAL.*—Paragraph (2) of section 856(d)
22 (defining rents from real property) is amended by striking
23 subparagraph (C) and the last sentence and inserting:

24 “(C) any impermissible tenant service in-
25 come (as defined in paragraph (7)).”.

1 (b) *IMPERMISSIBLE TENANT SERVICE INCOME.*—Sec-
2 *tion 856(d) is amended by adding at the end the following*
3 *new paragraph:*

4 “(7) *IMPERMISSIBLE TENANT SERVICE IN-*
5 *COME.*—*For purposes of paragraph (2)(C)—*

6 “(A) *IN GENERAL.*—*The term ‘impermiss-*
7 *sible tenant service income’ means, with respect*
8 *to any real or personal property, any amount*
9 *received or accrued directly or indirectly by the*
10 *real estate investment trust for—*

11 “(i) *services furnished or rendered by*
12 *the trust to the tenants of such property, or*

13 “(ii) *managing or operating such*
14 *property.*

15 “(B) *DISQUALIFICATION OF ALL AMOUNTS*
16 *WHERE MORE THAN DE MINIMIS AMOUNT.*—*If*
17 *the amount described in subparagraph (A) with*
18 *respect to a property for any taxable year ex-*
19 *ceeds 1 percent of all amounts received or ac-*
20 *crued during such taxable year directly or indi-*
21 *rectly by the real estate investment trust with re-*
22 *spect to such property, the impermissible tenant*
23 *service income of the trust with respect to the*
24 *property shall include all such amounts.*

1 “(C) *EXCEPTIONS.*—*For purposes of sub-*
2 *paragraph (A)—*

3 “(i) *services furnished or rendered, or*
4 *management or operation provided, through*
5 *an independent contractor from whom the*
6 *trust itself does not derive or receive any in-*
7 *come shall not be treated as furnished, ren-*
8 *dered, or provided by the trust, and*

9 “(ii) *there shall not be taken into ac-*
10 *count any amount which would be excluded*
11 *from unrelated business taxable income*
12 *under section 512(b)(3) if received by an or-*
13 *ganization described in section 511(a)(2).*

14 “(D) *AMOUNT ATTRIBUTABLE TO IMPERMIS-*
15 *SIBLE SERVICES.*—*For purposes of subparagraph*
16 *(A), the amount treated as received for any serv-*
17 *ice (or management or operation) shall not be*
18 *less than 150 percent of the direct cost of the*
19 *trust in furnishing or rendering the service (or*
20 *providing the management or operation).*

21 “(E) *COORDINATION WITH LIMITATIONS.*—
22 *For purposes of paragraphs (2) and (3) of sub-*
23 *section (c), amounts described in subparagraph*
24 *(A) shall be included in the gross income of the*
25 *corporation, trust, or association.”.*

1 **SEC. 1053. ATTRIBUTION RULES APPLICABLE TO TENANT**
2 **OWNERSHIP.**

3 *Section 856(d)(5) (relating to constructive ownership*
4 *of stock) is amended by adding at the end the following:*
5 *“For purposes of paragraph (2)(B), section 318(a)(3)(A)*
6 *shall be applied under the preceding sentence in the case*
7 *of a partnership by taking into account only partners who*
8 *own (directly or indirectly) 25 percent or more of the cap-*
9 *ital interest, or the profits interest, in the partnership.”.*

10 **SEC. 1054. CREDIT FOR TAX PAID BY REIT ON RETAINED**
11 **CAPITAL GAINS.**

12 *(a) GENERAL RULE.—Paragraph (3) of section 857(b)*
13 *(relating to capital gains) is amended by redesignating sub-*
14 *paragraph (D) as subparagraph (E) and by inserting after*
15 *subparagraph (C) the following new subparagraph:*

16 *“(D) TREATMENT BY SHAREHOLDERS OF*
17 *UNDISTRIBUTED CAPITAL GAINS.—*

18 *“(i) Every shareholder of a real estate*
19 *investment trust at the close of the trust’s*
20 *taxable year shall include, in computing his*
21 *long-term capital gains in his return for his*
22 *taxable year in which the last day of the*
23 *trust’s taxable year falls, such amount as*
24 *the trust shall designate in respect of such*
25 *shares in a written notice mailed to its*
26 *shareholders at any time prior to the expi-*

1 *ration of 60 days after the close of its tax-*
2 *able year (or mailed to its shareholders or*
3 *holders of beneficial interests with its an-*
4 *ual report for the taxable year), but the*
5 *amount so includible by any shareholder*
6 *shall not exceed that part of the amount*
7 *subjected to tax in subparagraph (A)(ii)*
8 *which he would have received if all of such*
9 *amount had been distributed as capital*
10 *gain dividends by the trust to the holders of*
11 *such shares at the close of its taxable year.*

12 *“(ii) For purposes of this title, every*
13 *such shareholder shall be deemed to have*
14 *paid, for his taxable year under clause (i),*
15 *the tax imposed by subparagraph (A)(ii) on*
16 *the amounts required by this subparagraph*
17 *to be included in respect of such shares in*
18 *computing his long-term capital gains for*
19 *that year; and such shareholders shall be al-*
20 *lowed credit or refund as the case may be,*
21 *for the tax so deemed to have been paid by*
22 *him.*

23 *“(iii) The adjusted basis of such shares*
24 *in the hands of the holder shall be increased*
25 *with respect to the amounts required by this*

1 *subparagraph to be included in computing*
2 *his long-term capital gains, by the dif-*
3 *ference between the amount of such includ-*
4 *ible gains and the tax deemed paid by such*
5 *shareholder in respect of such shares under*
6 *clause (i).*

7 *“(iv) In the event of such designation,*
8 *the tax imposed by subparagraph (A)(ii)*
9 *shall be paid by the real estate investment*
10 *trust within 30 days after the close of its*
11 *taxable year.*

12 *“(v) The earnings and profits of such*
13 *real estate investment trust, and the earn-*
14 *ings and profits of any such shareholder*
15 *which is a corporation, shall be appro-*
16 *priately adjusted in accordance with regula-*
17 *tions prescribed by the Secretary.*

18 *“(vi) As used in this subparagraph, the*
19 *terms ‘shares’ and ‘shareholders’ shall in-*
20 *clude beneficial interests and holders of ben-*
21 *eficial interests, respectively.”.*

22 *(b) CONFORMING AMENDMENTS.—*

23 *(1) Clause (i) of section 857(b)(7)(A) is amended*
24 *by striking “subparagraph (B)” and inserting “sub-*
25 *paragraph (B) or (D)”.*

1 (2) *Clause (iii) of section 852(b)(3)(D) is amend-*
2 *ed by striking “by 65 percent” and all that follows*
3 *and inserting “by the difference between the amount*
4 *of such includible gains and the tax deemed paid by*
5 *such shareholder in respect of such shares under*
6 *clause (ii).”.*

7 **SEC. 1055. REPEAL OF 30-PERCENT GROSS INCOME RE-**
8 **QUIREMENT.**

9 (a) *GENERAL RULE.*—*Subsection (c) of section 856*
10 *(relating to limitations) is amended—*

11 (1) *by adding “and” at the end of paragraph*
12 (3),

13 (2) *by striking paragraphs (4) and (8), and*

14 (3) *by redesignating paragraphs (5), (6), and (7)*
15 *as paragraphs (4), (5), and (6), respectively.*

16 (b) *CONFORMING AMENDMENTS.*—

17 (1) *Subparagraph (G) of section 856(c)(5), as re-*
18 *designated by subsection (a), is amended by striking*
19 *“and such agreement shall be treated as a security for*
20 *purposes of paragraph (4)(A)”.*

21 (2) *Paragraph (5) of section 857(b) is amended*
22 *by striking “section 856(c)(7)” and inserting “section*
23 *856(c)(6)”.*

1 (3) Subparagraph (C) of section 857(b)(6) is
2 amended by striking “section 856(c)(6)(B)” and in-
3 serting “section 856(c)(5)(B)”.

4 **SEC. 1056. MODIFICATION OF EARNINGS AND PROFITS**
5 **RULES FOR DETERMINING WHETHER REIT**
6 **HAS EARNINGS AND PROFITS FROM NON-**
7 **REIT YEAR.**

8 Subsection (d) of section 857 is amended by adding
9 at the end the following new paragraph:

10 “(3) *DISTRIBUTIONS TO MEET REQUIREMENTS*
11 *OF SUBSECTION (a)(2)(B).—Any distribution which*
12 *is made in order to comply with the requirements of*
13 *subsection (a)(2)(B)—*

14 “(A) *shall be treated for purposes of this*
15 *subsection and subsection (a)(2)(B) as made*
16 *from the earliest accumulated earnings and prof-*
17 *its (other than earnings and profits to which*
18 *subsection (a)(2)(A) applies) rather than the*
19 *most recently accumulated earnings and profits,*
20 *and*

21 “(B) *to the extent treated under subpara-*
22 *graph (A) as made from accumulated earnings*
23 *and profits, shall not be treated as a distribution*
24 *for purposes of subsection (b)(2)(B).”.*

1 **SEC. 1057. TREATMENT OF FORECLOSURE PROPERTY.**

2 (a) *GRACE PERIODS.*—

3 (1) *INITIAL PERIOD.*—Paragraph (2) of section
4 856(e) (relating to special rules for foreclosure prop-
5 erty) is amended by striking “on the date which is 2
6 years after the date the trust acquired such property”
7 and inserting “as of the close of the 3d taxable year
8 following the taxable year in which the trust acquired
9 such property”.

10 (2) *EXTENSION.*—Paragraph (3) of section
11 856(e) is amended—

12 (A) by striking “or more extensions” and
13 inserting “extension”, and

14 (B) by striking the last sentence and insert-
15 ing: “Any such extension shall not extend the
16 grace period beyond the close of the 3d taxable
17 year following the last taxable year in the period
18 under paragraph (2).”.

19 (b) *REVOCATION OF ELECTION.*—Paragraph (5) of sec-
20 tion 856(e) is amended by striking the last sentence and
21 inserting: “A real estate investment trust may revoke any
22 such election for a taxable year by filing the revocation (in
23 the manner provided by the Secretary) on or before the due
24 date (including any extension of time) for filing its return
25 of tax under this chapter for the taxable year. If a trust
26 revokes an election for any property, no election may be

1 *made by the trust under this paragraph with respect to the*
2 *property for any subsequent taxable year.”.*

3 (c) *CERTAIN ACTIVITIES NOT TO DISQUALIFY PROP-*
4 *ERTY.—Paragraph (4) of section 856(e) is amended by add-*
5 *ing at the end the following new flush sentence:*

6 “*For purposes of subparagraph (C), property shall*
7 *not be treated as used in a trade or business by rea-*
8 *son of any activities of the real estate investment*
9 *trust with respect to such property to the extent that*
10 *such activities would not result in amounts received*
11 *or accrued, directly or indirectly, with respect to such*
12 *property being treated as other than rents from real*
13 *property.”.*

14 **SEC. 1058. PAYMENTS UNDER HEDGING INSTRUMENTS.**

15 *Section 856(c)(5)(G) (relating to treatment of certain*
16 *interest rate agreements), as redesignated by section 1255,*
17 *is amended to read as follows:*

18 “(G) *TREATMENT OF CERTAIN HEDGING IN-*
19 *STRUMENTS.—Except to the extent provided by*
20 *regulations, any—*

21 “(i) *payment to a real estate invest-*
22 *ment trust under an interest rate swap or*
23 *cap agreement, option, futures contract, for-*
24 *ward rate agreement, or any similar finan-*
25 *cial instrument, entered into by the trust in*

1 *a transaction to reduce the interest rate*
2 *risks with respect to any indebtedness in-*
3 *curring or to be incurred by the trust to ac-*
4 *quire or carry real estate assets, and*

5 *“(ii) gain from the sale or other dis-*
6 *position of any such investment,*

7 *shall be treated as income qualifying under*
8 *paragraph (2).”.*

9 **SEC. 1059. EXCESS NONCASH INCOME.**

10 *Section 857(e)(2) (relating to determination of amount*
11 *of excess noncash income) is amended—*

12 (1) *by striking subparagraph (B),*

13 (2) *by striking the period at the end of subpara-*
14 *graph (C) and inserting a comma,*

15 (3) *by redesignating subparagraph (C) (as*
16 *amended by paragraph (2)) as subparagraph (B),*
17 *and*

18 (4) *by adding at the end the following new sub-*
19 *paragraphs:*

20 *“(C) the amount (if any) by which—*

21 *“(i) the amounts includible in gross in-*
22 *come with respect to instruments to which*
23 *section 860E(a) or 1272 applies, exceed*

24 *“(ii) the amount of money and the fair*
25 *market value of other property received dur-*

1 *ing the taxable year under such instru-*
2 *ments, and*

3 *“(D) amounts includible in income by rea-*
4 *son of cancellation of indebtedness.”.*

5 **SEC. 1060. PROHIBITED TRANSACTION SAFE HARBOR.**

6 *Clause (iii) of section 857(b)(6)(C) (relating to certain*
7 *sales not to constitute prohibited transactions) is amended*
8 *by striking “(other than foreclosure property)” in sub-*
9 *clauses (I) and (II) and inserting “(other than sales of fore-*
10 *closure property or sales to which section 1033 applies)”.*

11 **SEC. 1061. SHARED APPRECIATION MORTGAGES.**

12 *(a) BANKRUPTCY SAFE HARBOR.—Section 856(j) (re-*
13 *lating to treatment of shared appreciation mortgages) is*
14 *amended by redesignating paragraph (4) as paragraph (5)*
15 *and by inserting after paragraph (3) the following new*
16 *paragraph:*

17 *“(4) COORDINATION WITH 4-YEAR HOLDING PE-*
18 *RIOD.—*

19 *“(A) IN GENERAL.—For purposes of section*
20 *857(b)(6)(C), if a real estate investment trust is*
21 *treated as having sold secured property under*
22 *paragraph (3)(A), the trust shall be treated as*
23 *having held such property for at least 4 years*
24 *if—*

1 “(i) the secured property is sold or oth-
2 erwise disposed of pursuant to a case under
3 title 11 of the United States Code,

4 “(ii) the seller is under the jurisdiction
5 of the court in such case, and

6 “(iii) the disposition is required by the
7 court or is pursuant to a plan approved by
8 the court.

9 “(B) *EXCEPTION.*—Subparagraph (A) shall
10 not apply if—

11 “(i) the secured property was acquired
12 by the trust with the intent to evict or fore-
13 close, or

14 “(ii) the trust knew or had reason to
15 know that default on the obligation de-
16 scribed in paragraph (5)(A) would occur.”.

17 (b) *CLARIFICATION OF DEFINITION OF SHARED AP-*
18 *PRECIATION PROVISION.*—Clause (ii) of section 856(j)(5)(A)
19 is amended by inserting before the period “or appreciation
20 in value as of any specified date”.

21 **SEC. 1062. WHOLLY OWNED SUBSIDIARIES.**

22 Section 856(i)(2) (defining qualified REIT subsidi-
23 ary) is amended by striking “at all times during the period
24 such corporation was in existence”.

1 **SEC. 1063. EFFECTIVE DATE.**

2 *The amendments made by this part shall apply to tax-*
3 *able years beginning after the date of the enactment of this*
4 *Act.*

5 ***Subtitle E—Provisions Relating to***
6 ***Regulated Investment Companies***

7 **SEC. 1071. REPEAL OF 30-PERCENT GROSS INCOME LIMITA-**
8 **TION.**

9 *(a) GENERAL RULE.—Subsection (b) of section 851*
10 *(relating to limitations) is amended by striking paragraph*
11 *(3), by adding “and” at the end of paragraph (2), and by*
12 *redesignating paragraph (4) as paragraph (3).*

13 *(b) TECHNICAL AMENDMENTS.—*

14 *(1) The material following paragraph (3) of sec-*
15 *tion 851(b) (as redesignated by subsection (a)) is*
16 *amended—*

17 *(A) by striking out “paragraphs (2) and*
18 *(3)” and inserting “paragraph (2)”, and*

19 *(B) by striking out the last sentence thereof.*

20 *(2) Subsection (c) of section 851 is amended by*
21 *striking “subsection (b)(4)” each place it appears (in-*
22 *cluding the heading) and inserting “subsection*
23 *(b)(3)”.*

24 *(3) Subsection (d) of section 851 is amended by*
25 *striking “subsections (b)(4)” and inserting “sub-*
26 *sections (b)(3)”.*

1 (4) Paragraph (1) of section 851(e) is amended
2 by striking “subsection (b)(4)” and inserting “sub-
3 section (b)(3)”.

4 (5) Paragraph (4) of section 851(e) is amended
5 by striking “subsections (b)(4)” and inserting “sub-
6 sections (b)(3)”.

7 (6) Section 851 is amended by striking sub-
8 section (g) and redesignating subsection (h) as sub-
9 section (g).

10 (7) Subsection (g) of section 851 (as redesignated
11 by paragraph (6)) is amended by striking paragraph
12 (3).

13 (8) Section 817(h)(2) is amended—

14 (A) by striking “851(b)(4)” in subpara-
15 graph (A) and inserting “851(b)(3)”, and

16 (B) by striking “851(b)(4)(A)(i)” in sub-
17 paragraph (B) and inserting “851(b)(3)(A)(i)”.

18 (9) Section 1092(f)(2) is amended by striking
19 “Except for purposes of section 851(b)(3), the” and
20 inserting “The”.

21 (c) *EFFECTIVE DATE.*—The amendments made by this
22 section shall apply to taxable years beginning after Decem-
23 ber 31, 1997.

1 ***Subtitle F—Taxpayer Protections***

2 ***SEC. 1081. REASONABLE CAUSE EXCEPTION FOR CERTAIN***
3 ***PENALTIES.***

4 (a) *INFORMATION ON DEDUCTIBLE EMPLOYEE CON-*
5 *TRIBUTIONS.*—*Subsection (g) of section 6652 (relating to*
6 *information required in connection with deductible em-*
7 *ployee contributions) is amended by adding at the end the*
8 *following new sentence: “No penalty shall be imposed under*
9 *this subsection on any failure which is shown to be due to*
10 *reasonable cause and not willful neglect.”.*

11 (b) *REPORTS ON STATUS AS QUALIFIED SMALL BUSI-*
12 *NESS.*—*Subsection (k) of section 6652 (relating to failure*
13 *to make reports required under section 1202) is amended*
14 *by adding at the end the following new sentence: “No pen-*
15 *alty shall be imposed under this subsection on any failure*
16 *which is shown to be due to reasonable cause and not willful*
17 *neglect.”.*

18 (c) *RETURNS OF PERSONAL HOLDING COMPANY TAX*
19 *BY FOREIGN CORPORATIONS.*—*Section 6683 (relating to*
20 *failure of foreign corporation to file return of personal hold-*
21 *ing company tax) is amended by adding at the end the fol-*
22 *lowing new sentence: “No penalty shall be imposed under*
23 *this section on any failure which is shown to be due to rea-*
24 *sonable cause and not willful neglect.”.*

1 (d) *FAILURE TO MAKE REQUIRED PAYMENTS.*—Sub-
2 *paragraph (A) of section 7519(f)(4) is amended by adding*
3 *at the end the following new sentence: “No penalty shall*
4 *be imposed under this subparagraph on any failure which*
5 *is shown to be due to reasonable cause and not willful ne-*
6 *glect.”.*

7 (e) *EFFECTIVE DATE.*—*The amendments made by this*
8 *section shall apply to taxable years beginning after the date*
9 *of the enactment of this Act.*

10 **SEC. 1082. CLARIFICATION OF PERIOD FOR FILING CLAIMS**
11 **FOR REFUNDS.**

12 (a) *IN GENERAL.*—*Paragraph (3) of section 6512(b)*
13 *(relating to overpayment determined by Tax Court) is*
14 *amended by adding at the end the following flush sentence:*
15 *“In a case described in subparagraph (B) where the*
16 *date of the mailing of the notice of deficiency is dur-*
17 *ing the third year after the due date (with extensions)*
18 *for filing the return of tax and no return was filed*
19 *before such date, the applicable period under sub-*
20 *sections (a) and (b)(2) of section 6511 shall be 3*
21 *years.”.*

22 (b) *EFFECTIVE DATE.*—*The amendment made by sub-*
23 *section (a) shall apply to claims for credit or refund for*
24 *taxable years ending after the date of the enactment of this*
25 *Act.*

1 **SEC. 1083. REPEAL OF AUTHORITY TO DISCLOSE WHETHER**
2 **PROSPECTIVE JUROR HAS BEEN AUDITED.**

3 (a) *IN GENERAL.*—Subsection (h) of section 6103 (re-
4 lating to disclosure to certain Federal officers and employ-
5 ees for purposes of tax administration, etc.) is amended by
6 striking paragraph (5) and by redesignating paragraph (6)
7 as paragraph (5).

8 (b) *CONFORMING AMENDMENT.*—Paragraph (4) of sec-
9 tion 6103(p) is amended by striking “(h)(6)” each place
10 it appears and inserting “(h)(5)”.

11 (c) *EFFECTIVE DATE.*—The amendments made by this
12 section shall apply to judicial proceedings commenced after
13 the date of the enactment of this Act.

14 **SEC. 1084. CLARIFICATION OF STATUTE OF LIMITATIONS.**

15 (a) *IN GENERAL.*—Subsection (a) of section 6501 (re-
16 lating to limitations on assessment and collection) is
17 amended by adding at the end thereof the following new
18 sentence: “For purposes of this chapter, the term ‘return’
19 means the return required to be filed by the taxpayer (and
20 does not include a return of any person from whom the tax-
21 payer has received an item of income, gain, loss, deduction,
22 or credit).”.

23 (b) *EFFECTIVE DATE.*—The amendment made by this
24 section shall apply to taxable years beginning after the date
25 of the enactment of this Act.

1 **SEC. 1085. PENALTY FOR UNAUTHORIZED INSPECTION OF**
2 **TAX RETURNS OR TAX RETURN INFORMA-**
3 **TION.**

4 (a) *IN GENERAL.*—Part I of subchapter A of chapter
5 75 (relating to crimes, other offenses, and forfeitures) is
6 amended by adding after section 7213 the following new
7 section:

8 **“SEC. 7213A. UNAUTHORIZED INSPECTION OF RETURNS OR**
9 **RETURN INFORMATION.**

10 “(a) *PROHIBITIONS.*—

11 “(1) *FEDERAL EMPLOYEES AND OTHER PER-*
12 *SONS.*—It shall be unlawful for—

13 “(A) *any officer or employee of the United*
14 *States, or*

15 “(B) *any person described in section*
16 *6103(n) or an officer or employee of any such*
17 *person,*

18 *willfully to inspect, except as authorized in this title,*
19 *any return or return information.*

20 “(2) *STATE AND OTHER EMPLOYEES.*—It shall be
21 *unlawful for any person (not described in paragraph*
22 *(1)) willfully to inspect, except as authorized in this*
23 *title, any return or return information acquired by*
24 *such person or another person under a provision of*
25 *section 6103 referred to in section 7213(a)(2).*

26 “(b) *PENALTY.*—

1 “(1) *IN GENERAL.*—Any violation of subsection
2 (a) shall be punishable upon conviction by a fine in
3 any amount not exceeding \$1,000, or imprisonment of
4 not more than 1 year, or both, together with the costs
5 of prosecution.

6 “(2) *FEDERAL OFFICERS OR EMPLOYEES.*—An
7 officer or employee of the United States who is con-
8 victed of any violation of subsection (a) shall, in ad-
9 dition to any other punishment, be dismissed from of-
10 fice or discharged from employment.

11 “(c) *DEFINITIONS.*—For purposes of this section, the
12 terms ‘inspect’, ‘return’, and ‘return information’ have the
13 respective meanings given such terms by section 6103(b).”.

14 (b) *TECHNICAL AMENDMENTS.*—

15 (1) Paragraph (2) of section 7213(a) is amended
16 by inserting “(5),” after “(m)(2), (4),”.

17 (2) The table of sections for part I of subchapter
18 A of chapter 75 is amended by inserting after the
19 item relating to section 7213 the following new item:

“Sec. 7213A. Unauthorized inspection of returns or return informa-
tion.”.

20 (c) *EFFECTIVE DATE.*—The amendments made by this
21 section shall apply to violations occurring on and after the
22 date of the enactment of this Act.

1 **SEC. 1086. CIVIL DAMAGES FOR UNAUTHORIZED INSPEC-**
2 **TION OF RETURNS AND RETURN INFORMA-**
3 **TION; NOTIFICATION OF UNLAWFUL INSPEC-**
4 **TION OR DISCLOSURE.**

5 (a) *CIVIL DAMAGES FOR UNAUTHORIZED INSPEC-*
6 *TION.*—*Subsection (a) of section 7431 is amended—*

7 (1) *by striking “DISCLOSURE” in the headings*
8 *for paragraphs (1) and (2) and inserting “INSPEC-*
9 *TION OR DISCLOSURE”, and*

10 (2) *by striking “discloses” in paragraphs (1) and*
11 *(2) and inserting “inspects or discloses”.*

12 (b) *NOTIFICATION OF UNLAWFUL INSPECTION OR DIS-*
13 *CLOSURE.*—*Section 7431 is amended by redesignating sub-*
14 *sections (e) and (f) as subsections (f) and (g), respectively,*
15 *and by inserting after subsection (d) the following new sub-*
16 *section:*

17 “(e) *NOTIFICATION OF UNLAWFUL INSPECTION AND*
18 *DISCLOSURE.*—*If any person is criminally charged by in-*
19 *dictment or information with inspection or disclosure of a*
20 *taxpayer’s return or return information in violation of—*

21 (1) *paragraph (1) or (2) of section 7213(a),*

22 (2) *section 7213A(a), or*

23 (3) *subparagraph (B) of section 1030(a)(2) of*
24 *title 18, United States Code,*

25 *the Secretary shall notify such taxpayer as soon as prac-*
26 *ticable of such inspection or disclosure.”.*

1 (c) *NO DAMAGES FOR INSPECTION REQUESTED BY*
2 *TAXPAYER.*—Subsection (b) of section 7431 is amended to
3 read as follows:

4 “(b) *EXCEPTIONS.*—No liability shall arise under this
5 section with respect to any inspection or disclosure—

6 “(1) which results from a good faith, but erro-
7 neous, interpretation of section 6103, or

8 “(2) which is requested by the taxpayer.”.

9 (d) *CONFORMING AMENDMENTS.*—

10 (1) Subsections (c)(1)(A), (c)(1)(B)(i), and (d) of
11 section 7431 are each amended by inserting “inspec-
12 tion or” before “disclosure”.

13 (2) Clause (ii) of section 7431(c)(1)(B) is
14 amended by striking “willful disclosure or a disclo-
15 sure” and inserting “willful inspection or disclosure
16 or an inspection or disclosure”.

17 (3) Subsection (f) of section 7431, as redesign-
18 ated by subsection (b), is amended to read as follows:

19 “(f) *DEFINITIONS.*—For purposes of this section, the
20 terms ‘inspect’, ‘inspection’, ‘return’, and ‘return informa-
21 tion’ have the respective meanings given such terms by sec-
22 tion 6103(b).”.

23 (4) The section heading for section 7431 is
24 amended by inserting “**INSPECTION OR**” before
25 “**DISCLOSURE**”.

1 (5) *The table of sections for subchapter B of*
2 *chapter 76 is amended by inserting “inspection or”*
3 *before “disclosure” in the item relating to section*
4 *7431.*

5 (6) *Paragraph (2) of section 7431(g), as redesign-*
6 *ated by subsection (b), is amended by striking “any*
7 *use” and inserting “any inspection or use”.*

8 (e) *EFFECTIVE DATE.—The amendments made by this*
9 *section shall apply to inspections and disclosures occurring*
10 *on and after the date of the enactment of this Act.*

11 **TITLE XI—SIMPLIFICATION PRO-**
12 **VISIONS RELATING TO ES-**
13 **TATE AND GIFT TAXES**

14 **SEC. 1101. GIFTS TO CHARITIES EXEMPT FROM GIFT TAX**
15 **FILING REQUIREMENTS.**

16 (a) *IN GENERAL.—Section 6019 is amended by strik-*
17 *ing “or” at the end of paragraph (1), by adding “or” at*
18 *the end of paragraph (2), and by inserting after paragraph*
19 *(2) the following new paragraph:*

20 *“(3) a transfer with respect to which a deduction*
21 *is allowed under section 2522, except that this para-*
22 *graph shall apply with respect to a transfer of prop-*
23 *erty (other than a transfer described in section*
24 *2522(d)) only if the entire value of such property is*
25 *allowed as a deduction under section 2522.”.*

1 (b) *EFFECTIVE DATE.*—*The amendment made by this*
2 *section shall apply to gifts made after the date of the enact-*
3 *ment of this Act.*

4 **SEC. 1102. CLARIFICATION OF WAIVER OF CERTAIN RIGHTS**
5 **OF RECOVERY.**

6 (a) *AMENDMENT TO SECTION 2207A.*—*Paragraph (2)*
7 *of section 2207A(a) (relating to right of recovery in the case*
8 *of certain marital deduction property) is amended to read*
9 *as follows:*

10 “(2) *DECEDENT MAY OTHERWISE DIRECT.*—
11 *Paragraph (1) shall not apply with respect to any*
12 *property to the extent that the decedent in his will (or*
13 *a revocable trust) specifically indicates an intent to*
14 *waive any right of recovery under this subchapter*
15 *with respect to such property.”.*

16 (b) *AMENDMENT TO SECTION 2207B.*—*Paragraph (2)*
17 *of section 2207B(a) (relating to right of recovery where de-*
18 *cedent retained interest) is amended to read as follows:*

19 “(2) *DECEDENT MAY OTHERWISE DIRECT.*—
20 *Paragraph (1) shall not apply with respect to any*
21 *property to the extent that the decedent in his will (or*
22 *a revocable trust) specifically indicates an intent to*
23 *waive any right of recovery under this subchapter*
24 *with respect to such property.”.*

1 (c) *EFFECTIVE DATE.*—*The amendments made by this*
2 *section shall apply with respect to the estates of decedents*
3 *dying after the date of the enactment of this Act.*

4 **SEC. 1103. TRANSITIONAL RULE UNDER SECTION 2056A.**

5 (a) *GENERAL RULE.*—*In the case of any trust created*
6 *under an instrument executed before the date of the enact-*
7 *ment of the Revenue Reconciliation Act of 1990, such trust*
8 *shall be treated as meeting the requirements of paragraph*
9 *(1) of section 2056A(a) of the Internal Revenue Code of*
10 *1986 if the trust instrument requires that all trustees of*
11 *the trust be individual citizens of the United States or do-*
12 *mestic corporations.*

13 (b) *EFFECTIVE DATE.*—*The provisions of subsection*
14 *(a) shall take effect as if included in the provisions of sec-*
15 *tion 11702(g) of the Revenue Reconciliation Act of 1990.*

16 **SEC. 1104. TREATMENT FOR ESTATE TAX PURPOSES OF**
17 **SHORT-TERM OBLIGATIONS HELD BY NON-**
18 **RESIDENT ALIENS.**

19 (a) *IN GENERAL.*—*Subsection (b) of section 2105 is*
20 *amended by striking “and” at the end of paragraph (2),*
21 *by striking the period at the end of paragraph (3) and in-*
22 *serting “, and”, and by inserting after paragraph (3) the*
23 *following new paragraph:*

24 “(4) obligations which would be original issue
25 discount obligations as defined in section 871(g)(1)

1 *but for subparagraph (B)(i) thereof, if any interest*
2 *thereon (were such interest received by the decedent at*
3 *the time of his death) would not be effectively con-*
4 *ected with the conduct of a trade or business within*
5 *the United States.”.*

6 (b) *EFFECTIVE DATE.*—*The amendment made by this*
7 *section shall apply to estates of decedents dying after the*
8 *date of the enactment of this Act.*

9 **SEC. 1105. DISTRIBUTIONS DURING FIRST 65 DAYS OF TAX-**
10 **ABLE YEAR OF ESTATE.**

11 (a) *IN GENERAL.*—*Subsection (b) of section 663 (relat-*
12 *ing to distributions in first 65 days of taxable year) is*
13 *amended by inserting “an estate or” before “a trust” each*
14 *place it appears.*

15 (b) *CONFORMING AMENDMENT.*—*Paragraph (2) of sec-*
16 *tion 663(b) is amended by striking “the fiduciary of such*
17 *trust” and inserting “the executor of such estate or the fidu-*
18 *ciary of such trust (as the case may be)”.*

19 (c) *EFFECTIVE DATE.*—*The amendments made by this*
20 *section shall apply to taxable years beginning after the date*
21 *of the enactment of this Act.*

1 **SEC. 1106. SEPARATE SHARE RULES AVAILABLE TO ES-**
2 **TATES.**

3 (a) *IN GENERAL.*—Subsection (c) of section 663 (relat-
4 ing to separate shares treated as separate trusts) is amend-
5 ed—

6 (1) by inserting before the last sentence the fol-
7 lowing new sentence: “Rules similar to the rules of the
8 preceding provisions of this subsection shall apply to
9 treat substantially separate and independent shares of
10 different beneficiaries in an estate having more than
11 1 beneficiary as separate estates.”, and

12 (2) by inserting “or estates” after “trusts” in the
13 last sentence.

14 (b) *CONFORMING AMENDMENT.*—The subsection head-
15 ing of section 663(c) is amended by inserting “ESTATES
16 OR” before “TRUSTS”.

17 (c) *EFFECTIVE DATE.*—The amendments made by this
18 section shall apply to estates of decedents dying after the
19 date of the enactment of this Act.

20 **SEC. 1107. EXECUTOR OF ESTATE AND BENEFICIARIES**
21 **TREATED AS RELATED PERSONS FOR DIS-**
22 **ALLOWANCE OF LOSSES, ETC.**

23 (a) *DISALLOWANCE OF LOSSES.*—Subsection (b) of sec-
24 tion 267 (relating to losses, expenses, and interest with re-
25 spect to transactions between related taxpayers) is amended
26 by striking “or” at the end of paragraph (11), by striking

1 *the period at the end of paragraph (12) and inserting “;*
 2 *or”*, and by adding at the end the following new paragraph:

3 “(13) *Except in the case of a sale or exchange in*
 4 *satisfaction of a pecuniary bequest, an executor of an*
 5 *estate and a beneficiary of such estate.”.*

6 **(b) ORDINARY INCOME FROM GAIN FROM SALE OF**
 7 **DEPRECIABLE PROPERTY.**—*Subsection (b) of section 1239*
 8 *is amended by striking the period at the end of paragraph*
 9 *(2) and inserting “, and” and by adding at the end the*
 10 *following new paragraph:*

11 “(3) *except in the case of a sale or exchange in*
 12 *satisfaction of a pecuniary bequest, an executor of an*
 13 *estate and a beneficiary of such estate.”.*

14 **(c) EFFECTIVE DATE.**—*The amendments made by this*
 15 *section shall apply to taxable years beginning after the date*
 16 *of the enactment of this Act.*

17 **SEC. 1108. TREATMENT OF FUNERAL TRUSTS.**

18 **(a) IN GENERAL.**—*Subpart F of part I of subchapter*
 19 *J of chapter 1 is amended by adding at the end the follow-*
 20 *ing new section:*

21 **“SEC. 684. TREATMENT OF FUNERAL TRUSTS.**

22 “(a) **IN GENERAL.**—*In the case of a qualified funeral*
 23 *trust—*

24 “(1) *subparts B, C, D, and E shall not apply,*
 25 *and*

1 “(2) no deduction shall be allowed by section
2 642(b).

3 “(b) *QUALIFIED FUNERAL TRUST.*—For purposes of
4 this subsection, the term ‘qualified funeral trust’ means any
5 trust (other than a foreign trust) if—

6 “(1) the trust arises as a result of a contract
7 with a person engaged in the trade or business of pro-
8 viding funeral or burial services or property nec-
9 essary to provide such services,

10 “(2) the sole purpose of the trust is to hold, in-
11 vest, and reinvest funds in the trust and to use such
12 funds solely to make payments for such services or
13 property for the benefit of the beneficiaries of the
14 trust,

15 “(3) the only beneficiaries of such trust are indi-
16 viduals who have entered into contracts described in
17 paragraph (1) to have such services or property pro-
18 vided at their death,

19 “(4) the only contributions to the trust are con-
20 tributions by or for the benefit of such beneficiaries,

21 “(5) the trustee elects the application of this sub-
22 section, and

23 “(6) the trust would (but for the election de-
24 scribed in paragraph (5)) be treated as owned by the
25 beneficiaries under subpart E.

1 “(c) *DOLLAR LIMITATION ON CONTRIBUTIONS.*—

2 “(1) *IN GENERAL.*—*The term ‘qualified funeral*
3 *trust’ shall not include any trust which accepts aggregate*
4 *contributions by or for the benefit of an individual*
5 *in excess of \$7,000.*

6 “(2) *RELATED TRUSTS.*—*For purposes of para-*
7 *graph (1), all trusts having trustees which are related*
8 *persons shall be treated as 1 trust. For purposes of the*
9 *preceding sentence, persons are related if—*

10 “(A) *the relationship between such persons*
11 *is described in section 267 or 707(b),*

12 “(B) *such persons are treated as a single*
13 *employer under subsection (a) or (b) of section*
14 *52, or*

15 “(C) *the Secretary determines that treating*
16 *such persons as related is necessary to prevent*
17 *avoidance of the purposes of this section.*

18 “(3) *INFLATION ADJUSTMENT.*—*In the case of*
19 *any contract referred to in subsection (b)(1) which is*
20 *entered into during any calendar year after 1998, the*
21 *dollar amount referred to paragraph (1) shall be in-*
22 *creased by an amount equal to—*

23 “(A) *such dollar amount, multiplied by*

24 “(B) *the cost-of-living adjustment deter-*
25 *mined under section 1(f)(3) for such calendar*

1 year, by substituting ‘calendar year 1997’ for
2 ‘calendar year 1992’ in subparagraph (B) there-
3 of.

4 If any dollar amount after being increased under the
5 preceding sentence is not a multiple of \$100, such dol-
6 lar amount shall be rounded to the nearest multiple
7 of \$100.

8 “(d) *APPLICATION OF RATE SCHEDULE.*—Section 1(e)
9 shall be applied to each qualified funeral trust by treating
10 each beneficiary’s interest in each such trust as a separate
11 trust.

12 “(e) *TREATMENT OF AMOUNTS REFUNDED TO BENE-*
13 *FICIARY ON CANCELLATION.*—No gain or loss shall be recog-
14 nized to a beneficiary described in subsection (b)(3) of any
15 qualified funeral trust by reason of any payment from such
16 trust to such beneficiary by reason of cancellation of a con-
17 tract referred to in subsection (b)(1). If any payment re-
18 ferred to in the preceding sentence consists of property other
19 than money, the basis of such property in the hands of such
20 beneficiary shall be the same as the trust’s basis in such
21 property immediately before the payment.

22 “(f) *SIMPLIFIED REPORTING.*—The Secretary may
23 prescribe rules for simplified reporting of all trusts having
24 a single trustee.”.

1 (b) *CLERICAL AMENDMENT.*—*The table of sections for*
2 *subpart F of part I of subchapter J of chapter 1 is amended*
3 *by adding at the end the following new item:*

“Sec. 684. Treatment of funeral trusts.”.

4 (c) *EFFECTIVE DATE.*—*The amendments made by this*
5 *section shall apply to taxable years beginning after the date*
6 *of the enactment of this Act.*

7 **SEC. 1109. ADJUSTMENTS FOR GIFTS WITHIN 3 YEARS OF**
8 **DECEDENT’S DEATH.**

9 (a) *GENERAL RULE.*—*Section 2035 is amended to*
10 *read as follows:*

11 **“SEC. 2035. ADJUSTMENTS FOR CERTAIN GIFTS MADE**
12 **WITHIN 3 YEARS OF DECEDENT’S DEATH.**

13 “(a) *INCLUSION OF CERTAIN PROPERTY IN GROSS ES-*
14 *TATE.*—*If—*

15 “(1) *the decedent made a transfer (by trust or*
16 *otherwise) of an interest in any property, or relin-*
17 *quished a power with respect to any property, during*
18 *the 3-year period ending on the date of the decedent’s*
19 *death, and*

20 “(2) *the value of such property (or an interest*
21 *therein) would have been included in the decedent’s*
22 *gross estate under section 2036, 2037, 2038, or 2042*
23 *if such transferred interest or relinquished power had*
24 *been retained by the decedent on the date of his death,*

1 *the value of the gross estate shall include the value of any*
2 *property (or interest therein) which would have been so in-*
3 *cluded.*

4 “(b) *INCLUSION OF GIFT TAX ON GIFTS MADE DURING*
5 *3 YEARS BEFORE DECEDENT’S DEATH.—The amount of*
6 *the gross estate (determined without regard to this sub-*
7 *section) shall be increased by the amount of any tax paid*
8 *under chapter 12 by the decedent or his estate on any gift*
9 *made by the decedent or his spouse during the 3-year period*
10 *ending on the date of the decedent’s death.*

11 “(c) *OTHER RULES RELATING TO TRANSFERS WITHIN*
12 *3 YEARS OF DEATH.—*

13 “(1) *IN GENERAL.—For purposes of—*

14 “(A) *section 303(b) (relating to distribu-*
15 *tions in redemption of stock to pay death taxes),*

16 “(B) *section 2032A (relating to special*
17 *valuation of certain farms, etc., real property),*

18 *and*

19 “(C) *subchapter C of chapter 64 (relating to*
20 *lien for taxes),*

21 *the value of the gross estate shall include the value of*
22 *all property to the extent of any interest therein of*
23 *which the decedent has at any time made a transfer,*
24 *by trust or otherwise, during the 3-year period ending*
25 *on the date of the decedent’s death.*

1 “(2) *COORDINATION WITH SECTION 6166.*—An es-
2 *tate shall be treated as meeting the 35 percent of ad-*
3 *justed gross estate requirement of section 6166(a)(1)*
4 *only if the estate meets such requirement both with*
5 *and without the application of paragraph (1).*

6 “(3) *MARITAL AND SMALL TRANSFERS.*—Para-
7 *graph (1) shall not apply to any transfer (other than*
8 *a transfer with respect to a life insurance policy)*
9 *made during a calendar year to any donee if the dece-*
10 *dent was not required by section 6019 (other than by*
11 *reason of section 6019(2)) to file any gift tax return*
12 *for such year with respect to transfers to such donee.*

13 “(d) *EXCEPTION.*—Subsection (a) shall not apply to
14 *any bona fide sale for an adequate and full consideration*
15 *in money or money’s worth.*

16 “(e) *TREATMENT OF CERTAIN TRANSFERS FROM REV-*
17 *OCABLE TRUSTS.*—For purposes of this section and section
18 2038, any transfer from any portion of a trust during any
19 period that such portion was treated under section 676 as
20 owned by the decedent by reason of a power in the grantor
21 (determined without regard to section 672(e)) shall be treat-
22 ed as a transfer made directly by the decedent.”.

23 (b) *CLERICAL AMENDMENT.*—The table of sections for
24 part III of subchapter A of chapter 11 is amended by strik-

1 ing “gifts” in the item relating to section 2035 and insert-
 2 ing “certain gifts”.

3 (c) *EFFECTIVE DATE.*—The amendments made by this
 4 section shall apply to the estates of decedents dying after
 5 the date of the enactment of this Act.

6 **SEC. 1110. CLARIFICATION OF TREATMENT OF SURVIVOR**
 7 **ANNUITIES UNDER QUALIFIED TERMINABLE**
 8 **INTEREST RULES.**

9 (a) *IN GENERAL.*—Subparagraph (C) of section
 10 2056(b)(7) is amended by inserting “(or, in the case of an
 11 interest in an annuity arising under the community prop-
 12 erty laws of a State, included in the gross estate of the dece-
 13 dent under section 2033)” after “section 2039”.

14 (b) *EFFECTIVE DATE.*—The amendment made by this
 15 section shall apply to estates of decedents dying after the
 16 date of the enactment of this Act.

17 **SEC. 1111. TREATMENT UNDER QUALIFIED DOMESTIC**
 18 **TRUST RULES OF FORMS OF OWNERSHIP**
 19 **WHICH ARE NOT TRUSTS.**

20 (a) *IN GENERAL.*—Subsection (c) of section 2056A (de-
 21 fining qualified domestic trust) is amended by adding at
 22 the end the following new paragraph:

23 “(3) *TRUST.*—To the extent provided in regula-
 24 tions prescribed by the Secretary, the term ‘trust’ in-

1 *cludes other arrangements which have substantially*
2 *the same effect as a trust.”.*

3 *(b) EFFECTIVE DATE.—The amendment made by this*
4 *section shall apply to estates of decedents dying after the*
5 *date of the enactment of this Act.*

6 **SEC. 1112. OPPORTUNITY TO CORRECT CERTAIN FAILURES**

7 **UNDER SECTION 2032A.**

8 *(a) GENERAL RULE.—Paragraph (3) of section*
9 *2032A(d) (relating to modification of election and agree-*
10 *ment to be permitted) is amended to read as follows:*

11 *“(3) MODIFICATION OF ELECTION AND AGREE-*
12 *MENT TO BE PERMITTED.—The Secretary shall pre-*
13 *scribe procedures which provide that in any case in*
14 *which the executor makes an election under para-*
15 *graph (1) (and submits the agreement referred to in*
16 *paragraph (2)) within the time prescribed therefor,*
17 *but—*

18 *“(A) the notice of election, as filed, does not*
19 *contain all required information, or*

20 *“(B) signatures of 1 or more persons re-*
21 *quired to enter into the agreement described in*
22 *paragraph (2) are not included on the agreement*
23 *as filed, or the agreement does not contain all re-*
24 *quired information,*

1 **TITLE XII—SIMPLIFICATION**
2 **PROVISIONS RELATING TO**
3 **EXCISE TAXES, TAX-EXEMPT**
4 **BONDS, AND OTHER MATTERS**
5 **Subtitle A—Excise Tax**
6 **Simplification**

7 **PART I—EXCISE TAXES ON HEAVY TRUCKS AND**
8 **LUXURY CARS**

9 **SEC. 1201. INCREASE IN DE MINIMIS LIMIT FOR AFTER-MAR-**
10 **KET ALTERATIONS FOR HEAVY TRUCKS AND**
11 **LUXURY CARS.**

12 (a) *IN GENERAL.*—Sections 4003(a)(3)(C) and
13 4051(b)(2)(B) (relating to exceptions) are each amended by
14 striking “\$200” and inserting “\$1,000”.

15 (b) *EFFECTIVE DATE.*—The amendments made by sub-
16 section (a) shall apply to installations on vehicles sold after
17 the date of the enactment of this Act.

18 **PART II—PROVISIONS RELATED TO DISTILLED**
19 **SPIRITS, WINES, AND BEER**

20 **SEC. 1211. CREDIT OR REFUND FOR IMPORTED BOTTLED**
21 **DISTILLED SPIRITS RETURNED TO DISTILLED**
22 **SPIRITS PLANT.**

23 (a) *IN GENERAL.*—Section 5008(c)(1) (relating to dis-
24 tilled spirits returned to bonded premises) is amended by
25 striking “withdrawn from bonded premises on payment or

1 *determination of tax” and inserting “on which tax has been*
2 *determined or paid”.*

3 (b) *EFFECTIVE DATE.*—*The amendment made by sub-*
4 *section (a) shall take effect on the 1st day of the 1st calendar*
5 *quarter that begins at least 90 days after the date of the*
6 *enactment of this Act.*

7 **SEC. 1212. AUTHORITY TO CANCEL OR CREDIT EXPORT**
8 **BONDS WITHOUT SUBMISSION OF RECORDS.**

9 (a) *IN GENERAL.*—*Section 5175(c) (relating to can-*
10 *cellation of credit of export bonds) is amended by striking*
11 *“on the submission of” and all that follows and inserting*
12 *“if there is such proof of exportation as the Secretary may*
13 *by regulations require.”.*

14 (b) *EFFECTIVE DATE.*—*The amendment made by sub-*
15 *section (a) shall take effect on the 1st day of the 1st calendar*
16 *quarter that begins at least 90 days after the date of the*
17 *enactment of this Act.*

18 **SEC. 1213. REPEAL OF REQUIRED MAINTENANCE OF**
19 **RECORDS ON PREMISES OF DISTILLED SPIR-**
20 **ITS PLANT.**

21 (a) *IN GENERAL.*—*Section 5207(c) (relating to preser-*
22 *vation and inspection) is amended by striking “shall be*
23 *kept on the premises where the operations covered by the*
24 *record are carried on and”.*

1 (b) *EFFECTIVE DATE.*—The amendment made by sub-
2 section (a) shall take effect on the 1st day of the 1st calendar
3 quarter that begins at least 90 days after the date of the
4 enactment of this Act.

5 **SEC. 1214. FERMENTED MATERIAL FROM ANY BREWERY**
6 **MAY BE RECEIVED AT A DISTILLED SPIRITS**
7 **PLANT.**

8 (a) *IN GENERAL.*—Section 5222(b)(2) (relating to re-
9 ceipt) is amended to read as follows:

10 “(2) beer conveyed without payment of tax from
11 brewery premises, beer which has been lawfully re-
12 moved from brewery premises upon determination of
13 tax, or”.

14 (b) *CLARIFICATION OF AUTHORITY TO PERMIT RE-*
15 *MOVAL OF BEER WITHOUT PAYMENT OF TAX FOR USE AS*
16 *DISTILLING MATERIAL.*—Section 5053 (relating to exemp-
17 tions) is amended by redesignating subsection (f) as sub-
18 section (i) and by inserting after subsection (e) the following
19 new subsection:

20 “(f) *REMOVAL FOR USE AS DISTILLING MATERIAL.*—
21 Subject to such regulations as the Secretary may prescribe,
22 beer may be removed from a brewery without payment of
23 tax to any distilled spirits plant for use as distilling mate-
24 rial.”.

1 (c) *CLARIFICATION OF REFUND AND CREDIT OF*
2 *TAX.—Section 5056 (relating to refund and credit of tax,*
3 *or relief from liability) is amended—*

4 (1) *by redesignating subsection (c) as subsection*
5 *(d) and by inserting after subsection (b) the following*
6 *new subsection:*

7 “(c) *BEER RECEIVED AT A DISTILLED SPIRITS*
8 *PLANT.—Any tax paid by any brewer on beer produced in*
9 *the United States may be refunded or credited to the brewer,*
10 *without interest, or if the tax has not been paid, the brewer*
11 *may be relieved of liability therefor, under regulations as*
12 *the Secretary may prescribe, if such beer is received on the*
13 *bonded premises of a distilled spirits plant pursuant to the*
14 *provisions of section 5222(b)(2), for use in the production*
15 *of distilled spirits.”, and*

16 (2) *by striking “or rendering unmerchantable”*
17 *in subsection (d) (as so redesignated) and inserting*
18 *“rendering unmerchantable, or receipt on the bonded*
19 *premises of a distilled spirits plant”.*

20 (d) *EFFECTIVE DATE.—The amendments made by this*
21 *section shall take effect on the 1st day of the 1st calendar*
22 *quarter that begins at least 90 days after the date of the*
23 *enactment of this Act.*

1 **SEC. 1215. REPEAL OF REQUIREMENT FOR WHOLESALE**
2 **DEALERS IN LIQUORS TO POST SIGN.**

3 (a) *IN GENERAL.*—Section 5115 (relating to sign re-
4 quired on premises) is hereby repealed.

5 (b) *CONFORMING AMENDMENTS.*—

6 (1) Section 5681(a) is amended by striking “,
7 and every wholesale dealer in liquors,” and by strik-
8 ing “section 5115(a) or”.

9 (2) Section 5681(c) is amended—

10 (A) by striking “or wholesale liquor estab-
11 lishment, on which no sign required by section
12 5115(a) or” and inserting “on which no sign re-
13 quired by”, and

14 (B) by striking “or wholesale liquor estab-
15 lishment, or who” and inserting “or who”.

16 (3) The table of sections for subpart D of part
17 II of subchapter A of chapter 51 is amended by strik-
18 ing the item relating to section 5115.

19 (c) *EFFECTIVE DATE.*—The amendments made by this
20 section shall take effect on the date of the enactment of this
21 Act.

22 **SEC. 1216. REFUND OF TAX TO WINE RETURNED TO BOND**
23 **NOT LIMITED TO UNMERCHANTABLE WINE.**

24 (a) *IN GENERAL.*—Section 5044(a) (relating to refund
25 of tax on unmerchantable wine) is amended by striking “as
26 unmerchantable”.

1 (b) *CONFORMING AMENDMENTS.*—

2 (1) *Section 5361 is amended by striking*
3 *“unmerchantable”.*

4 (2) *The section heading for section 5044 is*
5 *amended by striking “UNMERCHANTABLE”.*

6 (3) *The item relating to section 5044 in the table*
7 *of sections for subpart C of part I of subchapter A of*
8 *chapter 51 is amended by striking “unmerchantable”.*

9 (c) *EFFECTIVE DATE.*—*The amendments made by this*
10 *section shall take effect on the 1st day of the 1st calendar*
11 *quarter that begins at least 90 days after the date of the*
12 *enactment of this Act.*

13 **SEC. 1217. USE OF ADDITIONAL AMELIORATING MATERIAL**
14 **IN CERTAIN WINES.**

15 (a) *IN GENERAL.*—*Section 5384(b)(2)(D) (relating to*
16 *ameliorated fruit and berry wines) is amended by striking*
17 *“loganberries, currants, or gooseberries,” and inserting*
18 *“any fruit or berry with a natural fixed acid of 20 parts*
19 *per thousand or more (before any correction of such fruit*
20 *or berry)”.*

21 (b) *EFFECTIVE DATE.*—*The amendment made by this*
22 *section shall take effect on the 1st day of the 1st calendar*
23 *quarter that begins at least 90 days after the date of the*
24 *enactment of this Act.*

1 **SEC. 1218. DOMESTICALLY PRODUCED BEER MAY BE WITH-**
2 **DRAWN FREE OF TAX FOR USE OF FOREIGN**
3 **EMBASSIES, LEGATIONS, ETC.**

4 (a) *IN GENERAL.*—Section 5053 (relating to exemp-
5 tions), as amended by section 1414(b), is amended by in-
6 serting after subsection (f) the following new subsection:

7 “(g) *REMOVALS FOR USE OF FOREIGN EMBASSIES,*
8 *LEGATIONS, ETC.*—

9 “(1) *IN GENERAL.*—Subject to such regulations
10 as the Secretary may prescribe—

11 “(A) beer may be withdrawn from the brew-
12 ery without payment of tax for transfer to any
13 customs bonded warehouse for entry pending
14 withdrawal therefrom as provided in subpara-
15 graph (B), and

16 “(B) beer entered into any customs bonded
17 warehouse under subparagraph (A) may be with-
18 drawn for consumption in the United States by,
19 and for the official and family use of, such for-
20 eign governments, organizations, and individuals
21 as are entitled to withdraw imported beer from
22 such warehouses free of tax.

23 Beer transferred to any customs bonded warehouse
24 under subparagraph (A) shall be entered, stored, and
25 accounted for in such warehouse under such regula-
26 tions and bonds as the Secretary may prescribe, and

1 *may be withdrawn therefrom by such governments,*
2 *organizations, and individuals free of tax under the*
3 *same conditions and procedures as imported beer.*

4 *“(2) OTHER RULES TO APPLY.—Rules similar to*
5 *the rules of paragraphs (2) and (3) of section 5362(e)*
6 *shall apply for purposes of this subsection.”.*

7 *(b) EFFECTIVE DATE.—The amendment made by sub-*
8 *section (a) shall take effect on the 1st day of the 1st calendar*
9 *quarter that begins at least 90 days after the date of the*
10 *enactment of this Act.*

11 **SEC. 1219. BEER MAY BE WITHDRAWN FREE OF TAX FOR DE-**
12 **STRUCTION.**

13 *(a) IN GENERAL.—Section 5053 (relating to exemp-*
14 *tions), as amended by section 1418(a), is amended by in-*
15 *serting after subsection (g) the following new subsection:*

16 *“(h) REMOVALS FOR DESTRUCTION.—Subject to such*
17 *regulations as the Secretary may prescribe, beer may be re-*
18 *moved from the brewery without payment of tax for destruc-*
19 *tion.”.*

20 *(b) EFFECTIVE DATE.—The amendment made by sub-*
21 *section (a) shall take effect on the 1st day of the 1st calendar*
22 *quarter that begins at least 90 days after the date of the*
23 *enactment of this Act.*

1 **SEC. 1220. AUTHORITY TO ALLOW DRAWBACK ON EX-**
2 **PORTED BEER WITHOUT SUBMISSION OF**
3 **RECORDS.**

4 (a) *IN GENERAL.*—*The first sentence of section 5055*
5 *(relating to drawback of tax on beer) is amended by striking*
6 *“found to have been paid” and all that follows and insert-*
7 *ing “paid on such beer if there is such proof of exportation*
8 *as the Secretary may by regulations require.”.*

9 (b) *EFFECTIVE DATE.*—*The amendment made by sub-*
10 *section (a) shall take effect on the 1st day of the 1st calendar*
11 *quarter that begins at least 90 days after the date of the*
12 *enactment of this Act.*

13 **SEC. 1221. TRANSFER TO BREWERY OF BEER IMPORTED IN**
14 **BULK WITHOUT PAYMENT OF TAX.**

15 (a) *IN GENERAL.*—*Part II of subchapter G of chapter*
16 *51 is amended by adding at the end the following new sec-*
17 *tion:*

18 **“SEC. 5418. BEER IMPORTED IN BULK.**

19 *“Beer imported or brought into the United States in*
20 *bulk containers may, under such regulations as the Sec-*
21 *retary may prescribe, be withdrawn from customs custody*
22 *and transferred in such bulk containers to the premises of*
23 *a brewery without payment of the internal revenue tax im-*
24 *posed on such beer. The proprietor of a brewery to which*
25 *such beer is transferred shall become liable for the tax on*
26 *the beer withdrawn from customs custody under this section*

1 upon release of the beer from customs custody, and the im-
 2 porter, or the person bringing such beer into the United
 3 States, shall thereupon be relieved of the liability for such
 4 tax.”.

5 (b) *CLERICAL AMENDMENT.*—The table of sections for
 6 such part II is amended by adding at the end the following
 7 new item:

“Sec. 5418. Beer imported in bulk.”.

8 (c) *EFFECTIVE DATE.*—The amendments made by this
 9 section shall take effect on the 1st day of the 1st calendar
 10 quarter that begins at least 90 days after the date of the
 11 enactment of this Act.

12 **SEC. 1222. TRANSFER TO BONDED WINE CELLARS OF WINE**
 13 **IMPORTED IN BULK WITHOUT PAYMENT OF**
 14 **TAX.**

15 (a) *IN GENERAL.*—Part II of subchapter F of chapter
 16 51 is amended by inserting after section 5363 the following
 17 new section:

18 **“SEC. 5364. WINE IMPORTED IN BULK.**

19 “Wine imported or brought into the United States in
 20 bulk containers may, under such regulations as the Sec-
 21 retary may prescribe, be withdrawn from customs custody
 22 and transferred in such bulk containers to the premises of
 23 a bonded wine cellar without payment of the internal reve-
 24 nue tax imposed on such wine. The proprietor of a bonded
 25 wine cellar to which such wine is transferred shall become

1 *liable for the tax on the wine withdrawn from customs cus-*
 2 *tody under this section upon release of the wine from cus-*
 3 *toms custody, and the importer, or the person bringing such*
 4 *wine into the United States, shall thereupon be relieved of*
 5 *the liability for such tax.”.*

6 (b) *CLERICAL AMENDMENT.*—*The table of sections for*
 7 *such part II is amended by inserting after the item relating*
 8 *to section 5363 the following new item:*

“Sec. 5364. Wine imported in bulk.”.

9 (c) *EFFECTIVE DATE.*—*The amendments made by this*
 10 *section shall take effect on the 1st day of the 1st calendar*
 11 *quarter that begins at least 90 days after the date of the*
 12 *enactment of this Act.*

13 **PART III—OTHER EXCISE TAX PROVISIONS**

14 **SEC. 1231. AUTHORITY TO GRANT EXEMPTIONS FROM REG-** 15 **ISTRATION REQUIREMENTS.**

16 (a) *IN GENERAL.*—*Section 4222(b)(2) (relating to ex-*
 17 *port) is amended—*

18 (1) *by striking “in the case of any sale or resale*
 19 *for export,” and*

20 (2) *by striking “EXPORT” and inserting “UNDER*
 21 *REGULATIONS”.*

22 (b) *EFFECTIVE DATE.*—*The amendments made by sub-*
 23 *section (a) shall take effect on the date of the enactment*
 24 *of this Act.*

1 **SEC. 1232. REPEAL OF EXPIRED PROVISIONS.**

2 (a) *PIGGY-BACK TRAILERS*.—Section 4051 (relating to
3 imposition of tax on heavy trucks and trailers sold at re-
4 tail) is amended by striking subsection (d) and by redesign-
5 nating subsection (e) as subsection (d).

6 (b) *DEEP SEABED MINING*.—

7 (1) *IN GENERAL*.—Subchapter F of chapter 36
8 (relating to tax on removal of hard mineral resources
9 from deep seabed) is hereby repealed.

10 (2) *CONFORMING AMENDMENT*.—The table of
11 subchapters for chapter 36 is amended by striking the
12 item relating to subchapter F.

13 (c) *OZONE-DEPLETING CHEMICALS*.—

14 (1) Paragraph (1) of section 4681(b) is amended
15 by striking subparagraphs (B) and (C) and inserting
16 the following new subparagraph:

17 “(B) *BASE TAX AMOUNT*.—The base tax
18 amount for purposes of subparagraph (A) with
19 respect to any sale or use during any calendar
20 year after 1995 shall be \$5.35 increased by 45
21 cents for each year after 1995.”.

22 (2) Subsection (g) of section 4682 is amended to
23 read as follows:

24 “(g) *CHEMICALS USED AS PROPELLANTS IN ME-*
25 *TERED-DOSE INHALERS*.—

26 “(1) *EXEMPTION FROM TAX*.—

1 “(A) *IN GENERAL.*—No tax shall be imposed
2 by section 4681 on—

3 “(i) any use of any substance as a pro-
4 pellant in metered-dose inhalers, or

5 “(ii) any qualified sale by the manu-
6 facturer, producer, or importer of any sub-
7 stance.

8 “(B) *QUALIFIED SALE.*—For purposes of
9 subparagraph (A), the term ‘qualified sale’
10 means any sale by the manufacturer, producer,
11 or importer of any substance—

12 “(i) for use by the purchaser as a pro-
13 pellant in metered dose inhalers, or

14 “(ii) for resale by the purchaser to a
15 2d purchaser for such use by the 2d pur-
16 chaser.

17 The preceding sentence shall apply only if the
18 manufacturer, producer, and importer, and the
19 1st and 2d purchasers (if any) meet such reg-
20 istration requirements as may be prescribed by
21 the Secretary.

22 “(2) *OVERPAYMENTS.*—If any substance on
23 which tax was paid under this subchapter is used by
24 any person as a propellant in metered-dose inhalers,
25 credit or refund without interest shall be allowed to

1 *such person in an amount equal to the tax so paid.*
2 *Amounts payable under the preceding sentence with*
3 *respect to uses during the taxable year shall be treated*
4 *as described in section 34(a) for such year unless*
5 *claim thereof has been timely filed under this para-*
6 *graph.”.*

7 **SEC. 1233. SIMPLIFICATION OF IMPOSITION OF EXCISE TAX**

8 **ON ARROWS.**

9 *(a) IN GENERAL.—Subsection (b) of section 4161 (re-*
10 *lating to imposition of tax) is amended to read as follows:*

11 *“(b) BOWS AND ARROWS, ETC.—*

12 *“(1) BOWS.—*

13 *“(A) IN GENERAL.—There is hereby im-*
14 *posed on the sale by the manufacturer, producer,*
15 *or importer of any bow which has a draw weight*
16 *of 10 pounds or more, a tax equal to 11 percent*
17 *of the price for which so sold.*

18 *“(B) PARTS AND ACCESSORIES.—There is*
19 *hereby imposed upon the sale by the manufac-*
20 *turer, producer, or importer—*

21 *“(i) of any part of accessory suitable*
22 *for inclusion in or attachment to a bow de-*
23 *scribed in subparagraph (A), and*

24 *“(ii) of any quiver suitable for use*
25 *with arrows described in paragraph (2),*

1 *a tax equivalent to 11 percent of the price for*
2 *which so sold.*

3 “(2) *ARROWS.*—*There is hereby imposed on the*
4 *sale by the manufacturer, producer, or importer of*
5 *any shaft, point,nock, or vane of a type used in the*
6 *manufacture of any arrow which after its assembly—*

7 “(A) *measures 18 inches overall or more in*
8 *length, or*

9 “(B) *measures less than 18 inches overall in*
10 *length but is suitable for use with a bow de-*
11 *scribed in paragraph (1)(A),*

12 *a tax equal to 12.4 percent of the price for which so*
13 *sold.*

14 “(3) *COORDINATION WITH SUBSECTION (a).*—*No*
15 *tax shall be imposed under this subsection with re-*
16 *spect to any article taxable under subsection (a).”.*

17 “(b) *EFFECTIVE DATE.*—*The amendment made by sub-*
18 *section (a) shall apply to articles sold by the manufacturer,*
19 *producer, or importer after September 30 1997.*

20 **SEC. 1234. MODIFICATIONS TO RETAIL TAX ON HEAVY**
21 **TRUCKS.**

22 “(a) *CERTAIN REPAIRS AND MODIFICATIONS NOT*
23 *TREATED AS MANUFACTURE.*—*Section 4052 is amended by*
24 *redesignating the subsection defining a long-term lease as*

1 subsection (e) and by adding at the end the following new
2 subsection:

3 “(f) *CERTAIN REPAIRS AND MODIFICATIONS NOT*
4 *TREATED AS MANUFACTURE.*—

5 “(1) *IN GENERAL.*—An article described in sec-
6 tion 4051(a)(1) shall not be treated as manufactured
7 or produced solely by reason of repairs or modifica-
8 tions to the article (including any modification which
9 changes the transportation function of the article or
10 restores a wrecked article to a functional condition)
11 if the cost of such repairs and modifications does not
12 exceed 75 percent of the retail price of a comparable
13 new article.

14 “(2) *EXCEPTION.*—Paragraph (1) shall not
15 apply if the article (as repaired or modified) would,
16 if new, be taxable under section 4051 and the article
17 when new was not taxable under this section or the
18 corresponding provision of prior law.”.

19 (b) *SIMPLIFICATION OF CERTIFICATION PROCEDURES*
20 *WITH RESPECT TO SALES OF TAXABLE ARTICLES.*—

21 (1) *REPEAL OF REGISTRATION REQUIREMENT.*—
22 Subsection (d) of section 4052 is amended by striking
23 “rules of—” and all that follows through “shall
24 apply” and inserting “rules of subsections (c) and (d)

1 (b) *EFFECTIVE DATE.*—The amendment made by sub-
2 section (a) shall apply to transportation beginning after
3 September 30, 1997.

4 **SEC. 1236. ALLOWANCE OR CREDIT OF REFUND FOR TAX-**
5 **PAID AVIATION FUEL PURCHASED BY REG-**
6 **ISTERED PRODUCER OF AVIATION FUEL.**

7 (a) *IN GENERAL.*—Subsection (l) of section 6467 (re-
8 lating to nontaxable uses of diesel fuel and aviation fuel)
9 is amended by adding at the end the following new para-
10 graph:

11 “(6) *REFUND OF TAX-PAID AVIATION FUEL TO*
12 *REGISTERED PRODUCER OF FUEL.*—For purposes of
13 this subsection, the term ‘nontaxable use’ includes the
14 taxable sale of aviation fuel by a producer of such fuel
15 who is registered under section 4101 if a prior tax
16 imposed by section 4091 was paid (and not credited
17 or refunded) on such fuel.”.

18 (b) *EFFECTIVE DATE.*—The amendment made by sub-
19 section (a) shall apply to sales by the producer after Sep-
20 tember 30, 1997.

1 **Subtitle B—Tax-Exempt Bond**
2 **Provisions**

3 **SEC. 1241. REPEAL OF \$100,000 LIMITATION ON UNSPENT**
4 **PROCEEDS UNDER 1-YEAR EXCEPTION FROM**
5 **REBATE.**

6 *Subclause (I) of section 148(f)(4)(B)(ii) (relating to*
7 *additional period for certain bonds) is amended by striking*
8 *“the lesser of 5 percent of the proceeds of the issue or*
9 *\$100,000” and inserting “5 percent of the proceeds of the*
10 *issue”.*

11 **SEC. 1242. EXCEPTION FROM REBATE FOR EARNINGS ON**
12 **BONA FIDE DEBT SERVICE FUND UNDER CON-**
13 **STRUCTION BOND RULES.**

14 *Subparagraph (C) of section 148(f)(4) is amended by*
15 *adding at the end the following new clause:*

16 *“(xvii) TREATMENT OF BONA FIDE*
17 *DEBT SERVICE FUNDS.—If the spending re-*
18 *quirements of clause (ii) are met with re-*
19 *spect to the available construction proceeds*
20 *of a construction issue, then paragraph (2)*
21 *shall not apply to earnings on a bona fide*
22 *debt service fund for such issue.”.*

1 **SEC. 1243. REPEAL OF DEBT SERVICE-BASED LIMITATION**
2 **ON INVESTMENT IN CERTAIN NONPURPOSE**
3 **INVESTMENTS.**

4 *Subsection (d) of section 148 (relating to special rules*
5 *for reasonably required reserve or replacement fund) is*
6 *amended by striking paragraph (3).*

7 **SEC. 1244. REPEAL OF EXPIRED PROVISIONS.**

8 *(a) Paragraph (2) of section 148(c) is amended by*
9 *striking subparagraph (B) and by redesignating subpara-*
10 *graphs (C), (D), and (E) as subparagraphs (B), (C), and*
11 *(D), respectively.*

12 *(b) Paragraph (4) of section 148(f) is amended by*
13 *striking subparagraph (E).*

14 **SEC. 1245. EFFECTIVE DATE.**

15 *The amendments made by this subtitle shall apply to*
16 *bonds issued after the date of the enactment of this Act.*

17 **Subtitle C—Tax Court Procedures**

18 **SEC. 1251. OVERPAYMENT DETERMINATIONS OF TAX**
19 **COURT.**

20 *(a) APPEAL OF ORDER.—Paragraph (2) of section*
21 *6512(b) (relating to jurisdiction to enforce) is amended by*
22 *adding at the end the following new sentence: “An order*
23 *of the Tax Court disposing of a motion under this para-*
24 *graph shall be reviewable in the same manner as a decision*
25 *of the Tax Court, but only with respect to the matters deter-*
26 *mined in such order.”.*

1 (b) *DENIAL OF JURISDICTION REGARDING CERTAIN*
 2 *CREDITS AND REDUCTIONS.*—Subsection (b) of section 6512
 3 (relating to overpayment determined by Tax Court) is
 4 amended by adding at the end the following new paragraph:

5 “(4) *DENIAL OF JURISDICTION REGARDING CER-*
 6 *TAIN CREDITS AND REDUCTIONS.*—The Tax Court
 7 shall have no jurisdiction under this subsection to re-
 8 strain or review any credit or reduction made by the
 9 Secretary under section 6402.”.

10 (c) *EFFECTIVE DATE.*—The amendments made by this
 11 section shall take effect on the date of the enactment of this
 12 Act.

13 **SEC. 1252. REDETERMINATION OF INTEREST PURSUANT TO**
 14 **MOTION.**

15 (a) *IN GENERAL.*—Subsection (c) of section 7481 (re-
 16 lating to jurisdiction over interest determinations) is
 17 amended to read as follows:

18 “(c) *JURISDICTION OVER INTEREST DETERMINA-*
 19 *TIONS.*—

20 “(1) *IN GENERAL.*—Notwithstanding subsection
 21 (a), if, within 1 year after the date the decision of the
 22 Tax Court becomes final under subsection (a) in a
 23 case to which this subsection applies, the taxpayer
 24 files a motion in the Tax Court for a redetermination
 25 of the amount of interest involved, then the Tax Court

1 *may reopen the case solely to determine whether the*
2 *taxpayer has made an overpayment of such interest*
3 *or the Secretary has made an underpayment of such*
4 *interest and the amount thereof.*

5 *“(2) CASES TO WHICH THIS SUBSECTION AP-*
6 *PLIES.—This subsection shall apply where—*

7 *“(A)(i) an assessment has been made by the*
8 *Secretary under section 6215 which includes in-*
9 *terest as imposed by this title, and*

10 *“(ii) the taxpayer has paid the entire*
11 *amount of the deficiency plus interest claimed by*
12 *the Secretary, and*

13 *“(B) the Tax Court finds under section*
14 *6512(b) that the taxpayer has made an overpay-*
15 *ment.*

16 *“(3) SPECIAL RULES.—If the Tax Court deter-*
17 *mines under this subsection that the taxpayer has*
18 *made an overpayment of interest or that the Sec-*
19 *retary has made an underpayment of interest, then*
20 *that determination shall be treated under section*
21 *6512(b)(1) as a determination of an overpayment of*
22 *tax. An order of the Tax Court redetermining interest,*
23 *when entered upon the records of the court, shall be*
24 *reviewable in the same manner as a decision of the*
25 *Tax Court.”.*

1 (b) *EFFECTIVE DATE.*—*The amendment made by this*
2 *section shall take effect on the date of the enactment of this*
3 *Act.*

4 **SEC. 1253. APPLICATION OF NET WORTH REQUIREMENT**
5 **FOR AWARDS OF LITIGATION COSTS.**

6 (a) *IN GENERAL.*—*Paragraph (4) of section 7430(c)*
7 *(defining prevailing party) is amended by adding at the*
8 *end thereof the following new subparagraph:*

9 “(D) *SPECIAL RULES FOR APPLYING NET*
10 *WORTH REQUIREMENT.*—*In applying the re-*
11 *quirements of section 2412(d)(2)(B) of title 28,*
12 *United States Code, for purposes of subpara-*
13 *graph (A)(iii) of this paragraph—*

14 “(i) *the net worth limitation in clause*
15 *(i) of such section shall apply to—*

16 “(I) *an estate but shall be deter-*
17 *mined as of the date of the decedent’s*
18 *death, and*

19 “(II) *a trust but shall be deter-*
20 *mined as of the last day of the taxable*
21 *year involved in the proceeding, and*

22 “(ii) *individuals filing a joint return*
23 *shall be treated as separate individuals for*
24 *purposes of clause (i) of such section.”.*

1 (b) *EFFECTIVE DATE.*—*The amendment made by this*
2 *section shall apply to proceedings commenced after the date*
3 *of the enactment of this Act.*

4 **SEC. 1254. PROCEEDINGS FOR DETERMINATION OF EM-**
5 **PLOYMENT STATUS.**

6 (a) *IN GENERAL.*—*Subchapter B of chapter 76 (relat-*
7 *ing to proceedings by taxpayers and third parties) is*
8 *amended by redesignating section 7435 as section 7436 and*
9 *by inserting after section 7434 the following new section:*
10 **“SEC. 7435. PROCEEDINGS FOR DETERMINATION OF EM-**
11 **PLOYMENT STATUS.**

12 “(a) *CREATION OF REMEDY.*—*If, in connection with*
13 *an audit of any person, there is an actual controversy in-*
14 *volving a determination by the Secretary as part of an ex-*
15 *amination that—*

16 “(1) *one or more individuals performing services*
17 *for such person are employees of such person for pur-*
18 *poses of subtitle C, or*

19 “(2) *such person is not entitled to the treatment*
20 *under subsection (a) of section 530 of the Revenue Act*
21 *of 1978 with respect to such an individual,*

22 *upon the filing of an appropriate pleading, the Tax Court*
23 *may determine whether such a determination by the Sec-*
24 *retary is correct. Any such determination by the Tax Court*

1 *shall have the force and effect of a decision of the Tax Court*
2 *and shall be reviewable as such.*

3 “(b) *LIMITATIONS.*—

4 “(1) *PETITIONER.*—*A pleading may be filed*
5 *under this section only by the person for whom the*
6 *services are performed.*

7 “(2) *TIME FOR FILING ACTION.*—*If the Secretary*
8 *sends by certified or registered mail notice to the peti-*
9 *tioner of a determination by the Secretary described*
10 *in subsection (a), no proceeding may be initiated*
11 *under this section with respect to such determination*
12 *unless the pleading is filed before the 91st day after*
13 *the date of such mailing.*

14 “(3) *NO ADVERSE INFERENCE FROM TREATMENT*
15 *WHILE ACTION IS PENDING.*—*If, during the pendency*
16 *of any proceeding brought under this section, the peti-*
17 *tioner changes his treatment for employment tax pur-*
18 *poses of any individual whose employment status as*
19 *an employee is involved in such proceeding (or of any*
20 *individual holding a substantially similar position)*
21 *to treatment as an employee, such change shall not be*
22 *taken into account in the Tax Court’s determination*
23 *under this section.*

24 “(c) *SMALL CASE PROCEDURES.*—

1 “(1) *IN GENERAL.*—*At the option of the peti-*
2 *tioner, concurred in by the Tax Court or a division*
3 *thereof before the hearing of the case, proceedings*
4 *under this section may (notwithstanding the provi-*
5 *sions of section 7453) be conducted subject to the rules*
6 *of evidence, practice, and procedure applicable under*
7 *section 7463 if the amount of employment taxes*
8 *placed in dispute is \$10,000 or less for each calendar*
9 *quarter involved.*

10 “(2) *FINALITY OF DECISIONS.*—*A decision en-*
11 *tered in any proceeding conducted under this sub-*
12 *section shall not be reviewed in any other court and*
13 *shall not be treated as a precedent for any other case*
14 *not involving the same petitioner and the same deter-*
15 *minations.*

16 “(3) *CERTAIN RULES TO APPLY.*—*Rules similar*
17 *to the rules of the last sentence of subsection (a), and*
18 *subsections (c), (d), and (e), of section 7463 shall*
19 *apply to proceedings conducted under this subsection.*

20 “(d) *SPECIAL RULES.*—

21 “(1) *RESTRICTIONS ON ASSESSMENT AND COL-*
22 *LECTION PENDING ACTION, ETC.*—*The principles of*
23 *subsections (a), (b), and (d) of section 6213, section*
24 *6214(a), section 6215, section 6503(a), and section*
25 *6512 shall apply to proceedings brought under this*

1 *section in the same manner as if the Secretary’s de-*
2 *termination described in subsection (a) were a notice*
3 *of deficiency.*

4 *“(2) AWARDING OF COSTS AND CERTAIN FEES.—*
5 *Section 7430 shall apply to proceedings brought*
6 *under this section.*

7 *“(e) EMPLOYMENT TAX.—The term ‘employment tax’*
8 *means any tax imposed by subtitle C.”.*

9 *(b) CONFORMING AMENDMENTS.—*

10 *(1) Subsection (d) of section 6511 is amended by*
11 *adding at the end the following new paragraph:*

12 *“(7) SPECIAL PERIOD OF LIMITATION WITH RE-*
13 *SPECT TO SELF-EMPLOYMENT TAX IN CERTAIN*
14 *CASES.—If—*

15 *“(A) the claim for credit or refund relates*
16 *to an overpayment of the tax imposed by chapter*
17 *2 (relating to the tax on self-employment income)*
18 *attributable to Tax Court determination in a*
19 *proceeding under section 7435, and*

20 *“(B) the allowance of a credit or refund of*
21 *such overpayment is otherwise prevented by the*
22 *operation of any law or rule of law other than*
23 *section 7122 (relating to compromises),*

24 *such credit or refund may be allowed or made if*
25 *claim therefor is filed on or before the last day of the*

1 *second year after the calendar year in which such de-*
 2 *termination becomes final.”.*

3 (2) *Sections 7453 and 7481(b) are each amended*
 4 *by striking “section 7463” and inserting “section*
 5 *7435(c) or 7463”.*

6 (3) *The table of sections for subchapter B of*
 7 *chapter 76 is amended by striking the last item and*
 8 *inserting the following:*

“Sec. 7435. Proceedings for determination of employment status.
“Sec. 7436. Cross references.”.

9 (c) *EFFECTIVE DATE.—The amendments made by this*
 10 *section shall take effect on the date of the enactment of this*
 11 *Act.*

12 ***Subtitle D—Other Provisions***

13 ***SEC. 1261. EXTENSION OF DUE DATE OF FIRST QUARTER*** 14 ***ESTIMATED TAX PAYMENT BY PRIVATE FOUN-*** 15 ***DATIONS.***

16 (a) *IN GENERAL.—Paragraph (3) of section 6655(g)*
 17 *is amended by adding at the end the following new sentence:*
 18 *“In the case of a private foundation, subsection (c)(2) shall*
 19 *be applied by substituting ‘May 15’ for ‘April 15’.”.*

20 (b) *EFFECTIVE DATE.—The amendment made by sub-*
 21 *section (a) shall apply for purposes of determining under-*
 22 *payments of estimated tax for taxable years beginning after*
 23 *the date of the enactment of this Act.*

1 **SEC. 1262. CLARIFICATION OF AUTHORITY TO WITHHOLD**
2 **PUERTO RICO INCOME TAXES FROM SALA-**
3 **RIES OF FEDERAL EMPLOYEES.**

4 (a) *IN GENERAL.*—Subsection (c) of section 5517 of
5 title 5, United States Code, is amended by striking “or ter-
6 ritory or possession” and inserting “, territory, possession,
7 or commonwealth”.

8 (b) *EFFECTIVE DATE.*—The amendment made by sub-
9 section (a) shall take effect on January 1, 1998.

10 **SEC. 1263. CERTAIN NOTICES DISREGARDED UNDER PROVI-**
11 **SION INCREASING INTEREST RATE ON LARGE**
12 **CORPORATE UNDERPAYMENTS.**

13 (a) *GENERAL RULE.*—Subparagraph (B) of section
14 6621(c)(2) (defining applicable date) is amended by adding
15 at the end the following new clause:

16 “(iii) *EXCEPTION FOR LETTERS OR*
17 *NOTICES INVOLVING SMALL AMOUNTS.*—For
18 purposes of this paragraph, any letter or
19 notice shall be disregarded if the amount of
20 the deficiency or proposed deficiency (or the
21 assessment or proposed assessment) set forth
22 in such letter or notice is not greater than
23 \$100,000 (determined by not taking into ac-
24 count any interest, penalties, or additions
25 to tax).”.

1 (b) *EFFECTIVE DATE.*—The amendment made by sub-
2 section (a) shall apply for purposes of determining interest
3 for periods after December 31, 1997.

4 **TITLE XIII—PENSION**
5 **SIMPLIFICATION**

6 **SEC. 1301. MATCHING CONTRIBUTIONS OF SELF-EMPLOYED**
7 **INDIVIDUALS NOT TREATED AS ELECTIVE EM-**
8 **PLOYER CONTRIBUTIONS.**

9 (a) *IN GENERAL.*—Section 402(g) (relating to limita-
10 tion on exclusion for elective deferrals) is amended by add-
11 ing at the end the following:

12 “(9) *MATCHING CONTRIBUTIONS ON BEHALF OF*
13 *SELF-EMPLOYED INDIVIDUALS NOT TREATED AS*
14 *ELECTIVE EMPLOYER CONTRIBUTIONS.*—Any match-
15 ing contribution described in section 401(m)(4)(A))
16 which is made on behalf of a self-employed individual
17 (as defined in section 401(c)) shall not be treated as
18 an elective employer contribution under a qualified
19 cash or deferred arrangement (as defined in section
20 401(k)) for purposes of this title.”.

21 (b) *CONFORMING AMENDMENT FOR SIMPLE RETIRE-*
22 *MENT ACCOUNTS.*—Section 408(p) (relating to simple re-
23 tirement accounts) is amended by adding at the end the
24 following:

1 (D) identifies the amount of such contribu-
2 tions, not to exceed the amount allowed under
3 section 408 of the Internal Revenue Code of 1986
4 to an individual retirement plan for such year.

5 (2) *ELIGIBLE EMPLOYEE.*—

6 (A) *IN GENERAL.*—The term “eligible em-
7 ployee” means, with respect to any taxable year,
8 an employee whose employer does not sponsor a
9 plan, contract, pension, account, or trust de-
10 scribed in section 219(g)(5) (A) or (B) of the In-
11 ternal Revenue Code of 1986.

12 (B) *EMPLOYEE.*—The term “employee” does
13 not include an employee as defined in section
14 401(c)(1) of such Code.

15 (3) *INDIVIDUAL RETIREMENT PLANS.*—The term
16 “individual retirement plan” has the meaning given
17 the term by section 7701(a)(37) of the Internal Reve-
18 nue Code of 1986.

19 (4) *SECRETARY.*—The term “Secretary” means
20 the Secretary of the Treasury.

21 (b) *ESTABLISHMENT OF PAYROLL DEDUCTION SYS-*
22 *TEM.*—An employer may establish a system under which
23 eligible employees, through employer payroll deductions,
24 may make contributions to individual retirement plans. An
25 employer shall not incur any liability under title I of the

1 *Employee Retirement Income Security Act of 1974 in pro-*
2 *viding for such a system.*

3 (c) *CONTRIBUTIONS TO INDIVIDUAL RETIREMENT*
4 *PLANS.—*

5 (1) *IN GENERAL.—The system established under*
6 *subsection (b) shall provide that contributions made*
7 *to an individual retirement plan for any taxable year*
8 *are—*

9 (A) *contributions through employer payroll*
10 *deductions, and*

11 (B) *if the employer so elects, additional con-*
12 *tributions by the employee which, when added to*
13 *contributions under subparagraph (A), do not*
14 *exceed the amount allowed under section 408 of*
15 *the Internal Revenue Code of 1986 for the tax-*
16 *able year.*

17 (2) *EMPLOYER PAYROLL DEDUCTIONS.—*

18 (A) *IN GENERAL.—The system established*
19 *under subsection (b) shall provide that an eligi-*
20 *ble employee may establish and maintain an in-*
21 *dividual retirement plan simply by—*

22 (i) *completing a contribution certifi-*
23 *cate, and*

1 (ii) submitting such certificate to the
2 eligible employee's employer in the manner
3 provided under subparagraph (D).

4 (B) *EASE OF ADMINISTRATION.*—An eligible
5 employee establishing and maintaining an indi-
6 vidual retirement plan under subparagraph (A)
7 may change the amount of an employer payroll
8 deduction in the same manner as under subpara-
9 graph (A).

10 (C) *SIMPLIFIED CONTRIBUTION CERTIFI-*
11 *CATE.*—The Secretary shall develop a model con-
12 tribution certificate for purposes of this para-
13 graph which is written in a clear and easily un-
14 derstandable manner.

15 (D) *USE OF CERTIFICATE.*—Each employer
16 electing to adopt a system under subsection (b)
17 shall, upon receipt of a contribution certificate
18 from an eligible employee, deduct the appro-
19 priate contribution as determined by such cer-
20 tificate from the employee's wages in equal
21 amounts during the remaining payroll periods
22 for the taxable year and shall remit such
23 amounts for investment in the employee's indi-
24 vidual retirement plan not later than the close of

1 the 30-day period following the last day of the
2 month in which such payroll period occurs.

3 (E) *FAILURE TO REMIT PAYROLL DEDUC-*
4 *TIONS.—For purposes of the Internal Revenue*
5 *Code of 1986, any amount which an employer*
6 *fails to remit on behalf of an eligible employee*
7 *pursuant to a contribution certificate of such*
8 *employee shall not be allowed as a deduction to*
9 *the employer under such Code.*

10 **SEC. 1303. PLANS NOT DISQUALIFIED MERELY BY ACCEPT-**
11 **ING ROLLOVER CONTRIBUTIONS.**

12 (a) *IN GENERAL.—Section 401(a) (relating to quali-*
13 *fied pension, profit-sharing, and stock bonus plans) is*
14 *amended by inserting after paragraph (34) the following:*

15 “(35) *PLANS NOT DISQUALIFIED MERELY BY AC-*
16 *CEPTING ROLLOVER CONTRIBUTIONS.—A trust which*
17 *is part of a plan shall not fail to be a qualified trust*
18 *under this section solely because the plan accepts a*
19 *contribution of an eligible rollover distribution as de-*
20 *scribed in section 402(c)(4) from another plan with-*
21 *out such a qualified trust if, at the time of the trans-*
22 *fer, the trustee of the other plan provided notice of the*
23 *other plan’s intention to have such a qualified trust.”.*

1 (b) *EFFECTIVE DATE.*—*The amendment made by this*
2 *section shall apply to rollover contributions made after De-*
3 *cember 31, 1997.*

4 **SEC. 1304. MODIFICATION OF PROHIBITION OF ASSIGN-**
5 **MENT OR ALIENATION.**

6 (a) *AMENDMENT TO ERISA.*—*Section 206(d) of the*
7 *Employee Retirement Income Security Act of 1974 (29*
8 *U.S.C. 1056(d)) is amended by adding at the end the follow-*
9 *ing:*

10 “(4) *Paragraph (1) shall not apply to any offset of*
11 *a participant’s accrued benefit in an employee pension ben-*
12 *efit plan against an amount that the participant is ordered*
13 *or required to pay to the plan if—*

14 “(A) *the order or requirement to pay arises—*

15 “(i) *under a judgment of conviction for a*
16 *crime involving such plan,*

17 “(ii) *under a civil judgment (including a*
18 *consent order or decree) entered by a court in an*
19 *action brought in connection with a violation (or*
20 *alleged violation) of part 4 of this subtitle, or*

21 “(iii) *pursuant to a settlement agreement*
22 *between the Secretary and the participant, or a*
23 *settlement agreement between the Pension Benefit*
24 *Guaranty Corporation and the participant, in*
25 *connection with a violation (or alleged violation)*

1 *of part 4 of this subtitle by a fiduciary or any*
2 *other person,*

3 “(B) *the judgment, order, decree, or settlement*
4 *agreement expressly provides for the offset of all or*
5 *part of the amount ordered or required to be paid to*
6 *the plan against the participant’s accrued benefit in*
7 *the plan, and*

8 “(C) *if the participant has a spouse at the time*
9 *at which the offset is to be made—*

10 “(i) *such spouse has consented in writing to*
11 *such offset and such consent is witnessed by a*
12 *notary public or representative of the plan,*

13 “(ii) *such spouse is ordered or required in*
14 *such judgment, order, decree, or settlement to*
15 *pay an amount to the plan in connection with*
16 *a violation of part 4 of this subtitle, or*

17 “(iii) *in such judgment, order, decree, or*
18 *settlement, such spouse retains the right to re-*
19 *ceive the value of the survivor annuity under a*
20 *qualified joint and survivor annuity provided*
21 *pursuant to section 205(a)(1) and under a quali-*
22 *fied preretirement survivor annuity provided*
23 *pursuant to section 205(a)(2), determined in ac-*
24 *cordance with paragraph (5).*

1 *A plan shall not be treated as failing to meet the require-*
2 *ments of section 205 solely by reason of an offset under this*
3 *paragraph.*

4 “(5)(A) *The value of the survivor annuity described*
5 *in paragraph (4)(C)(iii) shall be determined as if—*

6 “(i) *the participant terminated employment on*
7 *the date of the offset,*

8 “(ii) *there was no offset,*

9 “(iii) *the plan permitted retirement only on or*
10 *after normal retirement age,*

11 “(iv) *the plan provided only the minimum-re-*
12 *quired qualified joint and survivor annuity, and*

13 “(v) *the amount of the qualified preretirement*
14 *survivor annuity under the plan is equal to the*
15 *amount of the survivor annuity payable under the*
16 *minimum-required qualified joint and survivor annu-*
17 *ity.*

18 “(B) *For purposes of this paragraph, the term ‘mini-*
19 *imum-required qualified joint and survivor annuity’ means*
20 *the qualified joint and survivor annuity which is the actu-*
21 *arial equivalent of a single annuity for the life of the partic-*
22 *ipant and under which the survivor annuity is 50 percent*
23 *of the amount of the annuity which is payable during the*
24 *joint lives of the participant and the spouse.”.*

1 **(b) AMENDMENT TO 1986 CODE.**—*Section 401(a)(13)*
2 *(relating to assignment and alienation) is made by adding*
3 *at the end the following:*

4 “(C) **SPECIAL RULE FOR CERTAIN JUDG-**
5 **MENTS AND SETTLEMENTS.**—*Subparagraph (A)*
6 *shall not apply to any offset of a participant’s*
7 *accrued benefit in an employee pension benefit*
8 *plan against an amount that the participant is*
9 *ordered or required to pay to the plan if—*

10 “(i) *the order or requirement to pay*
11 *arises—*

12 “(I) *under a judgment of convic-*
13 *tion for a crime involving such plan,*

14 “(II) *under a civil judgment (in-*
15 *cluding a consent order or decree) en-*
16 *tered by a court in an action brought*
17 *in connection with a violation (or al-*
18 *leged violation) of part 4 of subtitle B*
19 *of title I of the Employee Retirement*
20 *Income Security Act of 1974, or*

21 “(III) *pursuant to a settlement*
22 *agreement between the Secretary and*
23 *the participant, or a settlement agree-*
24 *ment between the Pension Benefit*
25 *Guaranty Corporation and the partici-*

1 *pant, in connection with a violation*
2 *(or alleged violation) of part 4 of such*
3 *subtitle by a fiduciary or any other*
4 *person,*

5 *“(ii) the judgment, order, decree, or*
6 *settlement agreement expressly provides for*
7 *the offset of all or part of the amount or-*
8 *dered or required to be paid to the plan*
9 *against the participant’s accrued benefit in*
10 *the plan, and*

11 *“(iii) if the participant has a spouse*
12 *at the time at which the offset is to be*
13 *made—*

14 *“(I) such spouse has consented in*
15 *writing to such offset and such consent*
16 *is witnessed by a notary public or rep-*
17 *resentative of the plan,*

18 *“(II) such spouse is ordered or re-*
19 *quired in such judgment, order, decree,*
20 *or settlement to pay an amount to the*
21 *plan in connection with a violation of*
22 *part 4 of such subtitle, or*

23 *“(III) in such judgment, order,*
24 *decree, or settlement, such spouse re-*
25 *tains the right to receive the value of*

1 *the survivor annuity under a qualified*
2 *joint and survivor annuity provided*
3 *pursuant to section 401(a)(11)(A)(i)*
4 *and under a qualified preretirement*
5 *survivor annuity provided pursuant to*
6 *section 401(a)(11)(A)(ii), determined*
7 *in accordance with subparagraph (D).*

8 *A plan shall not be treated as failing to meet the*
9 *requirements of this subsection, subsection (k),*
10 *section 403(b), or section 409(d) solely by reason*
11 *of an offset described in this subparagraph.*

12 “(D) VALUATION OF SURVIVOR ANNUITY.—

13 “(i) IN GENERAL.—*The value of the*
14 *survivor annuity described in subparagraph*
15 *(C)(iii)(III) shall be determined as if—*

16 “(I) *the participant terminated*
17 *employment on the date of the offset,*

18 “(II) *there was no offset,*

19 “(III) *the plan permitted retire-*
20 *ment only on or after normal retire-*
21 *ment age,*

22 “(IV) *the plan provided only the*
23 *minimum-required qualified joint and*
24 *survivor annuity, and*

1 *by striking paragraphs (1), (2), and (3) and by redesignat-*
2 *ing paragraphs (4) and (5) as paragraphs (1) and (2), re-*
3 *spectively.*

4 *(b) ELIMINATION OF PLAN DESCRIPTION.—*

5 *(1) IN GENERAL.—Section 102(a) of the Em-*
6 *ployee Retirement Income Security Act of 1974 (29*
7 *U.S.C. 1022(a)) is amended—*

8 *(A) by striking paragraph (2), and*

9 *(B) by striking “(a)(1)” and inserting*
10 *“(a)”.*

11 *(2) CONFORMING AMENDMENTS.—*

12 *(A) Section 102(b) of such Act (29 U.S.C.*
13 *1022(b)) is amended by striking “The plan de-*
14 *scription and summary plan description shall*
15 *contain” and inserting “The summary plan de-*
16 *scription shall contain”.*

17 *(B) The heading for section 102 of such Act*
18 *is amended by striking “PLAN DESCRIPTION*
19 *AND”.*

20 *(c) FURNISHING OF REPORTS.—*

21 *(1) IN GENERAL.—Section 104(a)(1) of the Em-*
22 *ployee Retirement Income Security Act of 1974 (29*
23 *U.S.C. 1024(a)(1)) is amended to read as follows:*

24 *“SEC. 104. (a)(1) The administrator of any employee*
25 *benefit plan subject to this part shall file with the Secretary*

1 *the annual report for a plan year within 210 days after*
2 *the close of such year (or within such time as may be re-*
3 *quired by regulations promulgated by the Secretary in*
4 *order to reduce duplicative filing). The Secretary shall*
5 *make copies of such annual reports available for inspection*
6 *in the public document room of the Department of Labor.”.*

7 (2) *SECRETARY MAY REQUEST DOCUMENTS.—*

8 (A) *IN GENERAL.—Section 104(a) of such*
9 *Act (29 U.S.C. 1024(a)) is amended by adding*
10 *at the end the following:*

11 *“(6) The administrator of any employee benefit plan*
12 *subject to this part shall furnish to the Secretary, upon re-*
13 *quest, any documents relating to the employee benefit plan,*
14 *including but not limited to, the latest summary plan de-*
15 *scription (including any summaries of plan changes not*
16 *contained in the summary plan description), and the bar-*
17 *gaining agreement, trust agreement, contract, or other in-*
18 *strument under which the plan is established or operated.”.*

19 (B) *PENALTY.—Section 502(c) of such Act*
20 *(29 U.S.C. 1132(c)) is amended by redesignating*
21 *paragraph (6) as paragraph (7) and by insert-*
22 *ing after paragraph (5) the following:*

23 *“(6) If, within 30 days of a request by the Secretary*
24 *to a plan administrator for documents under section*
25 *104(a)(6), the plan administrator fails to furnish the mate-*

1 rial requested to the Secretary, the Secretary may assess
2 a civil penalty against the plan administrator of up to
3 \$100 a day from the date of such failure (but in no event
4 in excess of \$1,000 per request). No penalty shall be imposed
5 under this paragraph for any failure resulting from matters
6 reasonably beyond the control of the plan administrator.”.

7 (d) CONFORMING AMENDMENTS.—

8 (1) Section 104(b)(1) of the Employee Retirement
9 Income Security Act of 1974 (29 U.S.C.
10 1024(b)(1)) is amended by striking “section
11 102(a)(1)” each place it appears and inserting “sec-
12 tion 102(a)”.

13 (2) Section 104(b)(2) of such Act (29 U.S.C.
14 1024(b)(2)) is amended by striking “the plan descrip-
15 tion and” and inserting “the latest updated summary
16 plan description and”.

17 (3) Section 104(b)(4) of such Act (29 U.S.C.
18 1024(b)(4)) is amended by striking “plan descrip-
19 tion”.

20 (4) Section 106(a) of such Act (29 U.S.C.
21 1026(a)) is amended by striking “descriptions,”.

22 (5) Section 107 of such Act (29 U.S.C. 1027) is
23 amended by striking “description or”.

1 (6) Paragraph (2)(B) of section 108 of such Act
2 (29 U.S.C. 1028) is amended to read as follows: “(B)
3 after publishing or filing the annual reports,”.

4 (7) Section 502(a)(6) of such Act (29 U.S.C.
5 1132(a)(6)) is amended by striking “or (5)” and in-
6 serting “(5), or (6)”.

7 (e) *TECHNICAL CORRECTION.*—Section 1144(c) of the
8 Social Security Act (42 U.S.C. 1320b–14(c)) is amended
9 by redesignating paragraph (9) as paragraph (8).

10 **SEC. 1306. MODIFICATION OF 403(b) EXCLUSION ALLOW-**
11 **ANCE TO CONFORM TO 415 MODIFICATIONS.**

12 (a) *DEFINITION OF COMPENSATION.*—

13 (1) *IN GENERAL.*—Section 403(b)(3) (defining
14 includible compensation) is amended by adding at the
15 end the following: “Such term includes—

16 “(A) any elective deferral (as defined in sec-
17 tion 402(g)(3)), and

18 “(B) any amount which is contributed or
19 deferred by the employer at the election of the
20 employee and which is not includible in the gross
21 income of the employee by reason of section 125
22 or 457.”.

23 (2) *EFFECTIVE DATE.*—The amendment made by
24 this subsection shall apply to years beginning after
25 December 31, 1997.

1 (b) *REPEAL OF RULES IN SECTION 415(e).*—The Sec-
2 retary of the Treasury shall modify the regulations regard-
3 ing the exclusion allowance under section 403(b)(2) of the
4 Internal Revenue Code of 1986 to reflect the amendment
5 made by section 1452(a) of the Small Business Job Protec-
6 tion Act of 1996. Such modification shall take effect for lim-
7 itation years beginning after December 31, 1999.

8 **SEC. 1307. NEW TECHNOLOGIES IN RETIREMENT PLANS.**

9 (a) *IN GENERAL.*—Not later than December 31, 1998,
10 the Secretary of the Treasury and the Secretary of Labor
11 shall each issue guidance which is designed to—

12 (1) *interpret the notice, election, consent, disclo-*
13 *sure, and time requirements (and related record-*
14 *keeping requirements) under the Internal Revenue*
15 *Code of 1986 and the Employee Retirement Income*
16 *Security Act of 1974 relating to retirement plans as*
17 *applied to the use of new technologies by plan spon-*
18 *sors and administrators while maintaining the pro-*
19 *tection of the rights of participants and beneficiaries,*
20 *and*

21 (2) *clarify the extent to which writing require-*
22 *ments under the Internal Revenue Code of 1986 relat-*
23 *ing to retirement plans shall be interpreted to permit*
24 *paperless transactions.*

1 (b) *APPLICABILITY OF FINAL REGULATIONS.*—Final
2 regulations applicable to the guidance regarding new tech-
3 nologies described in subsection (a) shall not be effective
4 until the first plan year beginning at least 6 months after
5 the issuance of such final regulations.

6 **SEC. 1308. EXTENSION OF MORATORIUM ON APPLICATION**
7 **OF CERTAIN NONDISCRIMINATION RULES TO**
8 **STATE AND LOCAL GOVERNMENTS.**

9 (a) *GENERAL NONDISCRIMINATION AND PARTICIPA-*
10 *TION RULES.*—

11 (1) *NONDISCRIMINATION REQUIREMENTS.*—Sec-
12 tion 401(a)(5) (relating to qualified pension, profit-
13 sharing, and stock bonus plans) is amended by add-
14 ing at the end the following:

15 “(G) *GOVERNMENTAL PLANS.*—Paragraphs
16 (3) and (4) shall not apply to a governmental
17 plan (within the meaning of section 414(d)).”.

18 (2) *ADDITIONAL PARTICIPATION REQUIRE-*
19 *MENTS.*—Section 401(a)(26)(H) (relating to addi-
20 tional participation requirements) is amended to read
21 as follows:

22 “(H) *EXCEPTION FOR GOVERNMENTAL*
23 *PLANS.*—This paragraph shall not apply to a
24 governmental plan (within the meaning of sec-
25 tion 414(d)).”.

1 (3) *MINIMUM PARTICIPATION STANDARDS.*—*Sec-*
2 *tion 410(c)(2) (relating to application of participa-*
3 *tion standards to certain plans) is amended to read*
4 *as follows:*

5 “(2) *A plan described in paragraph (1) shall be*
6 *treated as meeting the requirements of this section for*
7 *purposes of section 401(a), except that in the case of*
8 *a plan described in subparagraph (B), (C), or (D) of*
9 *paragraph (1), this paragraph shall only apply if*
10 *such plan meets the requirements of section 401(a)(3)*
11 *(as in effect on September 1, 1974).”.*

12 (b) *PARTICIPATION STANDARDS FOR QUALIFIED CASH*
13 *OR DEFERRED ARRANGEMENTS.*—

14 (1) *IN GENERAL.*—*Section 401(k)(3) (relating to*
15 *application of participation and discrimination*
16 *standards) is amended by adding at the end the fol-*
17 *lowing:*

18 “(G) *The requirements of subparagraph*
19 *(A)(i) and (C) shall not apply to a governmental*
20 *plan (within the meaning of section 414(d)).”.*

21 (2) *MATCHING CONTRIBUTIONS.*—*Section*
22 *401(m)(2) is amended by adding at the end the fol-*
23 *lowing new subparagraph:*

24 “(C) *SPECIAL RULE FOR GOVERNMENTAL*
25 *PLANS.*—*A defined contribution plan which is a*

1 governmental plan (as defined in section 414(d))
2 shall be treated as meeting the requirements of
3 this paragraph.”.

4 (c) *NONDISCRIMINATION RULES FOR SECTION 403(b)*
5 *PLANS.*—Section 403(b)(12) (relating to nondiscrimination
6 requirements) is amended by adding at the end the follow-
7 ing:

8 “(C) *GOVERNMENTAL PLANS.*—For purposes
9 of paragraph (1)(D), the requirements of sub-
10 paragraph (A)(i) (other than those relating to
11 section 401(a)(17)) shall not apply to a govern-
12 mental plan (within the meaning of section
13 414(d)).”.

14 (d) *EFFECTIVE DATE.*—

15 (1) *IN GENERAL.*—The amendments made by
16 this section apply to taxable years beginning on or
17 after the date of enactment of this Act.

18 (2) *TREATMENT FOR YEARS BEGINNING BEFORE*
19 *DATE OF ENACTMENT.*—A governmental plan (within
20 the meaning of section 414(d) of the Internal Revenue
21 Code of 1986) shall be treated as satisfying the re-
22 quirements of sections 401(a)(3), 401(a)(4),
23 401(a)(26), 401(k), 401(m), 403 (b)(1)(D) and
24 (b)(12), and 410 of such Code for all taxable years be-
25 ginning before the date of enactment of this Act.

1 **SEC. 1309. CLARIFICATION OF CERTAIN RULES RELATING**
2 **TO EMPLOYEE STOCK OWNERSHIP PLANS OF**
3 **S CORPORATIONS.**

4 *(a) CERTAIN CASH DISTRIBUTIONS PERMITTED.—*

5 *(1) Paragraph (2) of section 409(h) is amended*
6 *by adding at the end the following new subparagraph:*

7 *“(B) PLAN MAINTAINED BY S CORPORA-*
8 *TION.—In the case of a plan established and*
9 *maintained by an S corporation which otherwise*
10 *meets the requirements of this subsection or sec-*
11 *tion 4975(e)(7), such plan shall not be treated as*
12 *failing to meet the requirements of this sub-*
13 *section or section 401(a) merely because it does*
14 *not permit a participant to exercise the right de-*
15 *scribed in paragraph (1)(A) if such plan pro-*
16 *vides that the participant entitled to a distribu-*
17 *tion has a right to receive the distribution in*
18 *cash.”.*

19 *(2) Paragraph (2) of section 409(h) is amend-*
20 *ed—*

21 *(A) by striking “a plan which” in the first*
22 *sentence and inserting the following:*

23 *“(A) IN GENERAL.—A plan which”, and*

24 *(B) by moving the text before subparagraph*

25 *(B) 2 ems to the right.*

1 **(b) CERTAIN SHAREHOLDER-EMPLOYEES NOT TREAT-**
 2 **ED AS OWNER-EMPLOYEES.—**

3 **(1) AMENDMENT TO 1986 CODE.—***The last sen-*
 4 *tence of section 4975(d) is amended by inserting “,*
 5 *except that this sentence shall not apply for purposes*
 6 *of any sale of stock by such a shareholder-employee to*
 7 *an employee stock ownership plan (as defined in sub-*
 8 *section (e)(7))” after “owner-employee”.*

9 **(2) AMENDMENT TO ERISA.—***The last sentence of*
 10 *section 408(d) of the Employee Retirement Income*
 11 *Security Act of 1974 (29 U.S.C. 1108(d)) is amended*
 12 *by inserting “, except that this sentence shall not*
 13 *apply for purposes of any sale of stock by such a*
 14 *shareholder-employee to an employee stock ownership*
 15 *plan (as defined in section 4975(e)(7) of the Internal*
 16 *Revenue Code of 1986)” after “owner-employee”.*

17 **(c) EFFECTIVE DATE.—***The amendments made by this*
 18 *section shall apply to taxable years beginning after Decem-*
 19 *ber 31, 1997.*

20 **SEC. 1310. MODIFICATION OF 10 PERCENT TAX FOR NON-**
 21 **DEDUCTIBLE CONTRIBUTIONS.**

22 **(a) IN GENERAL.—***Section 4972(c)(6)(B) (relating to*
 23 *exceptions) is amended to read as follows:*

24 *“(B) so much of the contributions to 1 or*
 25 *more defined contribution plans which are not*

1 deductible when contributed solely because of sec-
2 tion 404(a)(7) as does not exceed the greater of—

3 “(i) the amount of contributions not in
4 excess of 6 percent of compensation (within
5 the meaning of section 404(a)) paid or ac-
6 crued (during the taxable year for which the
7 contributions were made) to beneficiaries
8 under the plans, or

9 “(ii) the sum of—

10 “(I) the amount of contributions
11 described in section 401(m)(4)(A), plus

12 “(II) the amount of contributions
13 described in section 402(g)(3)(A).”.

14 (b) *EFFECTIVE DATE.*—The amendments made by this
15 section shall apply to taxable years beginning after Decem-
16 ber 31, 1997.

17 **SEC. 1311. MODIFICATION OF FUNDING REQUIREMENTS**
18 **FOR CERTAIN PLANS.**

19 (a) *FUNDING RULES FOR CERTAIN PLANS.*—Section
20 769 of the Retirement Protection Act of 1994 is amended
21 by adding at the end the following new subsection:

22 “(c) *TRANSITION RULES FOR CERTAIN PLANS.*—

23 “(1) *IN GENERAL.*—In the case of a plan that—

1 “(A) was not required to pay a variable
2 rate premium for the plan year beginning in
3 1996;

4 “(B) has not, in any plan year beginning
5 after 1995 and before 2009, merged with another
6 plan (other than a plan sponsored by an em-
7 ployer that was in 1996 within the controlled
8 group of the plan sponsor); and

9 “(C) is sponsored by a company that is en-
10 gaged primarily in the interurban or interstate
11 passenger bus service,
12 the transition rules described in paragraph (2) shall
13 apply for any plan year beginning after 1996 and be-
14 fore 2010.

15 “(2) *TRANSITION RULES.*—The transition rules
16 described in this paragraph are as follows:

17 “(A) For purposes of section 412(l)(9)(A) of the
18 Internal Revenue Code of 1986 and section
19 302(d)(9)(A) of the Employee Retirement Income Se-
20 curity Act of 1974—

21 “(i) the funded current liability percentage
22 for any plan year beginning after 1996 and be-
23 fore 2005 shall be treated as not less than 90 per-
24 cent if for such plan year the funded current li-
25 ability percentage is at least 85 percent, and

1 “(i) the funded current liability percentage
 2 for any plan year beginning after 2004 and be-
 3 fore 2010 shall be treated as not less than 90 per-
 4 cent if for such plan year the funded current li-
 5 ability percentage satisfies the minimum per-
 6 centage determined according to the following
 7 table:

“In the case of a plan year beginning in:	The minimum percentage is:
2005	86 percent
2006	87 percent
2007	88 percent
2008	89 percent
2009 and thereafter	90 percent.

8 “(B) Sections 412(c)(7)(E)(i)(I) of such Code
 9 and 302(c)(7)(E)(i)(I) of such Act shall be applied—

10 “(i) by substituting ‘85 percent’ for ‘90 per-
 11 cent’ for plan years beginning after 1996 and be-
 12 fore 2005, and

13 “(ii) by substituting the minimum percent-
 14 age specified in the table contained in subpara-
 15 graph (A)(ii) for ‘90 percent’ for plan years be-
 16 ginning after 2004 and before 2010.

17 “(C) In the event the funded current liability
 18 percentage of a plan is less than 85 percent for any
 19 plan year beginning after 1996 and before 2005, the
 20 transition rules under subparagraphs (A) and (B)
 21 shall continue to apply to the plan if contributions

1 for such a plan year are made to the plan in an
2 amount equal to the lesser of—

3 “(i) the amount necessary to result in a
4 funded current liability percentage of 85 percent,
5 or

6 “(ii) the greater of—

7 “(I) 2 percent of the plan’s current li-
8 ability as of the beginning of such plan
9 year, or

10 “(II) the amount necessary to result in
11 a funded current liability percentage of 80
12 percent as of the end of such plan year.

13 For the plan year beginning in 2005 and for the 3
14 succeeding plan years, the transition rules under sub-
15 paragraphs (A) and (B) shall continue to apply to
16 the plan for such plan year only if contributions to
17 the plan equal at least the expected increase in cur-
18 rent liability due to benefits accruing during such
19 plan year.”.

20 (b) *EFFECTIVE DATE.*—The amendment made by this
21 section shall apply to contributions due after December 31,
22 1997.

1 **TITLE XIV—TECHNICAL AMEND-**
2 **MENTS RELATED TO SMALL**
3 **BUSINESS JOB PROTECTION**
4 **ACT OF 1996 AND OTHER LEG-**
5 **ISLATION**

6 **SEC. 1401. AMENDMENTS RELATED TO SMALL BUSINESS**
7 **JOB PROTECTION ACT OF 1996.**

8 *(a) AMENDMENTS RELATED TO SUBTITLE A.—*

9 *(1) AMENDMENT RELATED TO SECTION 1116.—*

10 *Paragraph (1) of section 6050R(c) is amended by*
11 *striking “name and address” and inserting “name,*
12 *address, and phone number of the information con-*
13 *tact”.*

14 *(2) AMENDMENT TO SECTION 1116.—Paragraphs*
15 *(1) and (2)(C) of section 1116(b) of the Small Busi-*
16 *ness Job Protection Act of 1996 shall each be applied*
17 *as if the reference to chapter 68 were a reference to*
18 *chapter 61.*

19 *(b) AMENDMENT RELATED TO SUBTITLE B.—Sub-*
20 *section (c) of section 52 is amended by striking “targeted*
21 *jobs credit” and inserting “work opportunity credit”.*

22 *(c) AMENDMENTS RELATED TO SUBTITLE C.—*

23 *(1) AMENDMENT RELATED TO SECTION 1302.—*

24 *Subparagraph (B) of section 1361(e)(1) is amended*
25 *by striking “and” at the end of clause (i), striking the*

1 *period at the end of clause (ii) and inserting “, and”,*
2 *and adding at the end the following new clause:*

3 *“(iii) any charitable remainder annu-*
4 *ity trust or charitable remainder unitrust*
5 *(as defined in section 664(d)).”.*

6 (2) *EFFECTIVE DATE FOR SECTION 1307.—*

7 (A) *Notwithstanding section 1317 of the*
8 *Small Business Job Protection Act of 1996, the*
9 *amendments made by subsections (a) and (b) of*
10 *section 1307 of such Act shall apply to deter-*
11 *minations made after December 31, 1996.*

12 (B) *In no event shall the 120-day period re-*
13 *ferred to in section 1377(b)(1)(B) of the Internal*
14 *Revenue Code of 1986 (as added by such section*
15 *1307) expire before the end of the 120-day period*
16 *beginning on the date of the enactment of this*
17 *Act.*

18 (3) *AMENDMENT RELATED TO SECTION 1308.—*

19 *Subparagraph (A) of section 1361(b)(3) is amended*
20 *by striking “For purposes of this title” and inserting*
21 *“Except as provided in regulations prescribed by the*
22 *Secretary, for purposes of this title”.*

23 (4) *AMENDMENTS RELATED TO SECTION 1316.—*

24 (A) *Paragraph (2) of section 512(e) is*
25 *amended by striking “within the meaning of sec-*

1 *tion 1012” and inserting “as defined in section*
2 *1361(e)(1)(C)”.*

3 *(B) Paragraph (7) of section 1361(c) is re-*
4 *designated as paragraph (6).*

5 *(C) Subparagraph (B) of section 1361(b)(1)*
6 *is amended by striking “subsection (c)(7)” and*
7 *inserting “subsection (c)(6)”.*

8 *(D) Paragraph (1) of section 512(e) is*
9 *amended by striking “section 1361(c)(7)” and*
10 *inserting “section 1361(e)(6)”.*

11 *(d) AMENDMENTS RELATED TO SUBTITLE D.—*

12 *(1) AMENDMENTS RELATED TO SECTION 1421.—*

13 *(A) Subsection (i) of section 408 is amended*
14 *in the last sentence by striking “30 days” and*
15 *inserting “31 days”.*

16 *(B) Subparagraph (H) of section 408(k)(6)*
17 *is amended by striking “if the terms of such pen-*
18 *sion” and inserting “of an employer if the terms*
19 *of simplified employee pensions of such em-*
20 *ployer”.*

21 *(C)(i) Subparagraph (B) of section*
22 *408(l)(2) is amended—*

23 *(I) by inserting “and the issuer of an*
24 *annuity established under such an arrange-*
25 *ment” after “under subsection (p)”, and*

1 (ii) in clause (i), by inserting “or is-
2 suer” after “trustee”.

3 (ii) Paragraph (2) of section 6693(c) is
4 amended—

5 (I) by inserting “or issuer” after
6 “trustee”, and

7 (II) in the heading, by inserting “AND
8 ISSUER” after “trustee”.

9 (D) Subsection (p) of section 408 is amend-
10 ed by adding at the end the following new para-
11 graph:

12 “(8) COORDINATION WITH MAXIMUM LIMITATION
13 UNDER SUBSECTION (a).—In the case of any simple
14 retirement account, subsections (a)(1) and (b)(2) shall
15 be applied by substituting ‘the sum of the dollar
16 amount in effect under paragraph (2)(A)(ii) of this
17 subsection and the employer contribution required
18 under subparagraph (A)(iii) or (B)(i) of paragraph
19 (2) of this subsection, whichever is applicable’ for
20 ‘\$2,000.’”.

21 (E) Clause (i) of section 408(p)(2)(D) is
22 amended by adding at the end the following new
23 sentence: “If only individuals other than employ-
24 ees described in subparagraph (A) or (B) of sec-
25 tion 410(b)(3) are eligible to participate in such

1 *arrangement, then the preceding sentence shall be*
2 *applied without regard to any qualified plan in*
3 *which only employees so described are eligible to*
4 *participate.”.*

5 *(F) Subparagraph (D) of section 408(p)(2)*
6 *is amended by adding at the end the following*
7 *new clause:*

8 *“(iii) GRACE PERIOD.—In the case of*
9 *an employer who establishes and maintains*
10 *a plan under this subsection for 1 or more*
11 *years and who fails to meet any require-*
12 *ment of this subsection for any subsequent*
13 *year due to any acquisition, disposition, or*
14 *similar transaction involving another such*
15 *employer, rules similar to the rules of sec-*
16 *tion 410(b)(6)(C) shall apply for purposes*
17 *of this subparagraph.”.*

18 *(G) Paragraph (5) of section 408(p) is*
19 *amended in the text preceding subparagraph (A)*
20 *by striking “simplified” and inserting “simple”.*

21 *(2) AMENDMENTS RELATED TO SECTION 1422.—*

22 *(A) Clause (ii) of section 401(k)(11)(D) is*
23 *amended by striking the period and inserting “if*
24 *such plan allows only contributions required*
25 *under this paragraph.”.*

1 (B) Paragraph (11) of section 401(k) is
2 amended by adding at the end the following new
3 subparagraph:

4 “(E) *COST-OF-LIVING ADJUSTMENT.*—The
5 Secretary shall adjust the \$6,000 amount under
6 subparagraph (B)(i)(I) at the same time and in
7 the same manner as under section
8 408(p)(2)(E).”.

9 (C) Subparagraph (A) of section 404(a)(3)
10 is amended—

11 (i) in clause (i), by striking “not in ex-
12 cess of” and all that follows and inserting
13 the following: “not in excess of the greater
14 of—

15 “(I) 15 percent of the compensa-
16 tion otherwise paid or accrued during
17 the taxable year to the beneficiaries
18 under the stock bonus or profit-sharing
19 plan, or

20 “(II) the amount such employer is
21 required to contribute to such trust
22 under section 401(k)(11) for such
23 year.”, and

24 (ii) in clause (ii), by striking “15 per-
25 cent” and all that follows and inserting the

1 following “the amount described in sub-
2 clause (I) or (II) of clause (i), whichever is
3 greater, with respect to such taxable year.”.

4 (D) Subparagraph (B) of section 401(k)(11)
5 is amended by adding at the end the following
6 new clause:

7 “(iii) ADMINISTRATIVE REQUIRE-
8 MENTS.—

9 “(I) IN GENERAL.—Rules similar
10 to the rules of subparagraphs (B) and
11 (C) of section 408(p)(5) shall apply for
12 purposes of this subparagraph.

13 “(II) NOTICE OF ELECTION PE-
14 RIOD.—The requirements of this sub-
15 paragraph shall not be treated as met
16 with respect to any year unless the em-
17 ployer notifies each employee eligible to
18 participate, within a reasonable period
19 of time before the 60th day before the
20 beginning of such year (and, for the
21 first year the employee is so eligible,
22 the 60th day before the first day such
23 employee is so eligible), of the rules
24 similar to the rules of section

1 408(p)(5)(C) which apply by reason of
2 subclause (I).”.

3 (3) AMENDMENT RELATED TO SECTION 1433.—
4 The heading of paragraph (11) of section 401(m) is
5 amended by striking “ALTERNATIVE” and inserting
6 “ADDITIONAL ALTERNATIVE”.

7 (4) AMENDMENTS RELATED TO SECTION 1461.—
8 (A) Section 415(e)(5)(A) is amended to read
9 as follows:

10 “(A) CERTAIN MINISTERS MAY PARTICI-
11 PATE.—For purposes of this part—

12 “(i) IN GENERAL.—A duly ordained,
13 commissioned, or licensed minister of a
14 church is described in paragraph (3)(B) if,
15 in connection with the exercise of their min-
16 istry, the minister—

17 “(I) is a self-employed individual
18 (within the meaning of section
19 401(c)(1)(B), or

20 “(II) is employed by an organiza-
21 tion other than an organization which
22 is described in section 501(c)(3) and
23 with respect to which the minister
24 shares common religious bonds.

1 “(ii) *TREATMENT AS EMPLOYER AND*
2 *EMPLOYEE.*—For purposes of sections
3 403(b)(1)(A) and 404(a)(10), a minister de-
4 scribed in clause (i)(I) shall be treated as
5 employed by the minister’s own employer
6 which is an organization described in sec-
7 tion 501(c)(3) and exempt from tax under
8 section 501(a).”.

9 (B) Section 403(b)(1)(A) is amended by
10 striking “or” at the end of clause (i), by insert-
11 ing “or” at the end of clause (ii), and by adding
12 at the end the following new clause:

13 “(iii) for the minister described in sec-
14 tion 415(e)(5)(A) by the minister or by an
15 employer,”.

16 (5) *AMENDMENT RELATED TO SECTION 1462.*—
17 The paragraph (7) of section 414(q) added by section
18 1462 of the Small Business Job Protection Act of
19 1996 is redesignated as paragraph (9).

20 (6) *CLARIFICATION OF SECTION 1450.*—

21 (A) Section 403(b)(11) of the Internal Reve-
22 nue Code of 1986 shall not apply with respect to
23 a distribution from a contract described in sec-
24 tion 1450(b)(1) of such Act to the extent that
25 such distribution is not includible in income by

1 *reason of section 403(b)(8) of such Code (deter-*
2 *mined after the application of section 1450(b)(2)*
3 *of such Act).*

4 *(B) This paragraph shall apply as if in-*
5 *cluded in section 1450 of the Small Business Job*
6 *Protection Act of 1996.*

7 *(e) AMENDMENT RELATED TO SUBTITLE E.—Sub-*
8 *paragraph (A) of section 956(b)(1) is amended by inserting*
9 *“to the extent such amount was accumulated in prior tax-*
10 *able years” after “section 316(a)(1)”.*

11 *(f) AMENDMENTS RELATED TO SUBTITLE F.—*

12 *(1) AMENDMENTS RELATED TO SECTION 1601.—*

13 *(A) The heading of section 30A is amended*
14 *to read as follows:*

15 **“SEC. 30A. PUERTO RICO ECONOMIC ACTIVITY CREDIT.”.**

16 *(B) The table of sections for subpart B of*
17 *part IV of subchapter A of chapter 1 is amended*
18 *in the item relating to section 30A by striking*
19 *“Puerto Rican” and inserting “Puerto Rico”.*

20 *(C) Paragraph (1) of section 55(c) is*
21 *amended by striking “Puerto Rican” and insert-*
22 *ing “Puerto Rico”.*

23 *(2) AMENDMENTS RELATED TO SECTION 1606.—*

24 *(A) Clause (ii) of section 9503(c)(2)(A) is*
25 *amended by striking “(or with respect to quali-*

1 *fied diesel-powered highway vehicles purchased*
2 *before January 1, 1999)*”.

3 (B) *Subparagraph (A) of section 9503(e)(5)*
4 *is amended by striking “; except that” and all*
5 *that follows and inserting a period.*

6 (3) *AMENDMENTS RELATED TO SECTION 1607.—*

7 (A) *Subsection (f) of section 4001 (relating*
8 *to phasedown of tax on luxury passenger auto-*
9 *mobiles) is amended—*

10 (i) *by inserting “and section 4003(a)”*
11 *after “subsection (a)”, and*

12 (ii) *by inserting “, each place it ap-*
13 *pears,” before “the percentage”.*

14 (B) *Subsection (g) of section 4001 (relating*
15 *to termination) is amended by striking “tax im-*
16 *posed by this section” and inserting “taxes im-*
17 *posed by this section and section 4003” and by*
18 *striking “or use” and inserting “, use, or instal-*
19 *lation”.*

20 (4) *AMENDMENTS RELATED TO SECTION 1609.—*

21 (A) *Subsection (l) of section 4041 is amend-*
22 *ed—*

23 (i) *by inserting “or a fixed-wing air-*
24 *craft” after “helicopter”, and*

1 (ii) in the heading, by striking “*HELI-*
2 *COPTER*”.

3 (B) The last sentence of section 4041(a)(2)
4 is amended by striking “section 4081(a)(2)(A)”
5 and inserting “section 4081(a)(2)(A)(i)”.

6 (C) Subsection (b) of section 4092 is amend-
7 ed by striking “section 4041(c)(4)” and inserting
8 “section 4041(c)(2)”.

9 (D) Subsection (g) of section 4261 (as reded-
10 igned by title X) is amended by inserting “on
11 that flight” after “dedicated”.

12 (E) Paragraph (1) of section 1609(h) of
13 such Act is amended by striking “paragraph
14 (3)(A)(i)” and inserting “paragraph (3)(A)”.

15 (F) Paragraph (4) of section 1609(h) of
16 such Act is amended by inserting before the pe-
17 riod “or exclusively for the use described in sec-
18 tion 4092(b) of such Code”.

19 (5) AMENDMENTS RELATED TO SECTION 1616.—

20 (A) Subparagraph (A) of section 593(e)(1)
21 is amended by inserting “(and, in the case of an
22 S corporation, the accumulated adjustments ac-
23 count, as defined in section 1368(e)(1))” after
24 “1951,”.

1 (B) Paragraph (7) of section 1374(d) is
2 amended by adding at the end the following new
3 sentence: “For purposes of applying this section
4 to any amount includible in income by reason of
5 section 593(e), the preceding sentence shall be ap-
6 plied without regard to the phrase ‘10-year’.”.

7 (6) AMENDMENTS RELATED TO SECTION 1621.—

8 (A) Subparagraph (A) of section 860L(b)(1)
9 is amended in the text preceding clause (i) by
10 striking “after the startup date” and inserting
11 “on or after the startup date”.

12 (B) Paragraph (2) of section 860L(d) is
13 amended by striking “section 860I(c)(2)” and
14 inserting “section 860I(b)(2)”.

15 (C) Subparagraph (B) of section 860L(e)(2)
16 is amended by inserting “other than foreclosure
17 property” after “any permitted asset”.

18 (D) Subparagraph (A) of section 860L(e)(3)
19 is amended by striking “if the FASIT” and all
20 that follows and inserting the following new flush
21 text after clause (ii):

22 “if the FASIT were treated as a REMIC and
23 permitted assets (other than cash or cash equiva-
24 lents) were treated as qualified mortgages.”.

1 (E)(i) Paragraph (3) of section 860L(e) is
2 amended by adding at the end the following new
3 subparagraph:

4 “(D) INCOME FROM DISPOSITIONS OF
5 FORMER HEDGE ASSETS.—Paragraph (2)(A)
6 shall not apply to income derived from the dis-
7 position of—

8 “(i) an asset which was described in
9 subsection (c)(1)(D) when first acquired by
10 the FASIT but on the date of such disposi-
11 tion was no longer described in subsection
12 (c)(1)(D)(ii), or

13 “(ii) a contract right to acquire an
14 asset described in clause (i).”.

15 (ii) Subparagraph (A) of section 860L(e)(2)
16 is amended by inserting “except as provided in
17 paragraph (3),” before “the receipt”.

18 (g) AMENDMENTS RELATED TO SUBTITLE G.—

19 (1) EXTENSION OF PERIOD FOR CLAIMING RE-
20 FUNDS FOR ALCOHOL FUELS.—Notwithstanding sec-
21 tion 6427(i)(3)(C) of the Internal Revenue Code of
22 1986, a claim filed under section 6427(f) of such Code
23 for any period after September 30, 1995, and before
24 October 1, 1996, shall be treated as timely filed if

1 *filed before the 60th day after the date of the enact-*
2 *ment of this Act.*

3 (2) *AMENDMENTS TO SECTIONS 1703 AND 1704.—*

4 *Sections 1703(n)(8) and 1704(j)(4)(B) of the Small*
5 *Business Job Protection Act of 1996 shall each be ap-*
6 *plied as if such sections referred to section 1702 in-*
7 *stead of section 1602.*

8 (h) *AMENDMENTS RELATED TO SUBTITLE H.—*

9 (1) *AMENDMENTS RELATED TO SECTION 1806.—*

10 (A) *Subparagraph (B) of section 529(e)(1)*
11 *is amended by striking “subsection (c)(2)(C)”*
12 *and inserting “subsection (c)(3)(C)”.*

13 (B) *Subparagraph (C) of section 529(e)(1)*
14 *is amended by inserting “(or agency or instru-*
15 *mentality thereof)” after “local government”.*

16 (C) *Paragraph (2) of section 1806(c) of the*
17 *Small Business Job Protection Act of 1996 is*
18 *amended by striking so much of the first sentence*
19 *as follows subparagraph (B)(ii) and inserting*
20 *the following:*

21 *“then such program (as in effect on August 20, 1996)*
22 *shall be treated as a qualified State tuition program*
23 *with respect to contributions (and earnings allocable*
24 *thereto) pursuant to contracts entered into under such*
25 *program before the first date on which such program*

1 *meets such requirements (determined without regard*
2 *to this paragraph) and the provisions of such pro-*
3 *gram (as so in effect) shall apply in lieu of section*
4 *529(b) of the Internal Revenue Code of 1986 with re-*
5 *spect to such contributions and earnings.”.*

6 (2) *AMENDMENTS RELATED TO SECTION 1807.—*

7 (A) *Paragraph (2) of section 23(a) is*
8 *amended to read as follows:*

9 “(2) *YEAR CREDIT ALLOWED.—The credit under*
10 *paragraph (1) with respect to any expense shall be al-*
11 *lowed—*

12 “(A) *in the case of any expense paid or in-*
13 *curring before the taxable year in which such*
14 *adoption becomes final, for the taxable year fol-*
15 *lowing the taxable year during which such ex-*
16 *penditure is paid or incurred, and*

17 “(B) *in the case of an expense paid or in-*
18 *curring during or after the taxable year in which*
19 *such adoption becomes final, for the taxable year*
20 *in which such expense is paid or incurred.”.*

21 (B) *Subparagraph (B) of section 23(b)(2) is*
22 *amended by striking “determined—” and all*
23 *that follows and inserting the following: “deter-*
24 *mined without regard to sections 911, 931, and*
25 *933.”.*

1 (C) Paragraph (1) of section 137(b) (relat-
2 ing to adoption assistance programs) is amended
3 by striking “amount excludable from gross in-
4 come” and inserting “of the amounts paid or ex-
5 penses incurred which may be taken into ac-
6 count”.

7 (D)(i) Subparagraph (C) of section
8 414(n)(3) is amended by inserting “137,” after
9 “132,”.

10 (ii) Paragraph (2) of section 414(t) is
11 amended by inserting “137,” after “132,”.

12 (iii) Paragraph (1) of section 6039D(d) is
13 amended by striking “or 129” and inserting
14 “129, or 137”.

15 (i) AMENDMENTS RELATED TO SUBTITLE I.—

16 (1) AMENDMENT RELATED TO SECTION 1901.—
17 Subsection (b) of section 6048 is amended in the
18 heading by striking “GRANTOR” and inserting
19 “OWNER”.

20 (2) AMENDMENTS RELATED TO SECTION 1903.—

21 Clauses (ii) and (iii) of section 679(a)(3)(C)
22 are each amended by inserting “, owner,” after
23 “grantor”.

24 (3) AMENDMENTS RELATED TO SECTION 1907.—

1 (A) Clause (ii) of section 7701(a)(30)(E) is
2 amended by striking “fiduciaries” and inserting
3 “persons”.

4 (B) Subsection (b) of section 641 is amend-
5 ed by adding at the end the following new sen-
6 tence: “For purposes of this subsection, a foreign
7 trust or foreign estate shall be treated as a non-
8 resident alien individual who is not present in
9 the United States at any time.”.

10 (4) *EFFECTIVE DATE RELATED TO SUBTITLE*
11 *I.—The Secretary of the Treasury may by regulations*
12 *or other administrative guidance provide that the*
13 *amendments made by section 1907(a) of the Small*
14 *Business Job Protection Act of 1996 shall not apply*
15 *to a trust with respect to a reasonable period begin-*
16 *ning on the date of the enactment of such Act, if—*

17 (A) *such trust is in existence on August 20,*
18 *1996, and is a United States person for purposes*
19 *of the Internal Revenue Code of 1986 on such*
20 *date (determined without regard to such amend-*
21 *ments),*

22 (B) *no election is in effect under section*
23 *1907(a)(3)(B) of such Act with respect to such*
24 *trust,*

1 (C) before the expiration of such reasonable
2 period, such trust makes the modifications nec-
3 essary to be treated as a United States person for
4 purposes of such Code (determined with regard
5 to such amendments), and

6 (D) such trust meets such other conditions
7 as the Secretary may require.

8 (j) *EFFECTIVE DATE.*—

9 (1) *IN GENERAL.*—Except as provided in para-
10 graph (2), the amendments made by this section shall
11 take effect as if included in the provisions of the
12 Small Business Job Protection Act of 1996 to which
13 they relate.

14 (2) *CERTAIN ADMINISTRATIVE REQUIREMENTS*
15 *WITH RESPECT TO CERTAIN PENSION PLANS.*—The
16 amendment made by subsection (d)(2)(D) shall apply
17 to calendar years beginning after the date of the en-
18 actment of this Act.

19 **SEC. 1402. AMENDMENTS RELATED TO HEALTH INSURANCE**
20 **PORTABILITY AND ACCOUNTABILITY ACT OF**
21 **1996.**

22 (a) *AMENDMENTS RELATED TO SECTION 301.*—

23 (1) Paragraph (2) of section 26(b) is amended by
24 striking “and” at the end of subparagraph (N), by
25 striking the period at the end of subparagraph (O)

1 and inserting “, and”, and by adding at the end the
2 following new subparagraph:

3 “(P) section 220(f)(4) (relating to addi-
4 tional tax on medical savings account distribu-
5 tions not used for qualified medical expenses).”.

6 (2) Paragraph (3) of section 220(c) is amended
7 by striking subparagraph (A) and redesignating sub-
8 paragraphs (B) through (D) as subparagraphs (A)
9 through (C), respectively.

10 (3) Subparagraph (C) of section 220(d)(2) is
11 amended by striking “an eligible individual” and in-
12 serting “described in clauses (i) and (ii) of subsection
13 (c)(1)(A)”.

14 (4) Subsection (a) of section 6693 is amended by
15 adding at the end the following new sentence:

16 *“This subsection shall not apply to any report which is an*
17 *information return described in section 6724(d)(1)(C)(i) or*
18 *a payee statement described in section 6724(d)(2)(X).”.*

19 (5) Paragraph (4) of section 4975(d) is amended
20 by striking “if, with respect to such transaction” and
21 all that follows and inserting the following: “if section
22 220(e)(2) applies to such transaction.”.

23 (b) AMENDMENT RELATED TO SECTION 321.—Sub-
24 paragraph (B) of section 7702B(c)(2) is amended in the

1 *last sentence by inserting “described in subparagraph*
2 *(A)(i)” after “chronically ill individual”.*

3 *(c) AMENDMENT RELATED TO SECTION 322.—Sub-*
4 *paragraph (B) of section 162(l)(2) is amended by adding*
5 *at the end the following new sentence: “The preceding sen-*
6 *tence shall be applied separately with respect to—*

7 *“(i) plans which include coverage for*
8 *qualified long-term care services (as defined*
9 *in section 7702B(c)) or are qualified long-*
10 *term care insurance contracts (as defined in*
11 *section 7702B(b)), and*

12 *“(ii) plans which do not include such*
13 *coverage and are not such contracts.”.*

14 *(d) AMENDMENTS RELATED TO SECTION 323.—*

15 *(1) Paragraph (1) of section 6050Q(b) is amend-*
16 *ed by inserting “, address, and phone number of the*
17 *information contact” after “name”.*

18 *(2)(A) Paragraph (2) of section 6724(d) is*
19 *amended by striking so much as follows subparagraph*
20 *(Q) and precedes the last sentence, and inserting the*
21 *following new subparagraphs:*

22 *“(R) section 6050R(c) (relating to returns*
23 *relating to certain purchases of fish),*

24 *“(S) section 6051 (relating to receipts for*
25 *employees),*

1 “(T) section 6052(b) (relating to returns re-
2 garding payment of wages in the form of group-
3 term life insurance),

4 “(U) section 6053(b) or (c) (relating to re-
5 ports of tips),

6 “(V) section 6048(b)(1)(B) (relating to for-
7 eign trust reporting requirements),

8 “(W) section 4093(c)(4)(B) (relating to cer-
9 tain purchasers of diesel and aviation fuels),

10 “(X) section 408(i) (relating to reports with
11 respect to individual retirement plans) to any
12 person other than the Secretary with respect to
13 the amount of payments made to such person, or

14 “(Y) section 6047(d) (relating to reports by
15 plan administrators) to any person other than
16 the Secretary with respect to the amount of pay-
17 ments made to such person.”.

18 (B) Subsection (e) of section 6652 is amended in
19 the last sentence by striking “section 6724(d)(2)(X)”
20 and inserting “section 6724(d)(2)(Y)”.

21 (e) AMENDMENT RELATED TO SECTION 325.—Clauses
22 (ii) and (iii) of section 7702B(g)(4)(B) are each amended
23 by striking “Secretary” and inserting “appropriate State
24 regulatory agency”.

25 (f) AMENDMENTS RELATED TO SECTION 501.—

1 (1) Paragraph (4) of section 264(a) is amended
2 by striking subparagraph (A) and all that follows
3 through “by the taxpayer.” and inserting the follow-
4 ing:

5 “(A) is or was an officer or employee, or

6 “(B) is or was financially interested in,
7 any trade or business carried on (currently or for-
8 merly) by the taxpayer.”.

9 (2) The last 2 sentences of section
10 264(d)(2)(B)(ii) are amended to read as follows:

11 “*For purposes of subclause (II), the term*
12 ‘*applicable period*’ means the 12-month pe-
13 riod beginning on the date the policy is is-
14 sued (and each successive 12-month period
15 thereafter) unless the taxpayer elects a num-
16 ber of months (not greater than 12) other
17 than such 12-month period to be its appli-
18 cable period. Such an election shall be made
19 not later than the 90th day after the date
20 of the enactment of this sentence and, if
21 made, shall apply to the taxpayer’s first
22 taxable year ending on or after October 13,
23 1995, and all subsequent taxable years un-
24 less revoked with the consent of the Sec-
25 retary.”.

1 (3) Subparagraph (B) of section 264(d)(4) is
2 amended by striking “the employer” and inserting
3 “the taxpayer”.

4 (4) Subsection (c) of section 501 of the Health
5 Insurance Portability and Accountability Act of 1996
6 is amended by striking paragraph (3).

7 (5) Paragraph (2) of section 501(d) of such Act
8 is amended by striking “no additional premiums”
9 and all that follows and inserting the following: “a
10 lapse occurring by reason of no additional premiums
11 being received under the contract after October 13,
12 1995.”.

13 (g) AMENDMENTS RELATED TO SECTION 511.—

14 (1) Subparagraph (B) of section 877(d)(2) is
15 amended by striking “the 10-year period described in
16 subsection (a)” and inserting “the 10-year period be-
17 ginning on the date the individual loses United States
18 citizenship”.

19 (2) Subparagraph (D) of section 877(d)(2) is
20 amended by adding at the end the following new sen-
21 tence: “In the case of any exchange occurring during
22 such 5 years, any gain recognized under this subpara-
23 graph shall be recognized immediately after such loss
24 of citizenship.”.

1 (3) Paragraph (3) of section 877(d) is amended
2 by inserting “and the period applicable under para-
3 graph (2)” after “subsection (a)”.

4 (4) Subparagraph (A) of section 877(d)(4) is
5 amended—

6 (A) by inserting “during the 10-year period
7 beginning on the date the individual loses United
8 States citizenship” after “contributes property”
9 in clause (i),

10 (B) by inserting “immediately before such
11 contribution” after “from such property”, and

12 (C) by striking “during the 10-year period
13 referred to in subsection (a),”.

14 (5) Subparagraph (C) of section 2501(a)(3) is
15 amended by striking “decedent” and inserting
16 “donor”.

17 (6)(A) Clause (i) of section 2107(c)(2)(A) is
18 amended by striking “such foreign country in respect
19 of property included in the gross estate” and inserting
20 “such foreign country”.

21 (B) Subparagraph (C) of section 2107(c)(2) is
22 amended to read as follows:

23 “(C) *PROPORTIONATE SHARE*.—In the case
24 of property which is included in the gross estate
25 solely by reason of subsection (b), such property’s

1 *proportionate share is the percentage which the*
2 *value of such property bears to the total value of*
3 *all property included in the gross estate solely by*
4 *reason of subsection (b).”.*

5 *(h) AMENDMENTS RELATED TO SECTION 512.—*

6 *(1) Subpart A of part III of subchapter A of*
7 *chapter 61 is amended by redesignating the section*
8 *6039F added by section 512 of the Health Insurance*
9 *Portability and Accountability Act of 1996 as section*
10 *6039G and by moving such section 6039G to imme-*
11 *diately after the section 6039F added by section 1905*
12 *of the Small Business Job Protection Act of 1996.*

13 *(2) The table of sections for subpart A of part III*
14 *of subchapter A of chapter 61 is amended by striking*
15 *the item relating to the section 6039F related to infor-*
16 *mation on individuals losing United States citizen-*
17 *ship and inserting after the item relating to the sec-*
18 *tion 6039F related to notice of large gifts received*
19 *from foreign persons the following new item:*

“Sec. 6039G. Information on individuals losing United States citi-
zenship.”.

20 *(3) Paragraph (1) of section 877(e) is amended*
21 *by striking “6039F” and inserting “6039G”.*

22 *(i) EFFECTIVE DATE.—The amendments made by this*
23 *section shall take effect as if included in the provisions of*

1 *the Health Insurance Portability and Accountability Act*
2 *of 1996 to which such amendments relate.*

3 **SEC. 1403. AMENDMENTS RELATED TO TAXPAYER BILL OF**
4 **RIGHTS 2.**

5 *(a) AMENDMENT RELATED TO SECTION 1311.—Sub-*
6 *section (b) of section 4962 is amended by striking “sub-*
7 *chapter A or C” and inserting “subchapter A, C, or D”.*

8 *(b) AMENDMENTS RELATED TO SECTION 1312.—*

9 *(1)(A) Paragraph (10) of section 6033(b) is*
10 *amended by striking all that precedes subparagraph*
11 *(A) and inserting the following:*

12 *“(10) the respective amounts (if any) of the taxes*
13 *imposed on the organization, or any organization*
14 *manager of the organization, during the taxable year*
15 *under any of the following provisions (and the respec-*
16 *tive amounts (if any) of reimbursements paid by the*
17 *organization during the taxable year with respect to*
18 *taxes imposed on any such organization manager*
19 *under any of such provisions):”.*

20 *(B) Subparagraph (C) of section 6033(b)(10) is*
21 *amended by adding at the end the following: “except*
22 *to the extent that, by reason of section 4962, the taxes*
23 *imposed under such section are not required to be*
24 *paid or are credited or refunded,”.*

1 (2) Paragraph (11) of section 6033(b) is amend-
2 ed to read as follows:

3 “(11) the respective amounts (if any) of—

4 “(A) the taxes imposed with respect to the
5 organization on any organization manager, or
6 any disqualified person, during the taxable year
7 under section 4958 (relating to taxes on private
8 excess benefit from certain charitable organiza-
9 tions), and

10 “(B) reimbursements paid by the organiza-
11 tion during the taxable year with respect to taxes
12 imposed under such section,

13 except to the extent that, by reason of section 4962,
14 the taxes imposed under such section are not required
15 to be paid or are credited or refunded.”.

16 (c) *EFFECTIVE DATE.*—The amendments made by this
17 section shall take effect as if included in the provisions of
18 the Taxpayer Bill of Rights 2 to which such amendments
19 relate.

20 **SEC. 1404. MISCELLANEOUS PROVISIONS.**

21 (a) *AMENDMENTS RELATED TO ENERGY POLICY ACT*
22 *OF 1992.*—

23 (1) Paragraph (1) of section 263(a) is amended
24 by striking “or” at the end of subparagraph (F), by
25 striking the period at the end of subparagraph (G)

1 and inserting “; or”, and by adding at the end the
2 following new subparagraph:

3 “(H) expenditures for which a deduction is
4 allowed under section 179A.”.

5 (2) Subparagraph (B) of section 312(k)(3) is
6 amended—

7 (A) by striking “179” in the heading and
8 the first place it appears in the text and insert-
9 ing “179 or 179A”, and

10 (B) by striking “179” the last place it ap-
11 pears and inserting “179 or 179A, as the case
12 may be”.

13 (3) Paragraphs (2)(C) and (3)(C) of section
14 1245(a) are each amended by inserting “179A,” after
15 “179,”.

16 (4) The amendments made by this subsection
17 shall take effect as if included in the amendments
18 made by section 1913 of the Energy Policy Act of
19 1992.

20 (b) AMENDMENTS RELATED TO URUGUAY ROUND
21 AGREEMENTS ACT.—

22 (1) Paragraph (1) of section 6621(a) is amended
23 in the last sentence by striking “subsection (c)(3))”
24 and inserting “subsection (c)(3), applied by substitut-
25 ing ‘overpayment’ for ‘underpayment’”.

1 (2) *Subclause (II) of section 412(m)(5)(E)(ii) is*
2 *amended by striking “clause (i)” and inserting “sub-*
3 *clause (I)”.*

4 (3) *Subparagraph (A) of section 767(d)(3) of the*
5 *Uruguay Round Agreements Act is amended in the*
6 *last sentence by striking “(except that” and all that*
7 *follows through “into account)”.*

8 (4) *The amendments made by this subsection*
9 *shall take effect as if included in the sections of the*
10 *Uruguay Round Agreements Act to which they relate.*

11 (c) *AMENDMENT RELATED TO TAX REFORM ACT OF*
12 1986.—*Paragraph (3) of section 1059(d) is amended by*
13 *striking “subsection (a)(2)” and inserting “subsection (a)”.*

14 (d) *AMENDMENT RELATED TO TAX REFORM ACT OF*
15 1984.—

16 (1) *Section 267(f) is amended by adding at the*
17 *end the following new paragraph:*

18 “(4) *DETERMINATION OF RELATIONSHIP RE-*
19 *SULTING IN DISALLOWANCE OF LOSS, FOR PURPOSES*
20 *OF OTHER PROVISIONS.—For purposes of any other*
21 *section of this title which refers to a relationship*
22 *which would result in a disallowance of losses under*
23 *this section, deferral under paragraph (2) shall be*
24 *treated as disallowance.”.*

1 (2) *EFFECTIVE DATE.*—*The amendment made*
2 *by paragraph (1) shall take effect as if included in*
3 *section 174(b) of the Tax Reform Act of 1984.*

4 *(e) CLERICAL AMENDMENTS.*—

5 (1) *Clause (iii) of section 163(j)(2)(B) is amend-*
6 *ed by striking “clause (i)” and inserting “clause*
7 *(ii)”.*

8 (2) *Paragraph (1) of section 665(d) is amended*
9 *in the last sentence by striking “or 669(d) and (e)”.*

10 (3) *Subsection (g) of section 1441 (relating to*
11 *cross reference) is amended by striking “one-half” and*
12 *inserting “85 percent”.*

13 (4) *Paragraph (1) of section 2523(g) is amended*
14 *by striking “qualified remainder trust” and inserting*
15 *“qualified charitable remainder trust”.*

16 (5) *Subsection (d) of section 9502 is amended by*
17 *redesignating the paragraph added by section 806 of*
18 *the Federal Aviation Reauthorization Act of 1996 as*
19 *paragraph (6).*

20 **TITLE XV—CHILDREN’S HEALTH**
21 **INSURANCE INITIATIVES**

22 **SEC. 1501. ESTABLISHMENT OF CHILDREN’S HEALTH IN-**
23 **SURANCE INITIATIVES.**

24 (a) *IN GENERAL.*—*The Social Security Act is amend-*
25 *ed by adding at the end the following:*

1 *gram or through expanded eligibility under the State*
2 *plan under title XIX (including under a waiver of*
3 *such plan), as determined by the Secretary. Such*
4 *term does not include any low-income child described*
5 *in paragraph (3)(A) that a State must cover in order*
6 *to be considered an eligible State under this title.*

7 “(2) *CHILD.*—*The term ‘child’ means an indi-*
8 *vidual under 19 years of age.*

9 “(3) *ELIGIBLE STATE.*—*The term ‘eligible State’*
10 *means, with respect to a fiscal year, a State that—*

11 “(A) *provides, under section 1902(l)(1)(D)*
12 *or under a waiver, for eligibility for medical as-*
13 *sistance under a State plan under title XIX of*
14 *individuals under 17 years of age in fiscal year*
15 *1998, and under 19 years of age in fiscal year*
16 *2000, regardless of date of birth;*

17 “(B) *has submitted to the Secretary under*
18 *section 2104 a program outline that—*

19 “(i) *sets forth how the State intends to*
20 *use the funds provided under this title to*
21 *provide health insurance coverage for low-*
22 *income children consistent with the provi-*
23 *sions of this title; and*

24 “(ii) *is approved under section 2104;*
25 *and*

1 “(iii) otherwise satisfies the require-
2 ments of this title; and

3 “(C) satisfies the maintenance of effort re-
4 quirement described in section 2105(c)(5).

5 “(4) *FEDERAL MEDICAL ASSISTANCE PERCENT-*
6 *AGE.*—The term ‘Federal medical assistance percent-
7 age’ means, with respect to a State, the meaning
8 given that term under section 1905(b). Any cost-shar-
9 ing imposed under this title may not be included in
10 determining Federal medical assistance percentage for
11 reimbursement of expenditures under a State program
12 funded under this title.

13 “(5) *FEHBP-EQUIVALENT CHILDREN’S HEALTH*
14 *INSURANCE COVERAGE.*—The term ‘FEHBP-equiva-
15 lent children’s health insurance coverage’ means, with
16 respect to a State, any plan or arrangement that pro-
17 vides, or pays the cost of, health benefits that the Sec-
18 retary has certified are equivalent to or better than
19 the services covered for a child, including hearing and
20 vision services, under the standard Blue Cross/Blue
21 Shield preferred provider option service benefit plan
22 offered under chapter 89 of title 5, United States
23 Code.

24 “(6) *INDIANS.*—The term ‘Indians’ has the
25 meaning given that term in section 4(c) of the Indian

1 *Health Care Improvement Act (25 U.S.C. 1601 et*
2 *seq.).*

3 “(7) *LOW-INCOME CHILD.*—*The term ‘low-income*
4 *child’ means a child in a family whose income is*
5 *below 200 percent of the poverty line for a family of*
6 *the size involved.*

7 “(8) *POVERTY LINE.*—*The term ‘poverty line’*
8 *has the meaning given that term in section 673(2) of*
9 *the Community Services Block Grant Act (42 U.S.C.*
10 *9902(2)), including any revision required by such sec-*
11 *tion.*

12 “(9) *SECRETARY.*—*The term ‘Secretary’ means*
13 *the Secretary of Health and Human Services.*

14 “(10) *STATE.*—*The term ‘State’ means each of*
15 *the 50 States, the District of Columbia, Puerto Rico,*
16 *Guam, the Virgin Islands, American Samoa, and the*
17 *Northern Mariana Islands.*

18 “(11) *STATE CHILDREN’S HEALTH EXPENDI-*
19 *TURES.*—*The term ‘State children’s health expendi-*
20 *tures’ means the State share of expenditures by the*
21 *State for providing children with health care items*
22 *and services under—*

23 “(A) *the State plan for medical assistance*
24 *under title XIX;*

1 “(B) the maternal and child health services
2 block grant program under title V;

3 “(C) the preventive health services block
4 grant program under part A of title XIX of the
5 Public Health Services Act (42 U.S.C. 300w et
6 seq.);

7 “(D) State-funded programs that are de-
8 signed to provide health care items and services
9 to children;

10 “(E) school-based health services programs;

11 “(F) State programs that provide uncom-
12 pensated or indigent health care;

13 “(G) county-indigent care programs for
14 which the State requires a matching share by a
15 county government or for which there are inter-
16 governmental transfers from a county to State
17 government; and

18 “(H) any other program under which the
19 Secretary determines the State incurs uncompen-
20 sated expenditures for providing children with
21 health care items and services.

22 “(12) STATE MEDICAID PROGRAM.—The term
23 ‘State medicaid program’ means the program of med-
24 ical assistance provided under title XIX.

1 **“SEC. 2103. APPROPRIATION.**

2 “(a) *APPROPRIATION.*—

3 “(1) *IN GENERAL.*—*Subject to subsection (b), out*
4 *of any money in the Treasury of the United States*
5 *not otherwise appropriated, there is appropriated for*
6 *the purpose of carrying out this title—*

7 “(A) *for each of fiscal years 1998 and 1999,*
8 *\$1,000,000,000;*

9 “(B) *for each of fiscal years 2000 through*
10 *2002, \$2,000,000,000; and*

11 “(C) *for each of fiscal years 2003 through*
12 *2007, \$0.*

13 “(2) *AVAILABILITY.*—*Funds appropriated under*
14 *this section shall remain available without fiscal year*
15 *limitation, as provided under section 2105(b)(4).*

16 “(b) *REDUCTION FOR INCREASED MEDICAID EXPENDI-*
17 *TURES.*—*With respect to each of the fiscal years described*
18 *in subsection (a)(1), the amount appropriated under sub-*
19 *section (a)(1) for each such fiscal year shall be reduced by*
20 *an amount equal to the amount of the total Federal outlays*
21 *under the medicaid program under title XIX resulting*
22 *from—*

23 “(1) *the amendment made by section 5732 of the*
24 *Balanced Budget Act of 1997 (regarding the State op-*
25 *tion to provide 12-month continuous eligibility for*
26 *children);*

1 “(2) increased enrollment under State plans ap-
2 proved under such program as a result of outreach ac-
3 tivities under section 2106(a); and

4 “(3) the requirement under section 2102(3)A) to
5 provide eligibility for medical assistance under the
6 State plan under title XIX for all children under 19
7 years of age who have families with income that is at
8 or below the poverty line.

9 “(c) *STATE ENTITLEMENT.*—This title constitutes
10 budget authority in advance of appropriations Acts and
11 represents the obligation of the Federal Government to pro-
12 vide for the payment to States of amounts provided in ac-
13 cordance with the provisions of this title.

14 “(d) *EFFECTIVE DATE.*—No State is eligible for pay-
15 ments under section 2105 for any calendar quarter begin-
16 ning before October 1, 1997.

17 **“SEC. 2104. PROGRAM OUTLINE.**

18 “(a) *GENERAL DESCRIPTION.*—A State shall submit to
19 the Secretary for approval a program outline, consistent
20 with the requirements of this title, that—

21 “(1) identifies, on or after the date of enactment
22 of the Balanced Budget Act of 1997, which of the 2
23 options described in section 2101 the State intends to
24 use to provide low-income children in the State with
25 health insurance coverage;

1 “(2) describes the manner in which such coverage
2 shall be provided; and

3 “(3) provides such other information as the Sec-
4 retary may require.

5 “(b) *OTHER REQUIREMENTS.*—The program outline
6 submitted under this section shall include the following:

7 “(1) *ELIGIBILITY STANDARDS AND METHODOLO-*
8 *GIES.*—A summary of the standards and methodolo-
9 gies used to determine the eligibility of low-income
10 children for health insurance coverage under a State
11 program funded under this title.

12 “(2) *ELIGIBILITY SCREENING; COORDINATION*
13 *WITH OTHER HEALTH COVERAGE.*—A description of
14 the procedures to be used to ensure—

15 “(A) through both intake and followup
16 screening, that only low-income children are fur-
17 nished health insurance coverage through funds
18 provided under this title; and

19 “(B) that any health insurance coverage
20 provided for children through funds under this
21 title does not reduce the number of children who
22 are provided such coverage through any other
23 publicly or privately funded health plan.

1 “(3) *INDIANS*.—A description of how the State
2 will ensure that Indians are served through a State
3 program funded under this title.

4 “(c) *DEADLINE FOR SUBMISSION*.—A State program
5 outline shall be submitted to the Secretary by not later than
6 March 31 of any fiscal year (October 1, 1997, in the case
7 of fiscal year 1998).

8 **“SEC. 2105. DISTRIBUTION OF FUNDS.**

9 “(a) *ESTABLISHMENT OF FUNDING POOLS*.—

10 “(1) *IN GENERAL*.—From the amount appro-
11 priated under section 2103(a)(1) for each fiscal year,
12 determined after the reduction required under section
13 2103(b), the Secretary shall, for purposes of fiscal
14 year 1998, reserve 85 percent of such amount for dis-
15 tribution to eligible States through the basic allotment
16 pool under subsection (b) and 15 percent of such
17 amount for distribution through the new coverage in-
18 centive pool under subsection (c)(2)(B)(i).

19 “(2) *ANNUAL ADJUSTMENT OF RESERVE PER-*
20 *CENTAGES*.—The Secretary shall annually adjust the
21 amount of the percentages described in paragraph (1)
22 in order to provide sufficient basic allotments and
23 sufficient new coverage incentives to achieve the pur-
24 pose of this title.

1 “(b) *DISTRIBUTION OF FUNDS UNDER THE BASIC AL-*
2 *LOTMENT POOL.*—

3 “(1) *STATES.*—

4 “(A) *IN GENERAL.*—*From the total amount*
5 *reserved under subsection (a) for a fiscal year for*
6 *distribution through the basic allotment pool, the*
7 *Secretary shall first set aside 0.25 percent for*
8 *distribution under paragraph (2) and shall allot*
9 *from the amount remaining to each eligible State*
10 *not described in such paragraph the State’s allot-*
11 *ment percentage for such fiscal year.*

12 “(B) *STATE’S ALLOTMENT PERCENTAGE.*—

13 “(i) *IN GENERAL.*—*For purposes of*
14 *subparagraph (A), the allotment percentage*
15 *for a fiscal year for each State is the per-*
16 *centage equal to the ratio of the number of*
17 *low-income children in the base period in*
18 *the State to the total number of low-income*
19 *children in the base period in all States not*
20 *described in paragraph (2).*

21 “(ii) *NUMBER OF LOW-INCOME CHIL-*
22 *DREN IN THE BASE PERIOD.*—*In clause (i),*
23 *the number of low-income children in the*
24 *base period for a fiscal year in a State is*
25 *equal to the average of the number of low-*

1 *income children in the State for the period*
2 *beginning on October 1, 1992, and ending*
3 *on September 30, 1995, as reported in the*
4 *March 1994, March 1995, and March 1996*
5 *supplements to the Current Population Sur-*
6 *vey of the Bureau of the Census.*

7 “(2) *OTHER STATES.—*

8 “(A) *IN GENERAL.—From the amount set*
9 *aside under paragraph (1)(A) for each fiscal*
10 *year, the Secretary shall make allotments for*
11 *such fiscal year in accordance with the percent-*
12 *ages specified in subparagraph (B) to Puerto*
13 *Rico, Guam, the Virgin Islands, American*
14 *Samoa, and the Northern Mariana Islands, if*
15 *such States are eligible States for such fiscal*
16 *year.*

17 “(B) *PERCENTAGES SPECIFIED.—The per-*
18 *centages specified in this subparagraph are in*
19 *the case of—*

20 “(i) *Puerto Rico, 91.6 percent;*

21 “(ii) *Guam, 3.5 percent;*

22 “(iii) *the Virgin Islands, 2.6 percent;*

23 “(iv) *American Samoa, 1.2 percent;*

24 *and*

1 “(v) *the Northern Mariana Islands, 1.1*
2 *percent.*

3 “(3) *THREE-YEAR AVAILABILITY OF AMOUNTS*
4 *ALLOTTED.—Amounts allotted to a State pursuant to*
5 *this subsection for a fiscal year shall remain available*
6 *for expenditure by the State through the end of the*
7 *second succeeding fiscal year.*

8 “(4) *PROCEDURE FOR DISTRIBUTION OF UNUSED*
9 *FUNDS.—The Secretary shall determine an appro-*
10 *prate procedure for distribution of funds to eligible*
11 *States that remain unused under this subsection after*
12 *the expiration of the availability of funds required*
13 *under paragraph (3). Such procedure shall be devel-*
14 *oped and administered in a manner that is consistent*
15 *with the purpose of this title.*

16 “(c) *PAYMENTS.—*

17 “(1) *IN GENERAL.—The Secretary shall—*

18 “(A) *before October 1 of any fiscal year,*
19 *pay an eligible State an amount equal to 1 per-*
20 *cent of the amount allotted to the State under*
21 *subsection (b) for conducting the outreach activi-*
22 *ties required under section 2106(a); and*

23 “(B) *make quarterly fiscal year payments*
24 *to an eligible State from the amount remaining*
25 *of such allotment for such fiscal year in an*

1 *amount equal to the Federal medical assistance*
2 *percentage for the State (as defined under section*
3 *2102(4) and determined without regard to the*
4 *amount of Federal funds received by the State*
5 *under title XIX before the date of enactment of*
6 *this title) of the Federal and State incurred cost*
7 *of providing health insurance coverage for a low-*
8 *income child in the State plus the applicable*
9 *bonus amount.*

10 “(2) *APPLICABLE BONUS.*—

11 “(A) *IN GENERAL.*—*For purposes of para-*
12 *graph (1), the applicable bonus amount is—*

13 “(i) *5 percent of the Federal and State*
14 *incurred cost, with respect to a period, of*
15 *providing health insurance coverage for*
16 *children covered at State option among the*
17 *base-year covered low-income child popu-*
18 *lation (measured in full year equivalency)*
19 *(including such children covered by the*
20 *State through expanded eligibility under the*
21 *medicaid program under title XIX before*
22 *the date of enactment of this title, but ex-*
23 *cluding any low-income child described in*
24 *section 2102(3)(A) that a State must cover*

1 *in order to be considered an eligible State*
2 *under this title); and*

3 “(ii) 10 percent of the Federal and
4 State incurred cost, with respect to a pe-
5 riod, of providing health insurance coverage
6 for children covered at State option among
7 the number (as so measured) of low-income
8 children that are in excess of such popu-
9 lation.

10 “(B) SOURCE OF BONUSES.—

11 “(i) BASE-YEAR COVERED LOW-INCOME
12 CHILD POPULATION.—A bonus described in
13 subparagraph (A)(i) shall be paid out of an
14 eligible State’s allotment for a fiscal year.

15 “(ii) FOR OTHER LOW-INCOME CHILD
16 POPULATIONS.—A bonus described in sub-
17 paragraph (A)(ii) shall be paid out of the
18 new coverage incentive pool reserved under
19 subsection (a)(1).

20 “(3) DEFINITION OF COST OF PROVIDING
21 HEALTH INSURANCE COVERAGE.—For purposes of this
22 subsection the cost of providing health insurance cov-
23 erage for a low-income child in the State means—

24 “(A) in the case of an eligible State that
25 opts to use funds provided under this title

1 *through the medicaid program, the cost of pro-*
2 *viding such child with medical assistance under*
3 *the State plan under title XIX; and*

4 “(B) *in the case of an eligible State that*
5 *opts to use funds provided under this title under*
6 *section 2107, the cost of providing such child*
7 *with health insurance coverage under such sec-*
8 *tion.*

9 “(4) *LIMITATION ON TOTAL PAYMENTS.—With*
10 *respect to a fiscal year, the total amount paid to an*
11 *eligible State under this title (including any bonus*
12 *payments) shall not exceed 85 percent of the total cost*
13 *of a State program conducted under this title for such*
14 *fiscal year.*

15 “(5) *MAINTENANCE OF EFFORT.—*

16 “(A) *DEEMED COMPLIANCE.—A State shall*
17 *be deemed to be in compliance with this provi-*
18 *sion if—*

19 “(i) *it does not adopt income and re-*
20 *source standards and methodologies that are*
21 *more restrictive than those applied as of*
22 *June 1, 1997, for purposes of determining a*
23 *child’s eligibility for medical assistance*
24 *under the State plan under title XIX; and*

1 “(i) in the case of fiscal year 1998
2 and each fiscal year thereafter, the State
3 children’s health expenditures defined in
4 section 2102(11) are not less than the
5 amount of such expenditures for fiscal year
6 1996.

7 “(B) *FAILURE TO MAINTAIN MEDICAID*
8 *STANDARDS AND METHODOLOGIES.*—A State
9 that fails to meet the conditions described in sub-
10 paragraph (A) shall not receive—

11 “(i) funds under this title for any child
12 that would be determined eligible for medi-
13 cal assistance under the State plan under
14 title XIX using the income and resource
15 standards and methodologies applied under
16 such plan as of June 1, 1997; and

17 “(ii) any bonus amounts described in
18 paragraph (2)(A)(i).

19 “(C) *FAILURE TO MAINTAIN SPENDING ON*
20 *CHILD HEALTH PROGRAMS.*—A State that fails
21 to meet the condition described in subparagraph
22 (A)(i) shall not receive funding under this title.

23 “(6) *ADVANCE PAYMENT; RETROSPECTIVE AD-*
24 *JUSTMENT.*—The Secretary may make payments
25 under this subsection for each quarter on the basis of

1 *advance estimates of expenditures submitted by the*
2 *State and such other investigation as the Secretary*
3 *may find necessary, and shall reduce or increase the*
4 *payments as necessary to adjust for any overpayment*
5 *or underpayment for prior quarters.*

6 **“SEC. 2106. USE OF FUNDS.**

7 **“(a) SET-ASIDE FOR OUTREACH ACTIVITIES.—**

8 **“(1) IN GENERAL.—***From the amount allotted to*
9 *a State under section 2105(b) for a fiscal year, each*
10 *State shall conduct outreach activities described in*
11 *paragraph (2).*

12 **“(2) OUTREACH ACTIVITIES DESCRIBED.—***The*
13 *outreach activities described in this paragraph in-*
14 *clude activities to—*

15 **“(A) identify and enroll children who are**
16 *eligible for medical assistance under the State*
17 *plan under title XIX; and*

18 **“(B) conduct public awareness campaigns**
19 *to encourage employers to provide health insur-*
20 *ance coverage for children.*

21 **“(b) STATE OPTIONS FOR REMAINDER.—***A State may*
22 *use the amount remaining of the allotment to a State under*
23 *section 2105(b) for a fiscal year, determined after the pay-*
24 *ment required under section 2105(c)(1)(A), in accordance*
25 *with section 2107 or the State medicaid program (but not*

1 both). Nothing in the preceding sentence shall be construed
2 as limiting a State's eligibility for receiving the 5 percent
3 bonus described in section 2105(c)(2)(A)(i) for children cov-
4 ered by the State through expanded eligibility under the
5 medicaid program under title XIX before the date of enact-
6 ment of this title.

7 “(c) *PROHIBITION ON USE OF FUNDS.*—No funds pro-
8 vided under this title may be used to provide health insur-
9 ance coverage for—

10 “(1) families of State public employees; or

11 “(2) children who are committed to a penal in-
12 stitution.

13 “(d) *USE LIMITED TO STATE PROGRAM EXPENDI-*
14 *TURES.*—Funds provided to an eligible State under this
15 title shall only be used to carry out the purpose of this title
16 (as described in section 2101), and any health insurance
17 coverage provided with such funds may include coverage of
18 abortion only if necessary to save the life of the mother or
19 if the pregnancy is the result of an act of rape or incest.

20 “(e) *ADMINISTRATIVE EXPENDITURES.*—

21 “(1) *IN GENERAL.*—Not more than the applicable
22 percentage of the amount allotted to a State under
23 section 2105(b) for a fiscal year, determined after the
24 payment required under section 2105(c)(1)(A), shall

1 *be used for administrative expenditures for the pro-*
2 *gram funded under this title.*

3 “(2) *APPLICABLE PERCENTAGE.*—*For purposes*
4 *of paragraph (1), the applicable percentage with re-*
5 *spect to a fiscal year is—*

6 “(A) *for the first 2 years of a State pro-*
7 *gram funded under this title, 10 percent;*

8 “(B) *for the third year of a State program*
9 *funded under this title, 7.5 percent; and*

10 “(C) *for the fourth year of a State program*
11 *funded under this title and each year thereafter,*
12 *5 percent.*

13 “(f) *NONAPPLICATION OF FIVE-YEAR LIMITED ELIGI-*
14 *BILITY FOR MEANS-TESTED PUBLIC BENEFITS.*—*The pro-*
15 *visions of section 403 of the Personal Responsibility and*
16 *Work Opportunity Reconciliation Act of 1996 (8 U.S.C.*
17 *1613) shall not apply with respect to a State program fund-*
18 *ed under this title.*

19 “(g) *AUDITS.*—*The provisions of section 506(b) shall*
20 *apply to funds expended under this title to the same extent*
21 *as they apply to title V.*

22 “(h) *REQUIREMENT TO FOLLOW STATE PROGRAM*
23 *OUTLINE.*—*The State shall conduct the program in accord-*
24 *ance with the program outline approved by the Secretary*
25 *under section 2104.*

1 **“SEC. 2107. STATE OPTION FOR THE PURCHASE OR PROVI-**
2 **SION OF CHILDREN’S HEALTH INSURANCE.**

3 “(a) *STATE OPTION.*—

4 “(1) *IN GENERAL.*—*An eligible State that opts to*
5 *use funds provided under this title under this section*
6 *shall use such funds to provide FEHBP-equivalent*
7 *children’s health insurance coverage for low-income*
8 *children who reside in the State.*

9 “(2) *PRIORITY FOR LOW-INCOME CHILDREN.*—*A*
10 *State that uses funds provided under this title under*
11 *this section shall not cover low-income children with*
12 *higher family income without covering such children*
13 *with a lower family income.*

14 “(3) *DETERMINATION OF ELIGIBILITY AND FORM*
15 *OF ASSISTANCE.*—*An eligible State may establish any*
16 *additional eligibility criteria for the provision of*
17 *health insurance coverage for a low-income child*
18 *through funds provided under this title, so long as*
19 *such criteria and assistance are consistent with the*
20 *purpose and provisions of this title.*

21 “(4) *AFFORDABILITY.*—*An eligible State may*
22 *impose any family premium obligations or cost-shar-*
23 *ing requirements otherwise permitted under this title*
24 *on low-income children with family incomes that ex-*
25 *ceed 150 percent of the poverty line. In the case of a*
26 *low-income child whose family income is at or below*

1 150 percent of the poverty line, limits on beneficiary
2 costs generally applicable under title XIX apply to
3 coverage provided such children under this section.

4 “(b) *NONENTITLEMENT.*—Nothing in this section shall
5 be construed as providing an entitlement for an individual
6 or person to any health insurance coverage, assistance, or
7 service provided through a State program funded under this
8 title. If, with respect to a fiscal year, an eligible State deter-
9 mines that the funds provided under this title are not suffi-
10 cient to provide health insurance coverage for all the low-
11 income children that the State proposes to cover in the State
12 program outline submitted under section 2104 for such fis-
13 cal year, the State may adjust the applicable eligibility cri-
14 teria for such children appropriately or adjust the State
15 program in another manner specified by the Secretary, so
16 long as any such adjustments are consistent with the pur-
17 pose of this title.

18 **“SEC. 2107A. MENTAL HEALTH PARITY.**

19 “(a) *PROHIBITION.*—In the case of a health plan that
20 enrolls children through the use of assistance provided
21 under a grant program conducted under this title, such
22 plan, if the plan provides both medical and surgical benefits
23 and mental health benefits, shall not impose treatment limi-
24 tations or financial requirements on the coverage of mental

1 *health benefits if similar limitations or requirements are*
2 *not imposed on medical and surgical benefits.*

3 “(b) *RULE OF CONSTRUCTION.—Nothing in this sec-*
4 *tion shall be construed—*

5 “(1) *as prohibiting a health plan from requiring*
6 *preadmission screening prior to the authorization of*
7 *services covered under the plan or from applying*
8 *other limitations that restrict coverage for mental*
9 *health services to those services that are medically*
10 *necessary; and*

11 “(2) *as requiring a health plan to provide any*
12 *mental health benefits.*

13 “(c) *SEPARATE APPLICATION TO EACH OPTION OF-*
14 *FERED.—In the case of a health plan that offers a child*
15 *described in subsection (a) 2 or more benefit package op-*
16 *tions under the plan, the requirements of this section shall*
17 *be applied separately with respect to each such option.*

18 “(d) *DEFINITIONS.—In this section:*

19 “(1) *MEDICAL OR SURGICAL BENEFITS.—The*
20 *term ‘medical or surgical benefits’ means benefits*
21 *with respect to medical or surgical services, as defined*
22 *under the terms of the plan, but does not include*
23 *mental health benefits.*

24 “(2) *MENTAL HEALTH BENEFITS.—The term*
25 *‘mental health benefits’ means benefits with respect to*

1 *mental health services, as defined under the terms of*
2 *the plan, but does not include benefits with respect to*
3 *the treatment of substance abuse and chemical de-*
4 *pendency.*

5 **“SEC. 2108. PROGRAM INTEGRITY.**

6 *“The following provisions of the Social Security Act*
7 *shall apply to eligible States under this title in the same*
8 *manner as such provisions apply to a State under title*
9 *XIX:*

10 *“(1) Section 1116 (relating to administrative*
11 *and judicial review).*

12 *“(2) Section 1124 (relating to disclosure of own-*
13 *ership and related information).*

14 *“(3) Section 1126 (relating to disclosure of infor-*
15 *mation about certain convicted individuals).*

16 *“(4) Section 1128 (relating to exclusion from in-*
17 *dividuals and entities from participation in State*
18 *health care plans).*

19 *“(5) Section 1128A (relating to civil monetary*
20 *penalties).*

21 *“(6) Section 1128B (relating to criminal pen-*
22 *alties).*

23 *“(7) Section 1132 (relating to periods within*
24 *which claims must be filed).*

1 “(8) Section 1902(a)(4)(C) (relating to conflict
2 of interest standards).

3 “(9) Section 1903(i) (relating to limitations on
4 payment).

5 “(10) Section 1903(m)(5) (as in effect on the day
6 before the date of enactment of the Balanced Budget
7 Act of 1997).

8 “(11) Section 1903(w) (relating to limitations on
9 provider taxes and donations).

10 “(12) Section 1905(a)(B) (relating to the exclu-
11 sion of care or services for any individual who has
12 not attained 65 years of age and who is a patient in
13 an institution for mental diseases from the definition
14 of medical assistance).

15 “(13) Section 1921 (relating to state licensure
16 authorities).

17 “(14) Sections 1902(a)(25), 1912(a)(1)(A), and
18 1903(o) (insofar as such sections relate to third party
19 liability).

20 “(15) Sections 1948 and 1949 (as added by sec-
21 tion 5701(a)(2) of the Balanced Budget Act of 1997).

22 **“SEC. 2109. ANNUAL REPORTS.**

23 “(a) ANNUAL STATE ASSESSMENT OF PROGRESS.—An
24 eligible State shall—

1 “(1) assess the operation of the State program
2 funded under this title in each fiscal year, including
3 the progress made in providing health insurance cov-
4 erage for low-income children; and

5 “(2) report to the Secretary, by January 1 fol-
6 lowing the end of the fiscal year, on the result of the
7 assessment.

8 “(b) *REPORT OF THE SECRETARY.*—The Secretary
9 shall submit to the appropriate committees of Congress an
10 annual report and evaluation of the State programs funded
11 under this title based on the State assessments and reports
12 submitted under subsection (a). Such report shall include
13 any conclusions and recommendations that the Secretary
14 considers appropriate.”.

15 (b) *CONFORMING AMENDMENT.*—Section 1128(h) (42
16 U.S.C. 1320a–7(h)) is amended by—

17 (1) in paragraph (2), by striking “or” at the
18 end;

19 (2) in paragraph (3), by striking the period and
20 inserting “, or”; and

21 (3) by adding at the end the following:

22 “(4) a program funded under title XXI.”.

23 **SEC. 1502. APPLICABILITY.**

24 If, on the date of enactment of this Act, the Social Se-
25 curity Act contains a title XXI, the amendments made to

1 *the Social Security Act by this title shall not take effect,*
2 *except that amounts appropriated under such title XXI for*
3 *a fiscal year shall be increased by the amounts that would*
4 *have been appropriated for such fiscal year under section*
5 *2103 of the Social Security Act, as added by this title.*

6 **TITLE XVI—BUDGET**

7 **ENFORCEMENT**

8 **Subtitle A—Amendments to the** 9 **Congressional Budget and Im-** 10 **poundment Control Act of 1974**

11 **SEC. 1601. AMENDMENTS TO SECTION 201.**

12 *Section 201 of the Congressional Budget Act of 1974*
13 *is amended by redesignating subsection (g) (relating to rev-*
14 *enue estimates) as subsection (f).*

15 **SEC. 1602. AMENDMENTS TO SECTION 202.**

16 *(a) ASSISTANCE TO BUDGET COMMITTEES.—The first*
17 *sentence of section 202(a) of the Congressional Budget Act*
18 *of 1974 is amended by inserting “primary” before “duty”.*

19 *(b) ELIMINATION OF EXECUTED PROVISION.—Section*
20 *202 of the Congressional Budget Act of 1974 is amended*
21 *by striking subsection (e) and by redesignating subsections*
22 *(f), (g), and (h) as subsections (e), (f), and (g), respectively.*

23 **SEC. 1603. AMENDMENT TO SECTION 300.**

24 *The item relating to February 25 in the timetable set*
25 *forth in section 300 of the Congressional Budget Act of 1974*

1 *is amended by striking “February 25” and inserting “With-*
2 *in 6 weeks after President submits budget”.*

3 **SEC. 1604. AMENDMENTS TO SECTION 301.**

4 (a) *TERMS OF BUDGET RESOLUTIONS.*—Section
5 *301(a) of the Congressional Budget Act of 1974 is amended*
6 *by striking “, and planning levels for each of the two ensu-*
7 *ing fiscal years,” and inserting “and for at least each of*
8 *the 4 ensuing fiscal years”.*

9 (b) *CONTENTS OF BUDGET RESOLUTIONS.*—Para-
10 *graphs (1) and (4) of section 301(a) of the Congressional*
11 *Budget Act of 1974 are amended by striking “, budget out-*
12 *lays, direct loan obligations, and primary loan guarantee*
13 *commitments” each place it appears and inserting “and*
14 *budget outlays”.*

15 (c) *ADDITIONAL MATTERS.*—Section 301(b) of the
16 *Congressional Budget Act of 1974 is amended by—*

17 (1) *amending paragraph (7) to read as follows—*

18 “(7) *set forth pay-as-you-go procedures in the*
19 *Senate whereby committee allocations, aggregates, and*
20 *other levels can be revised for legislation if such legis-*
21 *lation would not increase the deficit or would not in-*
22 *crease the deficit when taken with other legislation en-*
23 *acted after the adoption of the resolution for the first*
24 *fiscal year or the total period of fiscal years covered*
25 *by the resolution;”;*

1 (2) *in paragraph 8, striking the period and in-*
2 *serting “; and”; and*

3 (3) *adding the following new paragraph:*

4 “(9) *set forth direct loan obligations and pri-*
5 *mary loan commitment guarantee levels.”.*

6 (d) *VIEWS AND ESTIMATES.—The first sentence of sec-*
7 *tion 301(d) of the Congressional Budget Act of 1974 is*
8 *amended by inserting “or at such time as may be requested*
9 *by the Committee on the Budget,” after “Code,”.*

10 (e) *HEARINGS AND REPORT.—Section 301(e) of the*
11 *Congressional Budget Act of 1974 is amended—*

12 (1) *by striking “In developing” and inserting the*
13 *following:*

14 “(1) *IN GENERAL.—In developing”; and*

15 (2) *by striking the sentence beginning with “The*
16 *report accompanying ” and all that follows through*
17 *the end of the subsection and inserting the following:*

18 “(2) *REQUIRED CONTENTS OF REPORT.—The re-*
19 *port accompanying such concurrent resolution shall*
20 *include—*

21 “(A) *a comparison of the appropriate levels*
22 *of total new budget authority, total budget out-*
23 *lays, and total revenues as set forth in such con-*
24 *current resolution with those requested in the*
25 *budget submitted by the President;*

1 “(B) with respect to each major functional
2 category, an estimate of total new budget author-
3 ity and total outlays with the estimates divided
4 between permanent authority and funds provided
5 in appropriations Acts;

6 “(C) the economic assumptions which un-
7 derlie each of the matters set forth in such con-
8 current resolution and any alternative economic
9 assumptions and objectives that the committee
10 considered;

11 “(D) projections for the period of 5 fiscal
12 years beginning with such fiscal year, of the esti-
13 mated levels of total new budget authority, total
14 outlays and total revenues and the surplus or
15 deficit for each fiscal year;

16 “(E) information, data, and comparisons
17 indicating the manner in which, and the basis
18 on which, the committee determined each of the
19 matters set forth in the concurrent resolutions;

20 “(F) the estimated levels of tax expenditures
21 (the tax expenditures budget) by major items and
22 functional categories for the President’s budget
23 and in the concurrent resolution; and

24 “(G) allocations described in section 302(a).

1 “(3) *ADDITIONAL CONTENTS OF REPORT.*—*The*
2 *report accompanying such concurrent resolution may*
3 *include—*

4 “(A) *a statement of any significant changes*
5 *in the proposed levels of Federal assistance to*
6 *State and local governments;*

7 “(B) *an allocation of the level of Federal*
8 *revenues recommended in the concurrent resolu-*
9 *tion among the major sources of such revenues;*

10 “(C) *information, data, and comparisons*
11 *on the share of total Federal budget outlays and*
12 *of gross domestic product devoted to investment*
13 *in the budget submitted by the President and in*
14 *the concurrent resolution; and*

15 “(D) *other matters, relating to the budget*
16 *and fiscal policy, the committee deems appro-*
17 *priate.*”.

18 (f) *SOCIAL SECURITY CORRECTIONS.*—*Section 301(i)*
19 *of the Congressional Budget Act of 1974 is amended by—*

20 (1) *inserting “SOCIAL SECURITY POINT OF*
21 *ORDER.—” after “(i)”;* and

22 (2) *striking “as reported to the Senate” and in-*
23 *serting “(or amendment, motion, or conference report*
24 *on such a resolution)”.*

1 (g) *REPEAL OF BUDGET RESOLUTION PROVISION.*—
2 Section 22 of House Concurrent Resolution 218 (103d Con-
3 gress) is repealed.

4 **SEC. 1605. AMENDMENTS TO SECTION 302.**

5 (a) *ALLOCATIONS AND SUBALLOCATIONS.*—Sub-
6 sections (a) and (b) of section 302 of the Congressional
7 Budget Act of 1974 are amended to read as follows:

8 “(a) *COMMITTEE SPENDING ALLOCATIONS.*—

9 “(1) *HOUSE OF REPRESENTATIVES.*—

10 “(A) *ALLOCATION AMONG COMMITTEES.*—

11 *The joint explanatory statement accompanying a*
12 *conference report on a budget resolution shall in-*
13 *clude allocations, consistent with the resolution*
14 *recommended in the conference report, of the ap-*
15 *propriate levels (for each fiscal year covered by*
16 *that resolution and a total for all such years)*
17 *of—*

18 “(i) *total new budget authority;*

19 “(ii) *total entitlement authority; and*

20 “(iii) *total outlays;*

21 *among each committee of the House of Represent-*
22 *atives that has jurisdiction over legislation pro-*
23 *viding or creating such amounts.*

24 “(B) *NO DOUBLE COUNTING.*—*Any item al-*
25 *located to one committee of the House of Rep-*

1 *representatives may not be allocated to another such*
2 *committee.*

3 “(C) *FURTHER DIVISION OF AMOUNTS.—*
4 *The amounts allocated to each committee for*
5 *each fiscal year, other than the Committee on*
6 *Appropriations, shall be further divided between*
7 *amounts provided or required by law on the date*
8 *of filing of that conference report and amounts*
9 *not so provided or required. The amounts allo-*
10 *cated to the Committee on Appropriations for*
11 *each fiscal year shall be further divided between*
12 *discretionary and mandatory amounts or pro-*
13 *grams, as appropriate.*

14 “(2) *SENATE ALLOCATION AMONG COMMIT-*
15 *TEES.—The joint explanatory statement accompany-*
16 *ing a conference report on a budget resolution shall*
17 *include an allocation, consistent with the resolution*
18 *recommended in the conference report, of the appro-*
19 *priate levels of—*

20 “(A) *total new budget authority; and*

21 “(B) *total outlays;*

22 *among each committee of the Senate that has jurisdic-*
23 *tion over legislation providing or creating such*
24 *amounts.*

25 “(3) *AMOUNTS NOT ALLOCATED.—*

1 “(A) *IN THE HOUSE.*—*In the House of Rep-*
2 *resentatives, if a committee receives no allocation*
3 *of new budget authority, entitlement authority,*
4 *or outlays, that committee shall be deemed to*
5 *have received an allocation equal to zero for new*
6 *budget authority, entitlement authority, or out-*
7 *lays.*

8 “(B) *IN THE SENATE.*—*In the Senate, if a*
9 *committee receives no allocation of new budget*
10 *authority, outlays, or social security outlays,*
11 *that committee shall be deemed to have received*
12 *an allocation equal to zero for new budget au-*
13 *thority, outlays, or social security outlays.*

14 “(4) *SCOPE OF ALLOCATIONS IN THE SENATE.*—
15 *In the Senate, the allocations made pursuant to para-*
16 *graph (2) shall be made for all committees for the*
17 *first fiscal year covered by the resolution and for all*
18 *committees other than the Committee on Appropria-*
19 *tions for the period of fiscal years covered by such res-*
20 *olution.*

21 “(b) *SUBALLOCATIONS BY APPROPRIATION COMMIT-*
22 *TEES.*—*As soon as practicable after a concurrent resolution*
23 *on the budget is agreed to, the Committee on Appropriations*
24 *of each House (after consulting with the Committee on Ap-*
25 *propriations of the other House) shall suballocate each*

1 amount allocated to it for the budget year under subsection
2 (a)(1)(A) or (a)(2) among its subcommittees. Each Commit-
3 tee on Appropriations shall promptly report to its House
4 suballocations made or revised under this paragraph.”.

5 (b) *POINT OF ORDER.*—Section 302(c) of the Congres-
6 sional Budget Act of 1974 is amended to read as follows:

7 “(c) *POINT OF ORDER.*—After the Committee on Ap-
8 propriations has received an allocation pursuant to sub-
9 section (a) for a fiscal year, it shall not be in order in the
10 House of Representatives or the Senate to consider any bill,
11 joint resolution, amendment, motion, or conference report
12 providing new budget authority for that fiscal year within
13 the jurisdiction of that committee, until such committee
14 makes the suballocations required by subsection (b).”.

15 (c) *ENFORCEMENT OF POINT OF ORDER.*—Section
16 302(f)(2) of the Congressional Budget Act of 1974 is amend-
17 ed to read as follows:

18 “(2) *ENFORCEMENT OF COMMITTEE ALLOCA-*
19 *TIONS AND SUBALLOCATIONS.*—After a concurrent res-
20 olution on the budget is agreed to, it shall not be in
21 order in the Senate to consider any bill, joint resolu-
22 tion, amendment, motion, or conference report that
23 would cause—

24 “(A) in the case of any committee except the
25 Committee on Appropriations, the appropriate

1 *allocation of new budget authority or outlays*
2 *under subsection (a) to be exceeded; or*

3 “(B) *in the case of the Committee on Ap-*
4 *propriations, the appropriate suballocation of*
5 *new budget authority or outlays under subsection*
6 *(b) to be exceeded.”.*

7 (d) *SEPARATE ALLOCATIONS.—Section 302(g) is*
8 *amended to read as follows:*

9 “(g) *SEPARATE ALLOCATIONS.—The Committees on*
10 *Appropriations and the Budget shall make separate alloca-*
11 *tions under subsections (a) and (b) consistent with the cat-*
12 *egories in section 251(c) of the Balanced Budget and Emer-*
13 *gency Deficit Control Act of 1985.”.*

14 **SEC. 1606. AMENDMENTS TO SECTION 303.**

15 (a) *IN GENERAL.—Section 303 of the Congressional*
16 *Budget Act of 1974 is amended—*

17 (1) *by striking “NEW CREDIT AUTHORITY,”*
18 *in the center heading;*

19 (2) *by striking paragraph (4) of subsection (a)*
20 *and be redesignating paragraphs (5) and (6) as para-*
21 *graphs (4) and (5), respectively;*

22 (3) *in subsection (b)(1)(A), by inserting “ad-*
23 *vanced, discretionary” before “new budget authority”;*
24 *and*

25 (4) *by striking subsection (c).*

1 (b) *CONFORMING AMENDMENT.*—*The item relating to*
2 *section 303 in the table of contents set forth in section 1(b)*
3 *of the Congressional Budget and Impoundment Control Act*
4 *of 1974 is amended by striking “new credit authority,”.*

5 **SEC. 1607. AMENDMENT TO SECTION 305.**

6 Section 305(a)(1) of the Congressional Budget Act of
7 1974 is amended by inserting “when the House is not in
8 session” after “holidays” each place it appears.

9 **SEC. 1608. AMENDMENT TO SECTION 308.**

10 (a) *ELIMINATION OF REFERENCES TO CREDIT AU-*
11 *THORITY.*—*Section 308 of the Congressional Budget Act of*
12 *1974 is amended—*

13 (1) *by striking the center heading and inserting*
14 *the following:*

15 “*REPORTS ON SPENDING AND REVENUE LEGISLATION*”;

16 (2) *in paragraphs (1) and (2) of subsection (a),*
17 *by striking “or new credit authority,” each place it*
18 *appears and insert “and” before “new spending” each*
19 *place it appears;*

20 (3) *in subsection (b)(1), by striking “or new*
21 *credit authority,” and insert “and” before “new*
22 *spending”; and*

23 (4) *in subsection (c), by inserting “and” after*
24 *the semicolon at the end of paragraph (3), strike “;*
25 *and” at the end of paragraph (4) and insert a period;*
26 *and strike paragraph (5).*

1 (b) *CONFORMING AMENDMENT.*—*The item relating to*
2 *section 308 in the table of contents set forth in section 1(b)*
3 *of the Congressional Budget and Impoundment Control Act*
4 *of 1974 is amended by striking “or new credit authority”*
5 *and by inserting “and” after the first comma.*

6 **SEC. 1609. AMENDMENTS TO SECTION 311.**

7 *Section 311 of the Congressional Budget Act of 1974*
8 *is amended to read as follows:*

9 “*NEW BUDGET AUTHORITY, NEW SPENDING AUTHORITY,*
10 *AND REVENUE LEGISLATION MUST BE WITHIN APPRO-*
11 *PRIATE LEVELS*”

12 “*SEC. 311. (a) ENFORCEMENT OF BUDGET AGGRE-*
13 *GATES.*—

14 “(1) *IN THE HOUSE OF REPRESENTATIVES.*—*Ex-*
15 *cept as provided by subsection (c), after the Congress*
16 *has completed action on a concurrent resolution on*
17 *the budget for a fiscal year, it shall not be in order*
18 *in the House of Representatives to consider any bill,*
19 *joint resolution, amendment, motion, or conference re-*
20 *port providing new budget authority for such fiscal*
21 *year, providing new entitlement authority effective*
22 *during such fiscal year, or reducing revenues for such*
23 *fiscal year, if—*

24 “(A) *the enactment of such bill or resolution*
25 *as reported;*

1 “(B) the adoption and enactment of such
2 amendment; or

3 “(C) the enactment of such bill or resolution
4 in the form recommended in such conference re-
5 port;

6 would cause the appropriate level of total new budget
7 authority or total budget outlays set forth in the most
8 recently agreed to concurrent resolution on the budget
9 for such fiscal year to be exceeded, or would cause rev-
10 enues to be less than the appropriate level of total rev-
11 enues set forth in such concurrent resolution except in
12 the case that a declaration of war by the Congress is
13 in effect.

14 “(2) IN THE SENATE.—After a concurrent resolu-
15 tion on the budget is agreed to, it shall not be in
16 order in the Senate to consider any bill, resolution,
17 amendment, motion, or conference report that—

18 “(A) would cause the appropriate level of
19 total new budget authority or total outlays set
20 forth for the first fiscal year in such resolution
21 to be exceeded; or

22 “(B) would cause revenues to be less than
23 the appropriate level of total revenues set forth
24 for the first fiscal year covered by such resolution
25 or for the period including the first fiscal year

1 *plus the following 4 fiscal years in such resolu-*
2 *tion.*

3 “(3) *ENFORCEMENT OF SOCIAL SECURITY LEV-*
4 *ELS IN THE SENATE.*—*After a concurrent resolution*
5 *on the budget is agreed to, it shall not be in order in*
6 *the Senate to consider any bill, resolution, amend-*
7 *ment, motion, or conference report that would cause*
8 *a decrease in social security surpluses or an increase*
9 *in social security deficits derived from the levels of so-*
10 *cial security revenues and social security outlays set*
11 *forth for the first fiscal year covered by the resolution*
12 *and for the period including the first fiscal year plus*
13 *the following 4 fiscal years in such resolution.*

14 “(b) *SOCIAL SECURITY LEVELS.*—

15 “(1) *IN GENERAL.*—*For the purposes of sub-*
16 *section (a)(3), social security surpluses equal the ex-*
17 *cess of social security revenues over social security*
18 *outlays in a fiscal year or years with such an excess*
19 *and social security deficits equal the excess of social*
20 *security outlays over social security revenues in a fis-*
21 *cal year or years with such an excess.*

22 “(2) *TAX TREATMENT.*—*For the purposes of this*
23 *section, no provision of any legislation involving a*
24 *change in chapter 1 of the Internal Revenue Code of*
25 *1986 shall be treated as affecting the amount of social*

1 security revenues or outlays unless such provision
2 changes the income tax treatment of social security
3 benefits.

4 “(c) *EXCEPTION IN THE HOUSE OF REPRESENTA-*
5 *TIVES.*—Subsection (a)(1) shall not apply in the House of
6 Representatives to any bill, resolution, or amendment which
7 provides new budget authority or new entitlement authority
8 effective during such fiscal year, or to any conference report
9 on any such bill or resolution, if—

10 “(1) the enactment of such bill or resolution as
11 reported;

12 “(2) the adoption and enactment of such amend-
13 ment; or

14 “(3) the enactment of such bill or resolution in
15 the form recommended in such conference report;
16 would not cause the appropriate allocation of new discre-
17 tionary budget authority or new entitlement authority
18 made pursuant to section 302(a) for such fiscal year, for
19 the committee within whose jurisdiction such bill, resolu-
20 tion, or amendment falls, to be exceeded.”.

21 **SEC. 1610. AMENDMENT TO SECTION 312.**

22 (a) *IN GENERAL.*—Section 312 of the Congressional
23 Budget Act of 1974 is amended to read as follows:

24 “POINTS OF ORDER

25 “SEC. 312. (a) *DETERMINATIONS.*—For purposes of
26 this title and title IV, the levels of new budget authority,

1 *budget outlays, spending authority as described in section*
2 *401(c)(2), direct spending, new entitlement authority, and*
3 *revenues for a fiscal year shall be determined on the basis*
4 *of estimates made by the Committee on the Budget of the*
5 *House of Representatives or the Senate, as the case may*
6 *be.*

7 “(b) *DISCRETIONARY SPENDING POINT OF ORDER IN*
8 *THE SENATE.—*

9 “(1) *Except as otherwise provided in this sub-*
10 *section, it shall not be in order in the Senate to con-*
11 *sider any concurrent resolution on the budget (or*
12 *amendment, motion, or conference report on such a*
13 *resolution) that would exceed any of the discretionary*
14 *spending limits in section 251(c) of the Balanced*
15 *Budget and Emergency Deficit Control Act of 1985.*

16 “(2) *This subsection shall not apply if a declara-*
17 *tion of war by the Congress is in effect or if a joint*
18 *resolution pursuant to section 258 of the Balanced*
19 *Budget and Emergency Deficit Control Act of 1985*
20 *has been enacted.*

21 “(c) *MAXIMUM DEFICIT AMOUNT POINT OF ORDER IN*
22 *THE SENATE.—It shall not be in order in the Senate to*
23 *consider any concurrent resolution on the budget for a fiscal*
24 *year under section 301, or to consider any amendment to*

1 *that concurrent resolution, or to consider a conference re-*
2 *port on that concurrent resolution—*

3 “(1) *if the level of total budget outlays for the*
4 *first fiscal year that is set forth in that concurrent*
5 *resolution or conference report exceeds the rec-*
6 *ommended level of Federal revenues set forth for that*
7 *year by an amount that is greater than the maximum*
8 *deficit amount, if any, specified in the Balanced*
9 *Budget and Emergency Deficit Control Act of 1985*
10 *for such fiscal year; or*

11 “(2) *if the adoption of such amendment would*
12 *result in a level of total budget outlays for that fiscal*
13 *year which exceeds the recommended level of Federal*
14 *revenues for that fiscal year, by an amount that is*
15 *greater than the maximum deficit amount, if any,*
16 *specified in the Balanced Budget and Emergency Def-*
17 *icit Control Act of 1985 for such fiscal year.*

18 “(d) *TIMING OF POINTS OF ORDER IN THE SENATE.—*
19 *A point of order under this Act may not be raised against*
20 *a bill, resolution, amendment, motion, or conference report*
21 *while an amendment or motion, the adoption of which*
22 *would remedy the violation of this Act, is pending before*
23 *the Senate.*

24 “(e) *POINTS OF ORDER IN THE SENATE AGAINST*
25 *AMENDMENTS BETWEEN THE HOUSES.—Each provision of*

1 *Act of 1985 or for continuing disability reviews pur-*
2 *suant to section 251(b)(2)(C) of that Act;*

3 *“(B) any other committee reports emergency leg-*
4 *islation described in section 252(e) of that Act;*

5 *“(C) the Committee on Appropriations reports*
6 *an appropriation measure for fiscal year 1998, 1999,*
7 *2000, 2001, or 2002 that includes an appropriation*
8 *with respect to clause (i) or (ii), the adjustment shall*
9 *be the amount of budget authority in the measure that*
10 *is the dollar equivalent, in terms of Special Drawing*
11 *Rights, of—*

12 *“(i) an increase in the United States quota*
13 *as part of the International Monetary Fund*
14 *Eleventh General Review of Quotas (United*
15 *States Quota); or*

16 *“(ii) an increase in the maximum amount*
17 *available to the Secretary of the Treasury pursu-*
18 *ant to section 17 of the Bretton Woods Agree-*
19 *ments Act, as amended from time to time (New*
20 *Arrangements to Borrow); or*

21 *“(D) the Committee on Appropriations reports*
22 *an appropriation measure for fiscal year 1998, 1999,*
23 *or 2000 that includes an appropriation for arrearages*
24 *for international organizations, international peace-*
25 *keeping, and multilateral development banks during*

1 *that fiscal year, and the sum of the appropriations*
2 *for the period of fiscal years 1998 through 2000 does*
3 *not exceed \$1,884,000,000 in budget authority; or*

4 *“(2) a conference committee submits a conference*
5 *report thereon;*

6 *the chairman of the Committee on the Budget of the Senate*
7 *or House of Representatives (whichever is appropriate)*
8 *shall make the adjustments referred to in subsection (c) to*
9 *reflect the additional new budget authority for such matter*
10 *provided in that measure or conference report and the addi-*
11 *tional outlays flowing from such amounts for such matter.*

12 *“(b) APPLICATION OF ADJUSTMENTS.—The adjust-*
13 *ments and revisions to allocations, aggregates, and limits*
14 *made by the Chairman of the Committee on the Budget pur-*
15 *suant to subsection (a) for legislation shall only apply while*
16 *such legislation is under consideration shall only perma-*
17 *nently take effect upon the enactment of that legislation.*

18 *“(c) CONTENT OF ADJUSTMENTS.—The adjustments*
19 *referred to in subsection (a) shall consist of adjustments,*
20 *as appropriate, to—*

21 *“(1) the discretionary spending limits as set*
22 *forth in the most recently adopted concurrent resolu-*
23 *tion on the budget;*

1 “(2) the allocations made pursuant to the most
2 recently adopted concurrent resolution on the budget
3 pursuant to section 302(a); and

4 “(3) the budgetary aggregates as set forth in the
5 most recently adopted concurrent resolution on the
6 budget.

7 “(d) *REPORTING REVISED SUBALLOCATIONS.*—Fol-
8 lowing the adjustments made under subsection (a), the Com-
9 mittees on Appropriations of the Senate and the House of
10 Representatives shall report appropriately revised sub-
11 allocations pursuant to section 302(b) to carry out this sub-
12 section.

13 “(e) *DEFINITIONS.*—As used in subsection (a)(1)(A),
14 when referring to continuing disability reviews, the terms
15 ‘continuing disability reviews’, ‘additional new budget au-
16 thority’, and ‘additional outlays’ shall have the same mean-
17 ings as provided in section 251(b)(2)(C)(ii) of the *Balanced*
18 *Budget and Emergency Deficit Control Act of 1985.*”.

19 (b) *TABLE OF CONTENTS.*—The table of contents set
20 forth in section 1(b) of the *Congressional Budget and Im-*
21 *poundment Control Act of 1974* is amended by—

22 (1) striking the item for section 312 and insert-
23 ing the following:

“Sec. 312. *Points of order.*”; and

1 (2) adding after the item relating to section 313
2 the following new item:

“Sec. 314. Adjustments.”.

3 **SEC. 1612. AMENDMENTS TO TITLE V.**

4 (a) SECTION 502.—Section 502 of the Federal Credit
5 Reform Act of 1990 is amended as follows:

6 (1) In the second sentence of paragraph (1), in-
7 sert “and refinancing arrangements that defer pay-
8 ment for more than 90 days, including the sale of a
9 government asset on credit terms” before the period.

10 (2) In paragraph (5)(A), insert “or modification
11 thereof” before the first comma.

12 (3) In paragraph (5)(B)(iii), strike “and other
13 recoveries” and insert “, other recoveries, and routine
14 workouts of troubled loans or loans in imminent de-
15 fault when those workouts are to maximize repay-
16 ments to the Government or to minimize claims on
17 the Government”.

18 (4) In paragraph (5)(C), strike “, and” at the
19 end of clause (i), strike “the” in clause (ii) and strike
20 the period and insert “, and” at the end of that
21 clause, and at the end add the following new clause:

22 “(iii) routine workouts of troubled loans or
23 loans in imminent default when those workouts
24 are to maximize the repayments to the Govern-

1 *ment or to minimize claims on the Govern-*
2 *ment.”.*

3 *(5) In paragraph (5), amend subparagraph (D)*
4 *to read as follows:*

5 *“(D) The cost of a modification is the difference*
6 *in cost that results from the modification of a direct*
7 *loan or loan guarantee (or direct loan obligation or*
8 *loan guarantee commitment). This difference in cost*
9 *is the difference between the currently estimated net*
10 *present value of the remaining cash flows under the*
11 *terms of the direct loan or loan guarantee contract as-*
12 *sumed in the most recent President’s budget submitted*
13 *to Congress, and the currently estimated net present*
14 *value of the remaining cash flows under the terms of*
15 *the contract, as modified. Except for interest rates,*
16 *the estimates shall be consistent with the economic*
17 *and technical assumptions underlying the most recent*
18 *President’s budget submitted to Congress.”.*

19 *(6) Redesignate paragraph (9) as paragraph*
20 *(10) and after paragraph (8) add the following new*
21 *paragraph:*

22 *“(9) The term ‘modification’ means any Govern-*
23 *ment action that alters the estimated cost of an out-*
24 *standing direct loan (or direct loan obligation) or an*
25 *outstanding loan guarantee (or loan guarantee com-*

1 *mitment) from the estimate based on the cash flows*
2 *contained in the most recent President's budget sub-*
3 *mitted to Congress. This includes the sale of loan as-*
4 *sets, with or without recourse, and the purchase of*
5 *guaranteed loans. This also includes any action re-*
6 *sulting from new legislation, or from the exercise of*
7 *administrative discretion under existing law, that di-*
8 *rectly or indirectly alters the estimated cost of out-*
9 *standing direct loans (or direct loan obligations) or*
10 *loan guarantees (or loan guarantee commitments)*
11 *such as a change in collection procedures. The term*
12 *'modification' does not include the routine adminis-*
13 *trative work-outs of troubled loans or loans in immi-*
14 *nent default. Work-outs are actions undertaken to*
15 *maximize the repayments to the Government under*
16 *existing direct loans or to minimize claims under ex-*
17 *isting loan guarantees. The expected effects of such*
18 *work-outs shall be included in the original estimate of*
19 *the cash flows. Insofar as the effects on cash flows are*
20 *more or less than originally estimated, the differences*
21 *in cash flows shall be included in a reestimate of the*
22 *cost. The term 'modification' does not include changes*
23 *in loan or guarantee terms resulting from the exercise*
24 *by the borrower of an option included in the loan or*
25 *guarantee contract. The expected effects of such*

1 *changes in terms shall be included in the original es-*
2 *timate of the cash flow. Insofar as the effects on cash*
3 *flow are more or less than originally estimated, the*
4 *differences in cash flow shall be included in a reesti-*
5 *mate of the cost; and”.*

6 *(b) SECTION 504.—Section 504 of the Federal Credit*
7 *Reform Act of 1990 is amended as follows:*

8 *(1) Amend subsection (b)(1) to read as follows:*

9 *“(1) new budget authority to cover their costs is*
10 *provided in advance in appropriation Acts;”.*

11 *(2) In subsection (b)(2), strike “enacted” and in-*
12 *sert “provided in an appropriation Act”.*

13 *(3) In subsection (d)(1), strike “directly or indi-*
14 *rectly alter the costs of outstanding direct loans and*
15 *loan guarantees” and insert “modify outstanding di-*
16 *rect loans (or direct loan obligations) or loan guaran-*
17 *tees (or loan guarantee commitments)”.*

18 *(4) In subsection (e), strike “A direct loan obli-*
19 *gation or loan guarantee commitment” and insert*
20 *“An outstanding direct loan (or direct loan obliga-*
21 *tion) or loan guarantee (or loan guarantee commit-*
22 *ment)”, after “unless” insert “new”, and strike “or*
23 *from other budgetary resources”.*

24 *(c) SECTION 505.—Section 505 of the Federal Credit*
25 *Reform Act of 1990 is amended as follows:*

1 (1) *In subsection (c), by inserting before the pe-*
2 *riod at the end of the second sentence the following:*
3 *“; except that the rate of interest charged by the Sec-*
4 *retary on lending to financing accounts (including*
5 *amounts treated as lending to financing accounts by*
6 *the Federal Financing Bank (hereinafter in this sub-*
7 *section referred to as the ‘Bank’) pursuant to section*
8 *406(b)) and the rate of interest paid to financing ac-*
9 *counts on uninvested balances in financing accounts*
10 *shall be the same as the rate determined pursuant to*
11 *section 502(5)(E). For guaranteed loans financed by*
12 *the Bank and treated as direct loans by a Federal*
13 *agency pursuant to section 406(b), any fee or interest*
14 *surcharge (the amount by which the interest rate*
15 *charged exceeds the rate determined pursuant to sec-*
16 *tion 502(5)(E)) that the Bank charges to a private*
17 *borrower pursuant to section 6(c) of the Federal Fi-*
18 *nanancing Bank Act of 1973 shall be considered a cash*
19 *flow to the Government for the purposes of determin-*
20 *ing the cost of the direct loan pursuant to section*
21 *502(5). All such amounts shall be credited to the ap-*
22 *propriate financing account. The Bank is authorized*
23 *to require reimbursement from a Federal agency to*
24 *cover the administrative expenses of the Bank that are*
25 *attributable to the direct loans financed for that agen-*

1 *cy. All such payments by an agency shall be consid-*
2 *ered administrative expenses subject to section 504(g).*
3 *This section shall apply to transactions related to di-*
4 *rect loan obligations or loan guarantee commitments*
5 *made on or after October 1, 1991.”.*

6 (2) *In subsection (c), by striking “supercede”*
7 *and inserting “supersede”.*

8 (3) *By amending subsection (d) to read as fol-*
9 *lows:*

10 *“(d) AUTHORIZATION FOR LIQUIDATING ACCOUNTS.—*

11 *(1) Amounts in liquidating accounts shall be available only*
12 *for payments resulting from direct loan obligations or loan*
13 *guarantee commitments made prior to October 1, 1991.*
14 *These payments shall include—*

15 *“(A) interest payments and principal repay-*
16 *ments to the Treasury or the Federal Financing Bank*
17 *for amounts borrowed;*

18 *“(B) disbursements of loans;*

19 *“(C) default and other guarantee claim pay-*
20 *ments;*

21 *“(D) interest supplement payments;*

22 *“(E) payments for the costs of foreclosing, man-*
23 *aging, and selling collateral that are capitalized or*
24 *routinely deducted from the proceeds of sales;*

1 “(F) payments to financing accounts when re-
2 quired for modifications;

3 “(G) administrative expenses, if—

4 “(i) amounts credited to the liquidating ac-
5 count would have been available for administra-
6 tive expenses under a provision of law in effect
7 prior to October 1, 1991; and

8 “(ii) no direct loan obligation or loan guar-
9 antee commitment has been made, or any modi-
10 fication of a direct loan or loan guarantee has
11 been made, since September 30, 1991; and

12 “(H) such other payments as are necessary for
13 the liquidation of such direct loan obligations and
14 loan guarantee commitments.

15 “(2) Amounts credited to liquidating accounts in any
16 year shall be available only for payments required in that
17 year. Any unobligated balances in liquidating accounts at
18 the end of a fiscal year shall be transferred to miscellaneous
19 receipts as soon as practicable after the end of the fiscal
20 year.

21 “(3) If funds in liquidating accounts are insufficient
22 to satisfy obligations and commitments of said accounts,
23 there is hereby provided permanent, indefinite authority to
24 make any payments required to be made on such obligations
25 and commitments.”.

1 **SEC. 1613. REPEAL OF TITLE VI.**

2 (a) *REPEALER.*—*Title VI of the Congressional Budget*
3 *Act of 1974 is repealed.*

4 (b) *CONFORMING AMENDMENTS.*—*Title VI of the table*
5 *of contents set forth in section 1(b) of the Congressional*
6 *Budget and Impoundment Control Act of 1974 is repealed.*

7 **SEC. 1614. AMENDMENTS TO SECTION 904.**

8 (a) *WAIVERS.*—*Section 904(c) of the Congressional*
9 *Budget Act of 1974 is amended to read as follows:*

10 “(c) *WAIVERS.*—

11 “(1) Sections 305(b)(2), 305(c)(4), 306,
12 310(d)(2), 313, 904(c), and 904(d) of this Act may be
13 waived or suspended in the Senate only by the affirm-
14 ative vote of three-fifths of the Members, duly chosen
15 and sworn.

16 “(2) Sections 301(i), 302(c), 302(f), 310(g),
17 311(a), 312(b), and 312(c) of this Act and sections
18 258(a)(4)(C), 258A(b)(3)(C)(I), 258B(f)(1),
19 258B(h)(1), 258(h)(3), 258C(a)(5), and 258C(b)(1) of
20 the *Balanced Budget and Emergency Deficit Control*
21 *Act of 1985 may be waived or suspended in the Sen-*
22 *ate only by the affirmative vote of three-fifths of the*
23 *Members, duly chosen and sworn.”*

24 (b) *APPEALS.*—*Section 904(d) of the Congressional*
25 *Budget Act of 1974 is amended to read as follows:*

26 “(d) *APPEALS.*—

1 “(1) Appeals in the Senate from the decisions of
2 the Chair relating to any provision of title III or IV
3 or section 1017 shall, except as otherwise provided
4 therein, be limited to 1 hour, to be equally divided be-
5 tween, and controlled by, the mover and the manager
6 of the resolution, concurrent resolution, reconciliation
7 bill, or rescission bill, as the case may be.

8 “(2) An affirmative vote of three-fifths of the
9 Members, duly chosen and sworn, shall be required in
10 the Senate to sustain an appeal of the ruling of the
11 Chair on a point of order raised under sections
12 305(b)(2), 305(c)(4), 306, 310(d)(2), 313, 904(c), and
13 904(d) of this Act.

14 “(3) An affirmative vote of three-fifths of the
15 Members, duly chosen and sworn, shall be required in
16 the Senate to sustain an appeal of the ruling of the
17 Chair on a point of order raised under sections
18 301(i), 302(c), 302(f), 310(g), 311(a), 312(b), and
19 312(c) of this Act and sections 258(a)(4)(C),
20 258A(b)(3)(C)(I), 258B(f)(1), 258B(h)(1), 258(h)(3),
21 258C(a)(5), and 258C(b)(1) of the Balanced Budget
22 and Emergency Deficit Control Act of 1985.”.

23 (c) EXPIRATION OF SUPERMAJORITY VOTING RE-
24 QUIREMENTS.—Section 904 of the Congressional Budget
25 Act of 1974 is amended by adding at the end the following:

1 “(e) *EXPIRATION OF CERTAIN SUPERMAJORITY VOT-*
2 *ING REQUIREMENTS.*—Subsections (c)(2) and (d)(3) shall
3 *expire on September 30, 2002.*”.

4 **SEC. 1615. REPEAL OF SECTIONS 905 AND 906.**

5 (a) *REPEALER.*—Sections 905 and 906 of the *Congres-*
6 *sional Budget and Impoundment Control Act of 1974* are
7 *repealed.*

8 (b) *CONFORMING AMENDMENTS.*—The table of contents
9 *set forth in section 1(b) of the Congressional Budget and*
10 *Impoundment Control Act of 1974* is amended by striking
11 *the items relating to sections 905 and 906.*

12 **SEC. 1616. AMENDMENTS TO SECTIONS 1022 AND 1024.**

13 (a) *SECTION 1022.*—Section 1022(b)(1)(F) of *Congres-*
14 *sional Budget and Impoundment Control Act of 1974* is
15 *amended by striking “section 601” and inserting “section*
16 *251(c) the Balanced Budget and Emergency Deficit Control*
17 *Act of 1985”.*

18 (b) *SECTION 1024.*—Section 1024(a)(1)(B) of *Congres-*
19 *sional Budget and Impoundment Control Act of 1974* is
20 *amended by striking “section 601(a)(2)” and inserting*
21 *“section 251(c) the Balanced Budget and Emergency Deficit*
22 *Control Act of 1985”.*

1 **SEC. 1617. AMENDMENT TO SECTION 1026.**

2 *Section 1026(7)(A)(iv) of the Congressional Budget*
3 *and Impoundment Control Act of 1974 is amended by strik-*
4 *ing “and” the second place it appears and inserting “or”.*

5 ***Subtitle B—Amendments to the Bal-***
6 ***anced Budget and Emergency***
7 ***Deficit Control Act of 1985***

8 **SEC. 1651. PURPOSE.**

9 *This subtitle extends discretionary spending limits and*
10 *pay-as-you-go requirements.*

11 **SEC. 1652. GENERAL STATEMENT AND DEFINITIONS.**

12 *(a) GENERAL STATEMENT.—Section 250(b) of the Bal-*
13 *anced Budget and Emergency Deficit Control Act of 1985*
14 *is amended by striking the first two sentences and inserting*
15 *the following: “This part provides for the enforcement of*
16 *a balanced budget by fiscal year 2002 as called for in House*
17 *Concurrent Resolution 84 (105th Congress, 1st session).”.*

18 *(b) DEFINITIONS.—Section 250(c) of the Balanced*
19 *Budget and Emergency Deficit Control Act of 1985 is*
20 *amended—*

21 *(1) by striking paragraph (4) and inserting the*
22 *following:*

23 *“(4) The term ‘category’ means defense, non-*
24 *defense, and violent crime reduction discretionary ap-*
25 *propriations as specified in the joint explanatory*
26 *statement accompanying a conference report on the*

1 *Balanced Budget Act of 1997. New accounts or activi-*
2 *ties shall be categorized only after consultation with*
3 *the committees on Appropriations and the Budget of*
4 *the House of Representatives and the Senate and such*
5 *consultation shall include written communication to*
6 *such committees that affords such committees the op-*
7 *portunity to comment before official action is taken*
8 *with respect to new accounts or activities.”;*

9 (2) *by striking paragraph (6) and inserting the*
10 *following:*

11 “(6) *The term ‘budgetary resources’ means new*
12 *budget authority, unobligated balances, direct spend-*
13 *ing authority, and obligation limitations.”;*

14 (3) *in paragraph (9), by striking “submission of*
15 *the fiscal year 1992 budget that are not included with*
16 *a budget submission” and inserting “that budget sub-*
17 *mission that are not included with that budget sub-*
18 *mission”;*

19 (4) *in paragraph (14), by inserting “first 4” be-*
20 *fore “fiscal years” and by striking “1995” and insert-*
21 *ing “2006”; and*

22 (5) *by striking paragraphs (17) and (20) and by*
23 *redesignating paragraphs (18), (19), and (21) as*
24 *paragraphs (17), (18), and (19), respectively.*

1 **SEC. 1653. ENFORCING DISCRETIONARY SPENDING LIMITS.**

2 (a) *EXTENSION THROUGH FISCAL YEAR 2002.*—Sec-
3 *tion 251 of the Balanced Budget and Emergency Deficit*
4 *Control Act of 1985 is amended—*

5 (1) *in the side heading of subsection (a), by*
6 *striking “1991–1998” and inserting “1997–2002”;*

7 (2) *in subsection (a)(7), by inserting “(excluding*
8 *Saturdays, Sundays, and legal holidays)” after*
9 *“days”;*

10 (3) *in the first sentence of subsection (b)(1), by*
11 *striking “1992, 1993, 1994, 1995, 1996, 1997 or*
12 *1998” and inserting “1997 or any fiscal year there-*
13 *after through 2002” and by striking “through 1998”*
14 *and inserting “through 2002”;*

15 (4) *in subsection (b)(1), by striking “the follow-*
16 *ing:” and all that follows through “in concepts and*
17 *definitions” the first place it appears and inserting*
18 *“the following: the adjustments” and by striking sub-*
19 *paragraphs (B) and (C);*

20 (5) *in subsection (b)(1), as amended, by striking*
21 *the last sentence and inserting “Changes in concepts*
22 *and definitions may only be made after consultation*
23 *with the committees on Appropriations and the Budg-*
24 *et of the House of Representatives and the Senate and*
25 *such consultation shall include written communica-*
26 *tion to such committees that affords such committees*

1 *the opportunity to comment before official action is*
2 *taken with respect to such changes.”;*

3 (6) *in subsection (b)(2), by striking “1991, 1992,*
4 *1993, 1994, 1995, 1996, 1997, or 1998” and inserting*
5 *“1997 or any fiscal year thereafter through 2002”, by*
6 *striking “through 1998” and inserting “through*
7 *2002”, and by striking subparagraphs (A), (B), (C),*
8 *(E), and (G), and by redesignating subparagraphs*
9 *(D), (F), and (H) as subparagraphs (A), (B), and*
10 *(C), respectively;*

11 (7) *in subsection (b)(2)(A), as redesignated, by*
12 *striking “(i)”, by striking clause (ii), and by insert-*
13 *ing “fiscal” before “years”;*

14 (8) *in subsection (b)(2)(B), as redesignated, by*
15 *striking everything after “the adjustment in outlays”*
16 *and inserting “for a fiscal year is the amount of the*
17 *excess but not to exceed 0.5 percent of the adjusted*
18 *discretionary spending limit on outlays for that fiscal*
19 *year in fiscal year 1997 or any fiscal year thereafter*
20 *through 2002;*

21 (9) *in subsection (b)(2)(C)(i), as redesignated—*

22 (A) *in subclause (III) by striking*
23 *“\$245,000,000” and inserting “\$290,000,000”;*

24 (B) *in subclause (IV), by striking*
25 *“\$280,000,000” and inserting “\$520,000,000”;*

1 (C) in subclause (V), by striking
2 “\$317,500,000” and inserting “\$520,000,000”;

3 (D) in subclause (VI), by striking
4 “\$317,500,000” and inserting “\$520,000,000”;
5 and

6 (E) in subclause (VII), by striking
7 “\$317,000,000” and inserting “\$520,000,000”;
8 and

9 (10) by adding at the end of subsection (b)(2) the
10 following:

11 “(D) ALLOWANCE FOR IMF.—If an appro-
12 priations bill or joint resolution is enacted for
13 fiscal year 1998, 1999, 2000, 2001, or 2002 that
14 includes an appropriation with respect to clause
15 (i) or (ii), the adjustment shall be the amount of
16 budget authority in the measure that is the dol-
17 lar equivalent, in terms of Special Drawing
18 Rights, of—

19 “(i) an increase in the United States
20 quota as part of the International Monetary
21 Fund Eleventh General Review of Quotas
22 (United States Quota); or

23 “(ii) any increase in the maximum
24 amount available to the Secretary of the
25 Treasury pursuant to section 17 of the

1 *Bretton Woods Agreements Act, as amended*
2 *from time to time (New Arrangements to*
3 *Borrow).*

4 “(E) *ALLOWANCE FOR INTERNATIONAL AR-*
5 *REARAGES.—*

6 “(i) *ADJUSTMENTS.—If an appropri-*
7 *ations bill or joint resolution is enacted for*
8 *fiscal year 1998, 1999 or 2000 that includes*
9 *an appropriation for arrearages for inter-*
10 *national organizations, international peace-*
11 *keeping, and multilateral development*
12 *banks for that fiscal year, the adjustment*
13 *shall be the amount of budget authority in*
14 *such measure and the outlays flowing in all*
15 *fiscal years from such budget authority.*

16 “(ii) *LIMITATIONS.—The total amount*
17 *of adjustments made pursuant to this sub-*
18 *paragraph shall not exceed \$1,884,000,000*
19 *in budget authority.*

20 “(F) *ALLOWANCES FOR TRANSPORTATION.—*

21 “(i) *IN GENERAL.—If during the 105th*
22 *Congress, revenue increases or direct spend-*
23 *ing reductions creditable under section 252*
24 *are enacted for transportation reserve funds*
25 *as provided in sections 207, 207A, 208, or*

1 209 of House Concurrent Resolution 84
2 (105th Congress), OMB shall determine the
3 amount of the budget authority adjustment
4 for the applicable program for each fiscal
5 year through 2002.

6 “(ii) *ADJUSTMENTS.*—If for fiscal
7 years 1998 through 2002, discretionary ap-
8 propriations are enacted for a fiscal year
9 that designates funding for the applicable
10 program, the adjustment is the amount of
11 the discretionary budget authority appro-
12 priated for such program in such fiscal year
13 and the outlays in all years flowing from
14 such discretionary budget authority, but not
15 to exceed the amount available for such pro-
16 gram pursuant to this subparagraph.

17 “(iii) *LIMITATIONS.*—(I) Revenue in-
18 creases and direct spending reductions cred-
19 ited under this subparagraph shall be so
20 designated in statute and shall not be cred-
21 ited under section 252.

22 “(II) The amount of the budget author-
23 ity adjustment determined for a fiscal year
24 under clause (ii) shall not exceed the
25 amount of the revenue increase or direct

1 *spending reduction credited for a fiscal year*
2 *under clause (i) and shall meet the terms*
3 *and conditions of sections 207, 207A, 208,*
4 *or 209 of House Concurrent Resolution 84*
5 *(105th Congress), as applicable.*

6 ***(b) SHIFTING OF DISCRETIONARY SPENDING LIMITS***
7 ***INTO GRAMM-RUDMAN.—***

8 ***(1) IN GENERAL.—****Section 251 of the Balanced*
9 *Budget and Emergency Deficit Control Act of 1985 is*
10 *amended by adding at the end the following:*

11 ***“(c) DISCRETIONARY SPENDING LIMIT.—****As used in*
12 *this part, the term ‘discretionary spending limit’ means—*

13 ***“(1) with respect to fiscal year 1997, for the dis-***
14 ***cretionary category, the current adjusted amount of***
15 ***new budget authority and outlays;***

16 ***“(2) with respect to fiscal year 1998—***

17 ***“(A) for the defense category:***
18 ***\$269,000,000,000 in new budget authority and***
19 ***\$266,823,000,000 in outlays;***

20 ***“(B) for the nondefense category:***
21 ***\$252,357,000,000 in new budget authority and***
22 ***\$282,853,000,000 in outlays; and***

23 ***“(C) for the violent crime reduction cat-***
24 ***egory: \$5,500,000,000 in new budget authority***
25 ***and \$3,592,000,000 in outlays;***

1 “(3) with respect to fiscal year 1999—

2 “(A) for the defense category:
3 \$271,500,000,000 in new budget authority and
4 \$266,518,000,000 in outlays;

5 “(B) for the nondefense category:
6 \$255,699,000,000 in new budget authority and
7 \$287,850,000,000 in outlays; and

8 “(C) for the violent crime reduction cat-
9 egory: \$5,800,000,000 in new budget authority
10 and \$4,953,000,000 in outlays;

11 “(4) with respect to fiscal year 2000—

12 “(A) for the discretionary category:
13 \$532,693,000,000 in new budget authority and
14 \$558,711,000,000 in outlays; and

15 “(B) for the violent crime reduction cat-
16 egory: \$4,500,000,000 in new budget authority
17 and \$5,554,000,000 in outlays;

18 “(5) with respect to fiscal year 2001—

19 “(A) for the discretionary category:
20 \$537,677,000,000 in new budget authority and
21 \$558,460,000,000 in outlays; and

22 “(B) for the violent crime reduction cat-
23 egory: \$4,355,000,000 in new budget authority
24 and \$5,936,000,000 in outlays;

25 “(6) with respect to fiscal year 2002—

1 “(A) for the discretionary category:
2 \$546,619,000,000 in new budget authority and
3 \$556,314,000,000 in outlays; and

4 “(B) for the violent crime reduction cat-
5 egory: \$4,455,000,000 in new budget authority
6 and \$4,485,000,000 in outlays;

7 as adjusted in strict conformance with subsection (b).”.

8 (2) *TRANSFERS INTO THE FUND.*—On the first
9 day of the following fiscal years, the following
10 amounts shall be transferred from the general fund to
11 the Violent Crime Reduction Trust Fund—

12 (A) for fiscal year 2001, \$4,355,000,000;
13 and

14 (B) for fiscal year 2002, \$4,455,000,000.

15 (3) *REPEAL OF DUPLICATIVE PROVISIONS.*—Sec-
16 tions 201, 202, and 206 of House Concurrent Resolu-
17 tion 84 (105th Congress) are repealed.

18 **SEC. 1654. VIOLENT CRIME REDUCTION TRUST FUND.**

19 (a) *SEQUESTRATION REGARDING VIOLENT CRIME RE-*
20 *DUCTION TRUST FUND.*—Section 251A of the *Balanced*
21 *Budget and Emergency Deficit Control Act of 1985* is re-
22 pealed.

23 (b) *CONFORMING AMENDMENT.*—Section 310002 of
24 *Public Law 103–322 (42 U.S.C. 14212)* is repealed.

1 **SEC. 1655. ENFORCING PAY-AS-YOU-GO.**

2 (a) *EXTENSION.*—Section 252 of the Balanced Budget
3 and Emergency Deficit Control Act of 1985 is amended—

4 (1) by striking subsections (a) and (b) and in-
5 serting the following:

6 “(a) *PURPOSE.*—The purpose of this section is to as-
7 sure that any legislation enacted prior to September 30,
8 2002, affecting direct spending or receipts that increases the
9 deficit will trigger an offsetting sequestration.

10 “(b) *SEQUESTRATION.*—

11 (1) *TIMING.*—For fiscal years 1998 through
12 2002, within 15 calendar days after Congress ad-
13 journs to end a session and on the same day as a se-
14 questration (if any) under sections 251 and 253, there
15 shall be a sequestration to offset the amount of any
16 net deficit increase in the budget year caused by all
17 direct spending and receipts legislation (after adjust-
18 ing for any prior sequestration as provided by para-
19 graph (2)) plus any net deficit increase in the prior
20 fiscal year caused by all direct spending and receipts
21 legislation not reflected in the final OMB sequestra-
22 tion report for that year.

23 (2) *CALCULATION OF DEFICIT INCREASE.*—
24 OMB shall calculate the amount of deficit increase, if
25 any, in the budget year by adding—

1 “(A) all applicable estimates of direct
2 *spending and receipts legislation transmitted*
3 *under subsection (d) applicable to the budget*
4 *year, other than any amounts included in such*
5 *estimates resulting from—*

6 “(i) full funding of, and continuation
7 *of, the deposit insurance guarantee commit-*
8 *ment in effect under current law; and*

9 “(ii) emergency provisions as des-
10 *ignated under subsection (e);*

11 “(B) the estimated amount of savings in di-
12 *rect spending programs applicable to the budget*
13 *year resulting from the prior year’s sequestration*
14 *under this section or section 253, if any (except*
15 *for any amounts sequestered as a result of any*
16 *deficit increase in the fiscal year immediately*
17 *preceding the prior fiscal year), as published in*
18 *OMB’s final sequestration report for that prior*
19 *year; and*

20 “(C) all applicable estimates of direct
21 *spending and receipts legislation transmitted*
22 *under subsection (d) for the current year that are*
23 *not reflected in the final OMB sequestration re-*
24 *port for that year, other than any amounts in-*
25 *cluded in such estimates resulting from—*

1 “(i) full funding of, and continuation
2 of, the deposit insurance guarantee commit-
3 ment in effect under current law; and

4 “(ii) emergency provisions as des-
5 ignated under subsection (e).”;

6 (2) by amending subsection (d) to read as fol-
7 lows:

8 “(d) ESTIMATES.—

9 “(1) CBO ESTIMATES.—As soon as practicable
10 after Congress completes action on any direct spend-
11 ing or receipts legislation, CBO shall provide an esti-
12 mate to OMB of the legislation.

13 “(2) OMB ESTIMATES.—Not later than 5 cal-
14 endar days (excluding Saturdays, Sundays, and legal
15 holidays) after the enactment of any direct spending
16 or receipts legislation, OMB shall transmit a report
17 to the House of Representatives and to the Senate
18 containing—

19 “(A) the CBO estimate of that legislation;

20 “(B) an OMB estimate of that legislation
21 using current economic and technical assump-
22 tions; and

23 “(C) an explanation of any difference be-
24 tween the 2 estimates.

1 “(3) *SCOPE OF ESTIMATES.*—*The estimates shall*
2 *be prepared in conformance with scorekeeping guide-*
3 *lines and shall include the amount of change in out-*
4 *lays or receipts, as the case may be, for the current*
5 *year (if applicable), the budget year, and each out-*
6 *year.*

7 “(4) *CONSULTATION.*—*OMB and CBO, after con-*
8 *sultation with each other and the Committees on the*
9 *Budget of the House of Representatives and the Sen-*
10 *ate, shall—*

11 “(A) *determine scorekeeping guidelines; and*

12 “(B) *in conformance with such guidelines,*
13 *prepare estimates under this subsection.”; and*

14 (3) *in subsection (e), by striking “, for any fiscal*
15 *year from 1991 through 1998,” and by striking*
16 *“through 1995”.*

17 **SEC. 1656. REPORTS AND ORDERS.**

18 *Section 254 of the Balanced Budget and Emergency*
19 *Deficit Control Act of 1985 is amended—*

20 (1) *by striking subsection (c) and redesignating*
21 *subsections (d) through (k) as (c) through (j), respec-*
22 *tively;*

23 (2) *in subsection (c)(2) (as redesignated), by*
24 *striking “1998” and inserting “2002”;*

1 (3)(A) in subsection (f)(2)(A) (as redesignated),
2 by striking “1998” and inserting “2002”; and
3 (B) in subsection (f)(3) (as redesignated), by
4 striking “through 1998”; and
5 (4) by striking subsection (h), as redesignated,
6 and redesignating subsection (i), as redesignated, as
7 subsection (h).

8 **SEC. 1657. EXEMPT PROGRAMS AND ACTIVITIES.**

9 (a) *VETERANS PROGRAMS.*—Section 255(b) of the Bal-
10 *anced Budget and Emergency Deficit Control Act of 1985*
11 *is amended as follows:*

12 (1) *In the item relating to Veterans Insurance*
13 *and Indemnity, strike “Indemnity” and insert “In-*
14 *demnities”.*

15 (2) *In the item relating to Veterans’ Canteen*
16 *Service Revolving Fund, strike “Veterans’”.*

17 (3) *In the item relating to Benefits under chap-*
18 *ter 21 of title 38, strike “(36–0137–0–1–702)” and*
19 *insert “(36–0120–0–1–701)”.*

20 (4) *In the item relating to Veterans’ compensa-*
21 *tion, strike “Veterans’ compensation” and insert*
22 *“Compensation”.*

23 (5) *In the item relating to Veterans’ pensions,*
24 *strike “Veterans’ pensions” and insert “Pensions”.*

1 (6) *After the last item, insert the following new*
2 *items:*

3 *“Benefits under chapter 35 of title 38, Unit-*
4 *ed States Code, related to educational assistance*
5 *for survivors and dependents of certain veterans*
6 *with service-connected disabilities (36–0137–0–*
7 *1–702);*

8 *“Assistance and services under chapter 31*
9 *of title 38, United States Code, relating to train-*
10 *ing and rehabilitation for certain veterans with*
11 *service-connected disabilities (36–0137–0–1–*
12 *702);*

13 *“Benefits under subchapters I, II, and III*
14 *of chapter 37 of title 38, United States Code, re-*
15 *lating to housing loans for certain veterans and*
16 *for the spouses and surviving spouses of certain*
17 *veterans Guaranty and Indemnity Program Ac-*
18 *count (36–1119–0–1–704);*

19 *“Loan Guaranty Program Account (36–*
20 *1025–0–1–704); and*

21 *“Direct Loan Program Account (36–1024–*
22 *0–1–704).”.*

23 (b) *CERTAIN PROGRAM BASES.—Section 255(f) of the*
24 *Balanced Budget and Emergency Deficit Control Act of*
25 *1985 is amended to read as follows:*

1 “(f) *OPTIONAL EXEMPTION OF MILITARY PERSON-*
2 *NEL.—*

3 “(1) *The President may, with respect to any*
4 *military personnel account, exempt from sequestra-*
5 *tion or provide for a lower uniform percentage reduc-*
6 *tion than would otherwise apply.*

7 “(2) *The President may not use the authority*
8 *provided by paragraph (1) unless he notifies the Con-*
9 *gress of the manner in which such authority will be*
10 *exercised on or before the date specified in section*
11 *254(d) for the budget year.”.*

12 “(c) *OTHER PROGRAMS AND ACTIVITIES.—(1) Section*
13 *255(g)(1)(A) of the Balanced Budget Emergency Deficit*
14 *Control Act of 1985 is amended as follows:*

15 “(A) *After the first item, insert the following new*
16 *item:*

17 “*Activities financed by voluntary payments*
18 *to the Government for goods or services to be pro-*
19 *vided for such payments;”.*

20 “(B) *Strike “Thrift Savings Fund (26–8141–0–7–*
21 *602);”.*

22 “(C) *In the first item relating to the Bureau of*
23 *Indian Affairs, insert “Indian land and water claims*
24 *settlements and” after the comma.*

1 (D) *In the second item relating to the Bureau of*
2 *Indian Affairs, strike “miscellaneous” and “, tribal*
3 *trust funds” and insert “Miscellaneous” before “trust*
4 *funds”.*

5 (E) *Strike “Claims, defense (97–0102–0–1–*
6 *051);”.*

7 (F) *In the item relating to Claims, judgments,*
8 *and relief acts, strike “806” and insert “808”.*

9 (G) *Strike “Coinage profit fund (20–5811–0–2–*
10 *803);”.*

11 (H) *Insert “Compact of Free Association (14–*
12 *0415–0–1–808);” after the item relating to claims,*
13 *judgments, and relief acts.*

14 (I) *Insert “Conservation Reserve Program (12–*
15 *2319–0–1–302);” after the item relating to the Com-*
16 *ensation of the President.*

17 (J) *In the item relating to the Customs Service,*
18 *strike “852” and insert “806”.*

19 (K) *In the item relating to the Comptroller of the*
20 *Currency, insert “, Assessment funds (20–8413–0–8–*
21 *373)” before the semicolon.*

22 (L) *Strike “Director of the Office of Thrift Su-*
23 *perision;”.*

24 (M) *Strike “Eastern Indian land claims settle-*
25 *ment fund (14–2202–0–1–806);”.*

1 (N) *After the item relating to the Exchange sta-*
2 *bilization fund, insert the following new items:*

3 *“Farm Credit Administration, Limitation*
4 *on Administrative Expenses (78-4131-0-3-351);*

5 *“Farm Credit System Financial Assistance*
6 *Corporation, interest payment (20-1850-0-1-*
7 *908);”.*

8 (O) *Strike “Federal Deposit Insurance Corpora-*
9 *tion;”.*

10 (P) *In the first item relating to the Federal De-*
11 *posit Insurance Corporation, insert “(51-4064-0-3-*
12 *373)” before the semicolon.*

13 (Q) *In the second item relating to the Federal*
14 *Deposit Insurance Corporation, insert “(51-4065-0-*
15 *3-373)” before the semicolon.*

16 (R) *In the third item relating to the Federal De-*
17 *posit Insurance Corporation, insert “(51-4066-0-3-*
18 *373)” before the semicolon.*

19 (S) *In the item relating to the Federal Housing*
20 *Finance Board, insert “(95-4039-0-3-371)” before*
21 *the semicolon.*

22 (T) *In the item relating to the Federal payment*
23 *to the railroad retirement account, strike “account”*
24 *and insert “accounts”.*

1 (U) *In the item relating to the health professions*
2 *graduate student loan insurance fund, insert “pro-*
3 *gram account” after “fund” and strike “(Health Edu-*
4 *cation Assistance Loan Program) (75-4305-0-3-*
5 *553)” and insert “(75-0340-0-1-552)”.*

6 (V) *In the item relating to Higher education fa-*
7 *cilities, strike “and insurance”.*

8 (W) *In the item relating to Internal revenue col-*
9 *lections for Puerto Rico, strike “852” and insert*
10 *“806”.*

11 (X) *Amend the item relating to the Panama*
12 *Canal Commission to read as follows:*

13 *“Panama Canal Commission, Panama*
14 *Canal Revolving Fund (95-4061-0-3-403);”.*

15 (Y) *In the item relating to the Medical facilities*
16 *guarantee and loan fund, strike “(75-4430-0-3-*
17 *551)” and insert “(75-9931-0-3-550)”.*

18 (Z) *In the first item relating to the National*
19 *Credit Union Administration, insert “operating fund*
20 *(25-4056-0-3-373)” before the semicolon.*

21 (AA) *In the second item relating to the National*
22 *Credit Union Administration, strike “central” and*
23 *insert “Central” and insert “(25-4470-0-3-373)” be-*
24 *fore the semicolon.*

1 *(BB) In the third item relating to the National*
2 *Credit Union Administration, strike “credit” and in-*
3 *sert “Credit” and insert “(25-4468-0-3-373)” before*
4 *the semicolon.*

5 *(CC) After the third item relating to the Na-*
6 *tional Credit Union Administration, insert the follow-*
7 *ing new item:*

8 *“Office of Thrift Supervision (20-4108-0-*
9 *3-373);”.*

10 *(DD) In the item relating to Payments to health*
11 *care trust funds, strike “572” and insert “571”.*

12 *(EE) Strike “Compact of Free Association, eco-*
13 *nomie assistance pursuant to Public Law 99-658*
14 *(14-0415-0-1-806);”.*

15 *(FF) In the item relating to Payments to social*
16 *security trust funds, strike “571” and insert “651”.*

17 *(GG) Strike “Payments to state and local gov-*
18 *ernment fiscal assistance trust fund (20-2111-0-1-*
19 *851);”.*

20 *(HH) In the item relating to Payments to the*
21 *United States territories, strike “852” and insert*
22 *“806”.*

23 *(II) Strike “Resolution Funding Corporation;”.*

1 (JJ) *In the item relating to the Resolution Trust*
2 *Corporation, insert “Revolving Fund (22-4055-0-3-*
3 *373)” before the semicolon.*

4 (KK) *After the item relating to the Tennessee*
5 *Valley Authority funds, insert the following new*
6 *items:*

7 *“Thrift Savings Fund;*

8 *“United States Enrichment Corporation*
9 *(95-4054-0-3-271);*

10 *“Vaccine Injury Compensation (75-0320-*
11 *0-1-551);*

12 *“Vaccine Injury Compensation Program*
13 *Trust Fund (20-8175-0-7-551);”.*

14 (2) *Section 255(g)(1)(B) of the Balanced Budget and*
15 *Emergency Deficit Control Act of 1985 is amended as fol-*
16 *lows:*

17 (A) *Strike “The following budget” and insert*
18 *“The following Federal retirement and disability”.*

19 (B) *In the item relating to Black lung benefits,*
20 *strike “lung benefits” and insert “Lung Disability*
21 *Trust Fund”.*

22 (C) *In the item relating to the Court of Federal*
23 *Claims Court Judges’ Retirement Fund, strike “Court*
24 *of Federal”.*

1 (D) *In the item relating to Longshoremen’s com-*
2 *ensation benefits, insert “Special workers compensa-*
3 *tion expenses,” before “Longshoremen’s”.*

4 (E) *In the item relating to Railroad retirement*
5 *tier II, insert “Industry Pension Fund” after “tier*
6 *II”, and strike “retirement tier II”.*

7 (3) *Section 255(g)(2) of the Balanced Budget and*
8 *Emergency Deficit Control Act of 1985 is amended as fol-*
9 *lows:*

10 (A) *Strike the following items:*

11 *“Agency for International Development,*
12 *Housing, and other credit guarantee programs*
13 *(72-4340-0-3-151);*

14 *“Agricultural credit insurance fund (12-*
15 *4140-0-1-351);”.*

16 (B) *In the item relating to Check forgery, strike*
17 *“Check” and insert “United States Treasury check”.*

18 (C) *Strike “Community development grant loan*
19 *guarantees (86-0162-0-1-451);”.*

20 (D) *After the item relating to the United States*
21 *Treasury Check forgery insurance fund, insert the fol-*
22 *lowing new item:*

23 *“Credit liquidating accounts;”.*

24 (E) *Strike the following items:*

1 *“Credit union share insurance fund (25–*
2 *4468–0–3–371);*

3 *“Economic development revolving fund (13–*
4 *4406–0–3);*

5 *“Export-Import Bank of the United States,*
6 *Limitation of program activity (83–4027–0–1–*
7 *155);*

8 *“Federal deposit Insurance Corporation*
9 *(51–8419–0–8–371);*

10 *“Federal Housing Administration fund*
11 *(86–4070–0–3–371);*

12 *“Federal ship financing fund (69–4301–0–*
13 *3–403);*

14 *“Federal ship financing fund, fishing vessels*
15 *(13–4417–0–3–376);*

16 *“Government National Mortgage Associa-*
17 *tion, Guarantees of mortgage-backed securities*
18 *(86–4238–0–3–371);*

19 *“Health education loans (75–4307–0–3–*
20 *553);*

21 *“Indian loan guarantee and insurance fund*
22 *(14–4410–0–3–452);*

23 *“Railroad rehabilitation and improvement*
24 *financing fund (69–4411–0–3–401);*

1 *“Rural development insurance fund (12–*
2 *4155–0–3–452);*

3 *“Rural electric and telephone revolving fund*
4 *(12–4230–8–3–271);*

5 *“Rural housing insurance fund (12–4141–*
6 *0–3–371);*

7 *“Small Business Administration, Business*
8 *loan and investment fund (73–4154–0–3–376);*

9 *“Small Business Administration, Lease*
10 *guarantees revolving fund (73–4157–0–3–376);*

11 *“Small Business Administration, Pollution*
12 *control equipment contract guarantee revolving*
13 *fund (73–4147–0–3–376);*

14 *“Small Business Administration, Surety*
15 *bond guarantees revolving fund (73–4156–0–3–*
16 *376);*

17 *“Department of Veterans Affairs Loan*
18 *guaranty revolving fund (36–4025–0–3–704);”.*

19 (d) *LOW-INCOME PROGRAMS.—Section 255(h) of the*
20 *Balanced Budget and Emergency Deficit Control Act of*
21 *1985 is amended as follows:*

22 (1) *In the item relating to Aid to families with*
23 *dependent children, strike “0412” and insert “1501”.*

24 (2) *Amend the item relating to Child nutrition*
25 *to read as follows:*

1 “State child nutrition programs (with the
2 exception of special milk programs) (12–3539–0–
3 1–605);”.

4 (3) After the item relating to State child nutri-
5 tion programs, insert the following new item:

6 “Commodity supplemental food program
7 (12–3512–0–1–605);”.

8 (4) Amend the item relating to the Women, in-
9 fants, and children program to read as follows:

10 “Special supplemental nutrition program
11 for women, infants, and children (WIC) (12–
12 3510–0–1–605).”.

13 (e) IDENTIFICATION OF PROGRAMS.—Section 255(i) of
14 the Balanced Budget and Emergency Deficit Control Act
15 of 1985 is amended to read as follows:

16 “(i) IDENTIFICATION OF PROGRAMS.—For purposes of
17 subsections (b), (g), and (h), each account is identified by
18 the designated budget account identification code number
19 set forth in the Budget of the United States Government
20 1998–Appendix, and an activity within an account is des-
21 ignated by the name of the activity and the identification
22 code number of the account.”.

23 (f) OPTIONAL EXEMPTION OF MILITARY PERSON-
24 NEL.—Section 255(h) of the Balanced Budget and Emer-
25 gency Deficit Control Act of 1985 is repealed.

1 **SEC. 1658. GENERAL AND SPECIAL SEQUESTRATION RULES.**

2 (a) *CONFORMING AMENDMENTS.*—

3 (1) *SECTION HEADING.*—*The section heading of*
4 *section 256 of the Balanced Budget and Emergency*
5 *Deficit Control Act of 1985 is amended by striking*
6 **“EXCEPTIONS, LIMITATIONS, AND SPECIAL**
7 **RULES”** *and inserting “GENERAL AND SPECIAL*
8 **SEQUESTRATION RULES”**.

9 (2) *TABLE OF CONTENTS.*—*The item relating to*
10 *section 256 in the table contents set forth in section*
11 *250(a) of the Balanced Budget and Emergency Deficit*
12 *Control Act of 1985 is amended to read as follows:*

“Sec. 256. General and special sequestration rules.”.

13 (b) *AUTOMATIC SPENDING INCREASES.*—*Section*
14 *256(a) of the Balanced Budget and Emergency Deficit Con-*
15 *trol Act of 1985 is amended by striking paragraph (1) and*
16 *redesignating paragraphs (2) and (3) as paragraphs (1)*
17 *and (2), respectively.*

18 (c) *GUARANTEED STUDENT LOAN PROGRAM.*—*Section*
19 *256(b) of the Balanced Budget and Emergency Deficit Con-*
20 *trol Act of 1985 is amended to read as follows:*

21 “(b) *STUDENT LOANS.*—*For all student loans under*
22 *part B or D of title IV of the Higher Education Act of*
23 *1965 made during the period when a sequestration order*
24 *under section 254 is in effect, origination fees under sections*
25 *438(c)(2) and 456(c) of that Act shall be increased by a*

1 *uniform percentage sufficient to produce the dollar savings*
2 *in student loan programs (as a result of that sequestration*
3 *order) required by section 252 or 253, as applicable.”.*

4 *(d) HEALTH CENTERS.—Section 256(e)(1) of the Bal-*
5 *anced Budget and Emergency Deficit Control Act of 1985*
6 *is amended by striking the dash and all that follows there-*
7 *after and inserting “2 percent.”.*

8 *(e) TREATMENT OF FEDERAL ADMINISTRATIVE EX-*
9 *PENSES.—Section 256(h)(4) of the Balanced Budget and*
10 *Emergency Deficit Control Act of 1985 is amended by strik-*
11 *ing subparagraphs (D) and (H), by redesignating subpara-*
12 *graphs (E), (F), (G), and (I), as subparagraphs (D), (E),*
13 *(F), and (G), respectively, and by adding at the end the*
14 *following new subparagraph:*

15 *“(H) Farm Credit Administration.”.*

16 *(f) COMMODITY CREDIT CORPORATION.—Section*
17 *256(j)(5) of the Balanced Budget and Emergency Deficit*
18 *Control Act of 1985 is amended to read as follows:*

19 *“(5) DAIRY PROGRAM.—Notwithstanding other*
20 *provisions of this subsection, as the sole means of*
21 *achieving any reduction in outlays under the milk*
22 *price support program, the Secretary of Agriculture*
23 *shall provide for a reduction to be made in the price*
24 *received by producers for all milk produced in the*
25 *United States and marketed by producers for com-*

1 *mercial use. That price reduction (measured in cents*
2 *per hundred weight of milk marketed) shall occur*
3 *under section 201(d)(2)(A) of the Agricultural Act of*
4 *1949 (7 U.S.C. 1446(d)(2)(A)), shall begin on the day*
5 *any sequestration order is issued under section 254,*
6 *and shall not exceed the aggregate amount of the re-*
7 *duction in outlays under the milk price support pro-*
8 *gram that otherwise would have been achieved by re-*
9 *ducing payments for the purchase of milk or the prod-*
10 *ucts of milk under this subsection during the applica-*
11 *ble fiscal year.”.*

12 *(g) EFFECTS OF SEQUESTRATION.—Section 256(k) of*
13 *the Balanced Budget and Emergency Deficit Control Act*
14 *of 1985 is amended as follows:*

15 *(1) in paragraph (1), strike “other than a trust*
16 *or special fund account” and insert “, except as pro-*
17 *vided in paragraph (5)” before the period; and*

18 *(2) strike paragraph (4), redesignate paragraphs*
19 *(5) and (6) as paragraphs (4) and (5), respectively,*
20 *and amend paragraph (5) (as redesignated) to read*
21 *as follows:*

22 *“(5) Budgetary resources sequestered in revolving,*
23 *trust, and special fund accounts, and offsetting*
24 *collections sequestered in appropriation accounts shall*
25 *not be available for obligation during the fiscal year*

1 *in which the sequestration occurs, but shall be avail-*
2 *able in subsequent years to the extent otherwise pro-*
3 *vided in law.”.*

4 **SEC. 1659. THE BASELINE.**

5 *(a) IN GENERAL.—Section 257 of the Balanced Budget*
6 *and Emergency Deficit Control Act of 1985 is amended—*

7 *(1) by striking subsection (b)(2)(A) and inserting*
8 *the following:*

9 *“(A)(i) No program with estimated current year*
10 *outlays greater than \$50,000,000 shall be assumed to*
11 *expire in the budget year or the outyears except as*
12 *provided in clause (ii).*

13 *“(ii) If legislation eliminates direct spending au-*
14 *thority for a program for the budget year or any out-*
15 *year and such legislation provides that the Federal*
16 *Government has no legal authority or obligation to*
17 *incur financial obligations for such program, clause*
18 *(i) shall not apply and CBO and OMB, as appro-*
19 *priate, may score such legislation with the budget au-*
20 *thority and outlay effects resulting from terminating*
21 *such program as provided in such legislation and the*
22 *baseline may assume the expiration of that program*
23 *as provided in such legislation.”;*

24 *(2) by adding the end of subsection (b)(2) the fol-*
25 *lowing new subparagraph:*

1 “(D) *If any law expires before the budget year*
2 *or any outyear, then any program with estimated*
3 *current year outlays greater than \$50,000,000 which*
4 *operates under that law shall be assumed to continue*
5 *to operate under that law as in effect immediately be-*
6 *fore its expiration.*”;

7 (3) *in subsection (c)(5), in the second sentence,*
8 *by striking “national product fixed-weight price*
9 *index” and inserting “domestic product chain-type*
10 *price index”; and*

11 (4) *by striking subsection (e) and inserting the*
12 *following:*

13 “(e) *ASSET SALES.—Amounts realized from the sale*
14 *of an asset shall not be counted for purposes of sections 251,*
15 *252, and 253 against legislation if that sale would result*
16 *in a financial cost to the Federal Government.*”.

17 (b) *BUDGETARY TREATMENT OF CERTAIN TRUST*
18 *FUND OPERATIONS.—Section 710 of the Social Security*
19 *Act (42 U.S.C. 911) is amended to read as follows:*

20 “*BUDGETARY TREATMENT OF TRUST FUND OPERATIONS*
21 “*SEC. 710. (a) The receipts and disbursements of the*
22 *Federal Old-Age and Survivors Insurance Trust Fund and*
23 *the Federal Disability Insurance Trust Fund and the taxes*
24 *imposed under sections 1401 and 3101 of the Internal Reve-*
25 *nue Code of 1986 shall not be included in the totals of the*

1 *budget of the United States Government as submitted by*
2 *the President or of the congressional budget and shall be*
3 *exempt from any general budget limitation imposed by stat-*
4 *ute on expenditures and net lending (budget outlays) of the*
5 *United States Government.*

6 “(b) *No provision of law enacted after the date of en-*
7 *actment of the Balanced Budget and Emergency Deficit*
8 *Control Act of 1985 (other than a provision of an appro-*
9 *priation Act that appropriated funds authorized under the*
10 *Social Security Act as in effect on the date of the enactment*
11 *of the Balanced Budget and Emergency Deficit control Act*
12 *of 1985) may provide for payments from the general fund*
13 *of the Treasury to any Trust Fund specified in paragraph*
14 *(1) or for payments from any such Trust Fund to the gen-*
15 *eral fund of the Treasury.”.*

16 **SEC. 1660. TECHNICAL CORRECTION.**

17 *Section 258 of the Balanced Budget and Emergency*
18 *Deficit Control Act of 1985, entitled “Modification of Presi-*
19 *dential Order”, is repealed.*

20 **SEC. 1661. JUDICIAL REVIEW.**

21 *Section 274 of the Balanced Budget and Emergency*
22 *Deficit Control Act of 1985 is amended as follows:*

23 (1) *Strike “252” or “252(b)” each place it ap-*
24 *pears and insert “254”.*

1 (2) *In subsection (d)(1)(A), strike “257(l) to the*
2 *extent that” and insert “256(a) if”, strike the par-*
3 *enthetical phrase, and at the end insert “or”.*

4 (3) *In subsection (d)(1)(B), strike “new budget”*
5 *and all that follows through “spending authority”*
6 *and insert “budgetary resources” and strike “or” after*
7 *the comma.*

8 (4) *Strike subsection (d)(1)(C).*

9 (5) *Strike subsection (f) and redesignate sub-*
10 *sections (g) and (h) as subsections (f) and (g), respec-*
11 *tively.*

12 (6) *In subsection (g) (as redesignated), strike*
13 *“base levels of total revenues and total budget outlays,*
14 *as” and insert “figures”, and “251(a)(2)(B) or*
15 *(c)(2),” and insert “254”.*

16 **SEC. 1662. EFFECTIVE DATE.**

17 (a) *EXPIRATION.*—*Section 275(b) of the Balanced*
18 *Budget and Emergency Deficit Control Act of 1985 is*
19 *amended—*

20 (1) *by striking “Part C of this title, section” and*
21 *inserting “Sections 251, 252, 253, 258B, and”;*

22 (2) *by striking “1995” and inserting “2002”;*
23 *and*

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AMENDMENT