

106TH CONGRESS
2D SESSION

H. R. 3832

To amend the Internal Revenue Code of 1986 to provide tax benefits for small businesses, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

MARCH 6, 2000

Mr. ARCHER introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to provide tax benefits for small businesses, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE; REFERENCES; TABLE OF CON-**

4 **TENTS.**

5 (a) **SHORT TITLE.**—This Act may be cited as the
6 “Small Business Tax Fairness Act of 2000”.

7 (b) **AMENDMENT OF 1986 CODE.**—Except as other-
8 wise expressly provided, whenever in this Act an amend-
9 ment or repeal is expressed in terms of an amendment
10 to, or repeal of, a section or other provision, the reference

1 shall be considered to be made to a section or other provi-
 2 sion of the Internal Revenue Code of 1986.

3 (c) TABLE OF CONTENTS.—

Sec. 1. Short title; references; table of contents.

TITLE I—SMALL BUSINESS PROVISIONS

Sec. 101. Deduction for 100 percent of health insurance costs of self-employed individuals.

Sec. 102. Increase in expense treatment for small businesses.

Sec. 103. Increased deduction for meal expenses.

Sec. 104. Increased deductibility of business meal expenses for individuals subject to Federal limitations on hours of service.

Sec. 105. Income averaging for farmers and fishermen not to increase alternative minimum tax liability.

Sec. 106. Repeal of occupational taxes relating to distilled spirits, wine, and beer.

Sec. 107. Repeal of modification of installment method.

TITLE II—PENSION PROVISIONS

Subtitle A—Expanding Coverage

Sec. 201. Increase in benefit and contribution limits.

Sec. 202. Plan loans for subchapter S owners, partners, and sole proprietors.

Sec. 203. Modification of top-heavy rules.

Sec. 204. Elective deferrals not taken into account for purposes of deduction limits.

Sec. 205. Repeal of coordination requirements for deferred compensation plans of State and local governments and tax-exempt organizations.

Sec. 206. Elimination of user fee for requests to IRS regarding pension plans.

Sec. 207. Deduction limits.

Sec. 208. Option to treat elective deferrals as after-tax contributions.

Subtitle B—Enhancing Fairness for Women

Sec. 221. Catchup contributions for individuals age 50 or over.

Sec. 222. Equitable treatment for contributions of employees to defined contribution plans.

Sec. 223. Faster vesting of certain employer matching contributions.

Sec. 224. Simplify and update the minimum distribution rules.

Sec. 225. Clarification of tax treatment of division of section 457 plan benefits upon divorce.

Sec. 226. Modification of safe harbor relief for hardship withdrawals from cash or deferred arrangements.

Subtitle C—Increasing Portability for Participants

Sec. 231. Rollovers allowed among various types of plans.

Sec. 232. Rollovers of IRAs into workplace retirement plans.

Sec. 233. Rollovers of after-tax contributions.

Sec. 234. Hardship exception to 60-day rule.

Sec. 235. Treatment of forms of distribution.

Sec. 236. Rationalization of restrictions on distributions.

- Sec. 237. Purchase of service credit in governmental defined benefit plans.
- Sec. 238. Employers may disregard rollovers for purposes of cash-out amounts.
- Sec. 239. Minimum distribution and inclusion requirements for section 457 plans.

Subtitle D—Strengthening Pension Security and Enforcement

- Sec. 241. Repeal of 150 percent of current liability funding limit.
- Sec. 242. Maximum contribution deduction rules modified and applied to all defined benefit plans.
- Sec. 243. Excise tax relief for sound pension funding.
- Sec. 244. Excise tax on failure to provide notice by defined benefit plans significantly reducing future benefit accruals.
- Sec. 245. Treatment of multiemployer plans under section 415.

Subtitle E—Reducing Regulatory Burdens

- Sec. 261. Modification of timing of plan valuations.
- Sec. 262. ESOP dividends may be reinvested without loss of dividend deduction.
- Sec. 263. Repeal of transition rule relating to certain highly compensated employees.
- Sec. 264. Employees of tax-exempt entities.
- Sec. 265. Clarification of treatment of employer-provided retirement advice.
- Sec. 266. Reporting simplification.
- Sec. 267. Improvement of employee plans compliance resolution system.
- Sec. 268. Modification of exclusion for employer provided transit passes.
- Sec. 269. Repeal of the multiple use test.
- Sec. 270. Flexibility in nondiscrimination, coverage, and line of business rules.
- Sec. 271. Extension to international organizations of moratorium on application of certain nondiscrimination rules applicable to State and local plans.
- Sec. 272. Notice and consent period regarding distributions.

Subtitle F—Plan Amendments

- Sec. 281. Provisions relating to plan amendments.

TITLE III—ESTATE TAX RELIEF

Subtitle A—Reductions of Estate and Gift Tax Rates

- Sec. 301. Reductions of estate and gift tax rates.
- Sec. 302. Sense of the Congress concerning repeal of the death tax.

Subtitle B—Unified Credit Replaced With Unified Exemption Amount

- Sec. 311. Unified credit against estate and gift taxes replaced with unified exemption amount.

Subtitle C—Modifications of Generation-Skipping Transfer Tax

- Sec. 321. Deemed allocation of GST exemption to lifetime transfers to trusts; retroactive allocations.
- Sec. 322. Severing of trusts.
- Sec. 323. Modification of certain valuation rules.
- Sec. 324. Relief provisions.

Subtitle D—Conservation Easements

Sec. 331. Expansion of estate tax rule for conservation easements.

TITLE IV—TAX RELIEF FOR DISTRESSED COMMUNITIES AND INDUSTRIES

Subtitle A—American Community Renewal Act of 2000

- Sec. 401. Short title.
- Sec. 402. Designation of and tax incentives for renewal communities.
- Sec. 403. Extension of expensing of environmental remediation costs to renewal communities.
- Sec. 404. Extension of work opportunity tax credit for renewal communities.
- Sec. 405. Conforming and clerical amendments.

Subtitle B—Timber Incentives

Sec. 411. Temporary suspension of maximum amount of amortizable reforestation expenditures.

TITLE V—REAL ESTATE PROVISIONS

Subtitle A—Improvements in Low-Income Housing Credit

- Sec. 501. Modification of State ceiling on low-income housing credit.
- Sec. 502. Modification of criteria for allocating housing credits among projects.
- Sec. 503. Additional responsibilities of housing credit agencies.
- Sec. 504. Modifications to rules relating to basis of building which is eligible for credit.
- Sec. 505. Other modifications.
- Sec. 506. Carryforward rules.
- Sec. 507. Effective date.

Subtitle B—Private Activity Bond Volume Cap

Sec. 511. Acceleration of phase-in of increase in volume cap on private activity bonds.

Subtitle C—Exclusion From Gross Income for Certain Forgiven Mortgage Obligations

Sec. 512. Exclusion from gross income for certain forgiven mortgage obligations.

1 **TITLE I—SMALL BUSINESS**
2 **PROVISIONS**

3 **SEC. 101. DEDUCTION FOR 100 PERCENT OF HEALTH IN-**
4 **SURANCE COSTS OF SELF-EMPLOYED INDI-**
5 **VIDUALS.**

6 (a) IN GENERAL.—Paragraph (1) of section 162(l)
7 is amended to read as follows:

8 “(1) ALLOWANCE OF DEDUCTION.—In the case
9 of an individual who is an employee within the
10 meaning of section 401(c)(1), there shall be allowed
11 as a deduction under this section an amount equal
12 to 100 percent of the amount paid during the tax-
13 able year for insurance which constitutes medical
14 care for the taxpayer and the taxpayer’s spouse and
15 dependents.”.

16 (b) CLARIFICATION OF LIMITATIONS ON OTHER COV-
17 ERAGE.—The first sentence of section 162(l)(2)(B) is
18 amended to read as follows: “Paragraph (1) shall not
19 apply to any taxpayer for any calendar month for which
20 the taxpayer participates in any subsidized health plan
21 maintained by any employer (other than an employer de-
22 scribed in section 401(c)(4)) of the taxpayer or the spouse
23 of the taxpayer.”.

1 (c) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to taxable years beginning after
3 December 31, 2000.

4 **SEC. 102. INCREASE IN EXPENSE TREATMENT FOR SMALL**
5 **BUSINESSES.**

6 (a) IN GENERAL.—Paragraph (1) of section 179(b)
7 (relating to dollar limitation) is amended to read as fol-
8 lows:

9 “(1) DOLLAR LIMITATION.—The aggregate cost
10 which may be taken into account under subsection
11 (a) for any taxable year shall not exceed \$30,000.”.

12 (b) EFFECTIVE DATE.—The amendment made by
13 this section shall apply to taxable years beginning after
14 December 31, 2000.

15 **SEC. 103. INCREASED DEDUCTION FOR MEAL EXPENSES.**

16 (a) IN GENERAL.—Paragraph (1) of section 274(n)
17 (relating to only 50 percent of meal and entertainment
18 expenses allowed as deduction) is amended by striking “50
19 percent” in the text and inserting “the allowable percent-
20 age”.

21 (b) ALLOWABLE PERCENTAGES.—Subsection (n) of
22 section 274 is amended by redesignating paragraphs (2)
23 and (3) as paragraphs (3) and (4), respectively, and by
24 inserting after paragraph (1) the following new paragraph:

1 “(2) ALLOWABLE PERCENTAGE.—For purposes
2 of paragraph (1), the allowable percentage is—

3 “(A) in the case of amounts for items de-
4 scribed in paragraph (1)(B), 50 percent, and

5 “(B) in the case of expenses for food or
6 beverages, 60 percent (55 percent for taxable
7 years beginning during 2001).”

8 (c) CONFORMING AMENDMENT.—The heading for
9 subsection (n) of section 274 is amended by striking “50
10 PERCENT” and inserting “LIMITED PERCENTAGES”.

11 (d) EFFECTIVE DATE.—The amendments made by
12 this section shall apply to taxable years beginning after
13 December 31, 2000.

14 **SEC. 104. INCREASED DEDUCTIBILITY OF BUSINESS MEAL**
15 **EXPENSES FOR INDIVIDUALS SUBJECT TO**
16 **FEDERAL LIMITATIONS ON HOURS OF SERV-**
17 **ICE.**

18 (a) IN GENERAL.—Paragraph (4) of section 274(n)
19 (relating to limited percentages of meal and entertainment
20 expenses allowed as deduction), as redesignated by section
21 103, is amended to read as follows:

22 “(4) SPECIAL RULE FOR INDIVIDUALS SUBJECT
23 TO FEDERAL HOURS OF SERVICE.—In the case of
24 any expenses for food or beverages consumed while
25 away from home (within the meaning of section

1 162(a)(2)) by an individual during, or incident to,
2 the period of duty subject to the hours of service
3 limitations of the Department of Transportation,
4 paragraph (2)(B) shall be applied by substituting
5 ‘80 percent’ for the percentage otherwise applicable
6 under paragraph (2)(B).”

7 (b) EFFECTIVE DATE.—The amendment made by
8 subsection (a) shall apply to taxable years beginning after
9 December 31, 2000.

10 **SEC. 105. INCOME AVERAGING FOR FARMERS AND FISHER-**
11 **MEN NOT TO INCREASE ALTERNATIVE MIN-**
12 **IMUM TAX LIABILITY.**

13 (a) IN GENERAL.—Section 55(c) (defining regular
14 tax) is amended by redesignating paragraph (2) as para-
15 graph (3) and by inserting after paragraph (1) the fol-
16 lowing:

17 “(2) COORDINATION WITH INCOME AVERAGING
18 FOR FARMERS AND FISHERMEN.—Solely for pur-
19 poses of this section, section 1301 (relating to aver-
20 aging of farm and fishing income) shall not apply in
21 computing the regular tax.”

22 (b) ALLOWING INCOME AVERAGING FOR FISHER-
23 MEN.—

1 (1) IN GENERAL.—The following provisions of
2 part II of subchapter A of chapter 51 of the Internal
3 Revenue Code of 1986 (relating to occupational
4 taxes) are hereby repealed:

5 (A) Subpart A (relating to proprietors of
6 distilled spirits plants, bonded wine cellars,
7 etc.).

8 (B) Subpart B (relating to brewer).

9 (C) Subpart D (relating to wholesale deal-
10 ers) (other than sections 5114 and 5116).

11 (D) Subpart E (relating to retail dealers)
12 (other than section 5124).

13 (E) Subpart G (relating to general provi-
14 sions) (other than sections 5142, 5143, 5145,
15 and 5146).

16 (2) NONBEVERAGE DOMESTIC DRAWBACK.—
17 Section 5131 is amended by striking “, on payment
18 of a special tax per annum,”.

19 (3) INDUSTRIAL USE OF DISTILLED SPIRITS.—
20 Section 5276 is hereby repealed.

21 (b) CONFORMING AMENDMENTS.—

22 (1)(A) The heading for part II of subchapter A
23 of chapter 51 and the table of subparts for such
24 part are amended to read as follows:

1 **“PART II—MISCELLANEOUS PROVISIONS**

 “Subpart A. Manufacturers of stills.

 “Subpart B. Nonbeverage domestic drawback claimants.

 “Subpart C. Recordkeeping by dealers.

 “Subpart D. Other provisions.”

2 (B) The table of parts for such subchapter A
3 is amended by striking the item relating to part II
4 and inserting the following new item:

 “Part II. Miscellaneous provisions.”

5 (2) Subpart C of part II of such subchapter
6 (relating to manufacturers of stills) is redesignated
7 as subpart A.

8 (3)(A) Subpart F of such part II (relating to
9 nonbeverage domestic drawback claimants) is redesi-
10 gnated as subpart B and sections 5131 through
11 5134 are redesignated as sections 5111 through
12 5114, respectively.

13 (B) The table of sections for such subpart B,
14 as so redesignated, is amended—

15 (i) by redesignating the items relating to
16 sections 5131 through 5134 as relating to sec-
17 tions 5111 through 5114, respectively, and

18 (ii) by striking “and rate of tax” in the
19 item relating to section 5111, as so redesi-
20 gnated.

21 (C) Section 5111, as redesignated by subpara-
22 graph (A), is amended—

1 (i) by striking “**AND RATE OF TAX**” in
2 the section heading,

3 (ii) by striking “(a) **ELIGIBILITY FOR**
4 **DRAWBACK.—**”, and

5 (iii) by striking subsection (b).

6 (4) Part II of subchapter A of chapter 51 is
7 amended by adding after subpart B, as redesignated
8 by paragraph (3), the following new subpart:

9 **“Subpart C—Recordkeeping by Dealers**

“Sec. 5121. Recordkeeping by wholesale dealers.

“Sec. 5122. Recordkeeping by retail dealers.

“Sec. 5123. Preservation and inspection of records, and entry of
premises for inspection.”

10 (5)(A) Section 5114 (relating to records) is
11 moved to subpart C of such part II and inserted
12 after the table of sections for such subpart.

13 (B) Section 5114 is amended—

14 (i) by striking the section heading and in-
15 serting the following new heading:

16 **“SEC. 5121. RECORDKEEPING BY WHOLESALE DEALERS.”,**

17 and

18 (ii) by redesignating subsection (c) as sub-
19 section (d) and by inserting after subsection (b)
20 the following new subsection:

21 “(c) **WHOLESALE DEALERS.—**For purposes of this
22 part—

1 “(1) WHOLESALE DEALER IN LIQUORS.—The
2 term ‘wholesale dealer in liquors’ means any dealer
3 (other than a wholesale dealer in beer) who sells, or
4 offers for sale, distilled spirits, wines, or beer, to an-
5 other dealer.

6 “(2) WHOLESALE DEALER IN BEER.—The term
7 ‘wholesale dealer in beer’ means any dealer who
8 sells, or offers for sale, beer, but not distilled spirits
9 or wines, to another dealer.

10 “(3) DEALER.—The term ‘dealer’ means any
11 person who sells, or offers for sale, any distilled spir-
12 its, wines, or beer.

13 “(4) PRESUMPTION IN CASE OF SALE OF 20
14 WINE GALLONS OR MORE.—The sale, or offer for
15 sale, of distilled spirits, wines, or beer, in quantities
16 of 20 wine gallons or more to the same person at
17 the same time, shall be presumptive evidence that
18 the person making such sale, or offer for sale, is en-
19 gaged in or carrying on the business of a wholesale
20 dealer in liquors or a wholesale dealer in beer, as the
21 case may be. Such presumption may be overcome by
22 evidence satisfactorily showing that such sale, or
23 offer for sale, was made to a person other than a
24 dealer.”

1 (C) Paragraph (3) of section 5121(d), as so re-
2 designated, is amended by striking “section 5146”
3 and inserting “section 5123”.

4 (6)(A) Section 5124 (relating to records) is
5 moved to subpart C of part II of subchapter A of
6 chapter 51 and inserted after section 5121.

7 (B) Section 5124 is amended—

8 (i) by striking the section heading and in-
9 serting the following new heading:

10 **“SEC. 5122. RECORDKEEPING BY RETAIL DEALERS.”,**

11 (ii) by striking “section 5146” in sub-
12 section (c) and inserting “section 5123”, and

13 (iii) by redesignating subsection (c) as sub-
14 section (d) and inserting after subsection (b)
15 the following new subsection:

16 “(c) RETAIL DEALERS.—For purposes of this
17 section—

18 “(1) RETAIL DEALER IN LIQUORS.—The term
19 ‘retail dealer in liquors’ means any dealer (other
20 than a retail dealer in beer) who sells, or offers for
21 sale, distilled spirits, wines, or beer, to any person
22 other than a dealer.

23 “(2) RETAIL DEALER IN BEER.—The term ‘re-
24 tail dealer in beer’ means any dealer who sells, or of-

1 fers for sale, beer, but not distilled spirits or wines,
2 to any person other than a dealer.

3 “(3) DEALER.—The term ‘dealer’ has the
4 meaning given such term by section 5121(c)(3).”

5 (7) Section 5146 is moved to subpart C of part
6 II of subchapter A of chapter 51, inserted after sec-
7 tion 5122, and redesignated as section 5123.

8 (8) Part II of subchapter A of chapter 51 is
9 amended by inserting after subpart C the following
10 new subpart:

11 **“Subpart D. Other Provisions**

 “Sec. 5131. Packaging distilled spirits for industrial uses.

 “Sec. 5132. Prohibited purchases by dealers.”

12 (9) Section 5116 is moved to subpart D of part
13 II of subchapter A of chapter 51, inserted after the
14 table of sections, redesignated as section 5131, and
15 amended by inserting “(as defined in section
16 5121(c))” after “dealer” in subsection (a).

17 (10) Subpart D of part II of subchapter A of
18 chapter 51 is amended by adding at the end thereof
19 the following new section:

20 **“SEC. 5132. PROHIBITED PURCHASES BY DEALERS.**

21 “(a) IN GENERAL.—Except as provided in regula-
22 tions prescribed by the Secretary, it shall be unlawful for
23 a dealer to purchase distilled spirits from any person other

1 than a wholesale dealer in liquors who is required to keep
2 the records prescribed by section 5121.

3 “(b) PENALTY AND FORFEITURE.—

“For penalty and forfeiture provisions applicable
to violations of subsection (a), see sections 5687 and
7302.”

4 (11) Subsection (b) of section 5002 is
5 amended—

6 (A) by striking “section 5112(a)” and in-
7 serting “section 5121(c)(3)”,

8 (B) by striking “section 5112” and insert-
9 ing “section 5121(c)”,

10 (C) by striking “section 5122” and insert-
11 ing “section 5122(c)”.

12 (12) Subparagraph (A) of section 5010(c)(2) is
13 amended by striking “section 5134” and inserting
14 “section 5114”.

15 (13) Subsection (d) of section 5052 is amended
16 to read as follows:

17 “(d) BREWER.—For purposes of this chapter, the
18 term ‘brewer’ means any person who brews beer or pro-
19 duces beer for sale. Such term shall not include any person
20 who produces only beer exempt from tax under section
21 5053(e).”

1 (14) The text of section 5182 is amended to
2 read as follows:

**“For provisions requiring recordkeeping by
wholesale liquor dealers, see section 5112, and by
retail liquor dealers, see section 5122.”**

3 (15) Subsection (b) of section 5402 is amended
4 by striking “section 5092” and inserting “section
5 5052(d)”.

6 (16) Section 5671 is amended by striking “or
7 5091”.

8 (17)(A) Part V of subchapter J of chapter 51
9 is hereby repealed.

10 (B) The table of parts for such subchapter J is
11 amended by striking the item relating to part V.

12 (18)(A) Sections 5142, 5143, and 5145 are
13 moved to subchapter D of chapter 52, inserted after
14 section 5731, redesignated as sections 5732, 5733,
15 and 5734, respectively, and amended—

16 (i) by striking “this part” each place it ap-
17 pears and inserting “this subchapter”, and

18 (ii) by striking “this subpart” in section
19 5732(c)(2) (as so redesignated) and inserting
20 “this subchapter”.

21 (B) Section 5732, as redesignated by subpara-
22 graph (A), is amended by striking “(except the tax
23 imposed by section 5131)” each place it appears.

1 (C) Subsection (c) of section 5733, as redesignig-
2 nated by subparagraph (A), is amended by striking
3 paragraph (2) and by redesignating paragraph (3)
4 as paragraph (2).

5 (D) The table of sections for subchapter D of
6 chapter 52 is amended by adding at the end thereof
7 the following:

 “Sec. 5732. Payment of tax.

 “Sec. 5733. Provisions relating to liability for occupational taxes.

 “Sec. 5734. Application of State laws.”

8 (E) Section 5731 is amended by striking sub-
9 section (c) and by redesignating subsection (d) as
10 subsection (c).

11 (19) Subsection (c) of section 6071 is amended
12 by striking “section 5142” and inserting “section
13 5732”.

14 (20) Paragraph (1) of section 7652(g) is
15 amended—

16 (A) by striking “subpart F” and inserting
17 “subpart B”, and

18 (B) by striking “section 5131(a)” and in-
19 serting “section 5111(a)”.

20 (21) The table of sections for subchapter D of
21 chapter 51 is amended by striking the item relating
22 to section 5276.

1 (c) EFFECTIVE DATE.—The amendments made by
 2 this section shall take effect on July 1, 2001, but shall
 3 not apply to taxes imposed for periods before such date.

4 **SEC. 107. REPEAL OF MODIFICATION OF INSTALLMENT**
 5 **METHOD.**

6 (a) IN GENERAL.—Subsection (a) of section 536 of
 7 the Ticket to Work and Work Incentives Improvement Act
 8 of 1999 (relating to modification of installment method
 9 and repeal of installment method for accrual method tax-
 10 payers) is repealed effective with respect to sales and other
 11 dispositions occurring on or after the date of the enact-
 12 ment of such Act.

13 (b) APPLICABILITY.—The Internal Revenue Code of
 14 1986 shall be applied and administered as if that sub-
 15 section (and the amendments made by that subsection)
 16 had not been enacted.

17 **TITLE II—PENSION PROVISIONS**

18 **Subtitle A—Expanding Coverage**

19 **SEC. 201. INCREASE IN BENEFIT AND CONTRIBUTION LIM-**
 20 **ITS.**

21 (a) DEFINED BENEFIT PLANS.—

22 (1) DOLLAR LIMIT.—

23 (A) Subparagraph (A) of section 415(b)(1)

24 (relating to limitation for defined benefit plans)

1 is amended by striking “\$90,000” and inserting
2 “\$160,000”.

3 (B) Subparagraphs (C) and (D) of section
4 415(b)(2) are each amended by striking
5 “\$90,000” each place it appears in the head-
6 ings and the text and inserting “\$160,000”.

7 (C) Paragraph (7) of section 415(b) (relat-
8 ing to benefits under certain collectively bar-
9 gained plans) is amended by striking “the
10 greater of \$68,212 or one-half the amount oth-
11 erwise applicable for such year under paragraph
12 (1)(A) for ‘\$90,000’” and inserting “one-half
13 the amount otherwise applicable for such year
14 under paragraph (1)(A) for ‘\$160,000’”.

15 (2) LIMIT REDUCED WHEN BENEFIT BEGINS
16 BEFORE AGE 62.—Subparagraph (C) of section
17 415(b)(2) is amended by striking “the social security
18 retirement age” each place it appears in the heading
19 and text and inserting “age 62”.

20 (3) LIMIT INCREASED WHEN BENEFIT BEGINS
21 AFTER AGE 65.—Subparagraph (D) of section
22 415(b)(2) is amended by striking “the social security
23 retirement age” each place it appears in the heading
24 and text and inserting “age 65”.

1 (4) COST-OF-LIVING ADJUSTMENTS.—Sub-
2 section (d) of section 415 (related to cost-of-living
3 adjustments) is amended—

4 (A) by striking “\$90,000” in paragraph
5 (1)(A) and inserting “\$160,000”, and

6 (B) in paragraph (3)(A)—

7 (i) by striking “\$90,000” in the head-
8 ing and inserting “\$160,000”, and

9 (ii) by striking “October 1, 1986” and
10 inserting “July 1, 2000”.

11 (5) CONFORMING AMENDMENT.—Section
12 415(b)(2) is amended by striking subparagraph (F).

13 (b) DEFINED CONTRIBUTION PLANS.—

14 (1) DOLLAR LIMIT.—Subparagraph (A) of sec-
15 tion 415(c)(1) (relating to limitation for defined con-
16 tribution plans) is amended by striking “\$30,000”
17 and inserting “\$40,000”.

18 (2) COST-OF-LIVING ADJUSTMENTS.—Sub-
19 section (d) of section 415 (related to cost-of-living
20 adjustments) is amended—

21 (A) by striking “\$30,000” in paragraph
22 (1)(C) and inserting “\$40,000”, and

23 (B) in paragraph (3)(D)—

24 (i) by striking “\$30,000” in the head-
25 ing and inserting “\$40,000”, and

1 (ii) by striking “October 1, 1993” and
2 inserting “July 1, 2000”.

3 (c) QUALIFIED TRUSTS.—

4 (1) COMPENSATION LIMIT.—Sections
5 401(a)(17), 404(l), 408(k), and 505(b)(7) are each
6 amended by striking “\$150,000” each place it ap-
7 pears and inserting “\$200,000”.

8 (2) BASE PERIOD AND ROUNDING OF COST-OF-
9 LIVING ADJUSTMENT.—Subparagraph (B) of section
10 401(a)(17) is amended—

11 (A) by striking “October 1, 1993” and in-
12 serting “July 1, 2000”, and

13 (B) by striking “\$10,000” both places it
14 appears and inserting “\$5,000”.

15 (d) ELECTIVE DEFERRALS.—

16 (1) IN GENERAL.—Paragraph (1) of section
17 402(g) (relating to limitation on exclusion for elec-
18 tive deferrals) is amended to read as follows:

19 “(1) IN GENERAL.—

20 “(A) LIMITATION.—Notwithstanding sub-
21 sections (e)(3) and (h)(1)(B), the elective defer-
22 rals of any individual for any taxable year shall
23 be included in such individual’s gross income to
24 the extent the amount of such deferrals for the

1 taxable year exceeds the applicable dollar
2 amount.

3 “(B) APPLICABLE DOLLAR AMOUNT.—For
4 purposes of subparagraph (A), the applicable
5 dollar amount shall be the amount determined
6 in accordance with the following table:

“For taxable years beginning in calendar year:	The applicable dollar amount:
2001	\$11,000
2002	\$12,000
2003	\$13,000
2004 or thereafter	\$14,000.”.

7 (2) COST-OF-LIVING ADJUSTMENT.—Paragraph
8 (5) of section 402(g) is amended to read as follows:

9 “(5) COST-OF-LIVING ADJUSTMENT.—In the
10 case of taxable years beginning after December 31,
11 2004, the Secretary shall adjust the \$14,000
12 amount under paragraph (1)(B) at the same time
13 and in the same manner as under section 415(d),
14 except that the base period shall be the calendar
15 quarter beginning July 1, 2003, and any increase
16 under this paragraph which is not a multiple of
17 \$500 shall be rounded to the next lowest multiple of
18 \$500.”.

19 (3) CONFORMING AMENDMENTS.—

20 (A) Section 402(g) (relating to limitation
21 on exclusion for elective deferrals), as amended
22 by paragraphs (1) and (2), is further amended

1 by striking paragraph (4) and redesignating
2 paragraphs (5), (6), (7), (8), and (9) as para-
3 graphs (4), (5), (6), (7), and (8), respectively.

4 (B) Paragraph (2) of section 457(c) is
5 amended by striking “402(g)(8)(A)(iii)” and in-
6 serting “402(g)(7)(A)(iii)”.

7 (C) Clause (iii) of section 501(c)(18)(D) is
8 amended by striking “(other than paragraph
9 (4) thereof)”.

10 (e) DEFERRED COMPENSATION PLANS OF STATE
11 AND LOCAL GOVERNMENTS AND TAX-EXEMPT ORGANI-
12 ZATIONS.—

13 (1) IN GENERAL.—Section 457 (relating to de-
14 ferred compensation plans of State and local govern-
15 ments and tax-exempt organizations) is amended—

16 (A) in subsections (b)(2)(A) and (c)(1) by
17 striking “\$7,500” each place it appears and in-
18 serting “the applicable dollar amount”, and

19 (B) in subsection (b)(3)(A) by striking
20 “\$15,000” and inserting “twice the dollar
21 amount in effect under subsection (b)(2)(A)”.

22 (2) APPLICABLE DOLLAR AMOUNT; COST-OF-
23 LIVING ADJUSTMENT.—Paragraph (15) of section
24 457(e) is amended to read as follows:

25 “(15) APPLICABLE DOLLAR AMOUNT.—

1 “(A) IN GENERAL.—The applicable dollar
2 amount shall be the amount determined in ac-
3 cordance with the following table:

“For taxable years beginning in calendar year:	The applicable dollar amount:
2001	\$11,000
2002	\$12,000
2003	\$13,000
2004 or thereafter	\$14,000.

4 “(B) COST-OF-LIVING ADJUSTMENTS.—In
5 the case of taxable years beginning after De-
6 cember 31, 2004, the Secretary shall adjust the
7 \$14,000 amount specified in the table in sub-
8 paragraph (A) at the same time and in the
9 same manner as under section 415(d), except
10 that the base period shall be the calendar quar-
11 ter beginning July 1, 2003, and any increase
12 under this paragraph which is not a multiple of
13 \$500 shall be rounded to the next lowest mul-
14 tiple of \$500.”.

15 (f) SIMPLE RETIREMENT ACCOUNTS.—

16 (1) LIMITATION.—Clause (ii) of section
17 408(p)(2)(A) (relating to general rule for qualified
18 salary reduction arrangement) is amended by strik-
19 ing “\$6,000” and inserting “the applicable dollar
20 amount”.

1 (2) APPLICABLE DOLLAR AMOUNT.—Subpara-
 2 graph (E) of 408(p)(2) is amended to read as fol-
 3 lows:

4 “(E) APPLICABLE DOLLAR AMOUNT; COST-
 5 OF-LIVING ADJUSTMENT.—

6 “(i) IN GENERAL.—For purposes of
 7 subparagraph (A)(ii), the applicable dollar
 8 amount shall be the amount determined in
 9 accordance with the following table:

“For taxable years beginning in calendar year:	The applicable dollar amount:
2001	\$7,000
2002	\$8,000
2003	\$9,000
2004 or thereafter	\$10,000.

10 “(ii) COST-OF-LIVING ADJUSTMENT.—
 11 In the case of a year beginning after De-
 12 cember 31, 2004, the Secretary shall ad-
 13 just the \$10,000 amount under clause (i)
 14 at the same time and in the same manner
 15 as under section 415(d), except that the
 16 base period taken into account shall be the
 17 calendar quarter beginning July 1, 2003,
 18 and any increase under this subparagraph
 19 which is not a multiple of \$500 shall be
 20 rounded to the next lower multiple of
 21 \$500.”.

22 (3) CONFORMING AMENDMENTS.—

1 (A) Clause (I) of section 401(k)(11)(B)(i)
2 is amended by striking “\$6,000” and inserting
3 “the amount in effect under section
4 408(p)(2)(A)(ii)”.

5 (B) Section 401(k)(11) is amended by
6 striking subparagraph (E).

7 (g) ROUNDING RULE RELATING TO DEFINED BEN-
8 EFIT PLANS AND DEFINED CONTRIBUTION PLANS.—
9 Paragraph (4) of section 415(d) is amended to read as
10 follows:

11 “(4) ROUNDING.—

12 “(A) \$160,000 AMOUNT.—Any increase
13 under subparagraph (A) of paragraph (1) which
14 is not a multiple of \$5,000 shall be rounded to
15 the next lowest multiple of \$5,000.

16 “(B) \$40,000 AMOUNT.—Any increase
17 under subparagraph (C) of paragraph (1) which
18 is not a multiple of \$1,000 shall be rounded to
19 the next lowest multiple of \$1,000.”.

20 (h) EFFECTIVE DATE.—The amendments made by
21 this section shall apply to years beginning after December
22 31, 2000.

1 **SEC. 202. PLAN LOANS FOR SUBCHAPTER S OWNERS, PART-**
2 **NERS, AND SOLE PROPRIETORS.**

3 (a) AMENDMENT TO 1986 CODE.—Subparagraph
4 (B) of section 4975(f)(6) (relating to exemptions not to
5 apply to certain transactions) is amended by adding at the
6 end the following new clause:

7 “(iii) LOAN EXCEPTION.—For pur-
8 poses of subparagraph (A)(i), the term
9 ‘owner-employee’ shall only include a per-
10 son described in subclause (II) or (III) of
11 clause (i).”.

12 (b) EFFECTIVE DATE.—The amendment made by
13 this section shall apply to loans made after December 31,
14 2000.

15 **SEC. 203. MODIFICATION OF TOP-HEAVY RULES.**

16 (a) SIMPLIFICATION OF DEFINITION OF KEY EM-
17 PLOYEE.—

18 (1) IN GENERAL.—Section 416(i)(1)(A) (defin-
19 ing key employee) is amended—

20 (A) by striking “or any of the 4 preceding
21 plan years” in the matter preceding clause (i),

22 (B) by striking clause (i) and inserting the
23 following:

24 “(i) an officer of the employer having
25 an annual compensation greater than
26 \$150,000,”

1 (C) by striking clause (ii) and redesignig-
2 nating clauses (iii) and (iv) as clauses (ii) and
3 (iii), respectively, and

4 (D) by striking the second sentence in the
5 matter following clause (iii), as redesignated by
6 subparagraph (C).

7 (2) CONFORMING AMENDMENT.—Section
8 416(i)(1)(B)(iii) is amended by striking “and sub-
9 paragraph (A)(ii)”.

10 (b) MATCHING CONTRIBUTIONS TAKEN INTO AC-
11 COUNT FOR MINIMUM CONTRIBUTION REQUIREMENTS.—
12 Section 416(c)(2)(A) (relating to defined contribution
13 plans) is amended by adding at the end the following:
14 “Employer matching contributions (as defined in section
15 401(m)(4)(A)) shall be taken into account for purposes
16 of this subparagraph.”.

17 (c) DISTRIBUTIONS DURING LAST YEAR BEFORE
18 DETERMINATION DATE TAKEN INTO ACCOUNT.—

19 (1) IN GENERAL.—Paragraph (3) of section
20 416(g) is amended to read as follows:

21 “(3) DISTRIBUTIONS DURING LAST YEAR BE-
22 FORE DETERMINATION DATE TAKEN INTO AC-
23 COUNT.—

24 “(A) IN GENERAL.—For purposes of
25 determining—

1 “(i) the present value of the cumu-
2 lative accrued benefit for any employee, or

3 “(ii) the amount of the account of any
4 employee,

5 such present value or amount shall be increased
6 by the aggregate distributions made with re-
7 spect to such employee under the plan during
8 the 1-year period ending on the determination
9 date. The preceding sentence shall also apply to
10 distributions under a terminated plan which if
11 it had not been terminated would have been re-
12 quired to be included in an aggregation group.

13 “(B) 5-YEAR PERIOD IN CASE OF IN-SERV-
14 ICE DISTRIBUTION.—In the case of any dis-
15 tribution made for a reason other than separa-
16 tion from service, death, or disability, subpara-
17 graph (A) shall be applied by substituting ‘5-
18 year period’ for ‘1-year period’.”.

19 (2) BENEFITS NOT TAKEN INTO ACCOUNT.—
20 Subparagraph (E) of section 416(g)(4) is
21 amended—

22 (A) by striking “LAST 5 YEARS” in the
23 heading and inserting “LAST YEAR BEFORE DE-
24 TERMINATION DATE”, and

1 (B) by striking “5-year period” and insert-
2 ing “1-year period”.

3 (d) DEFINITION OF TOP-HEAVY PLANS.—Paragraph
4 (4) of section 416(g) (relating to other special rules for
5 top-heavy plans) is amended by adding at the end the fol-
6 lowing new subparagraph:

7 “(H) CASH OR DEFERRED ARRANGEMENTS
8 USING ALTERNATIVE METHODS OF MEETING
9 NONDISCRIMINATION REQUIREMENTS.—The
10 term ‘top-heavy plan’ shall not include a plan
11 which consists solely of—

12 “(i) a cash or deferred arrangement
13 which meets the requirements of section
14 401(k)(12), and

15 “(ii) matching contributions with re-
16 spect to which the requirements of section
17 401(m)(11) are met.

18 If, but for this subparagraph, a plan would be
19 treated as a top-heavy plan because it is a
20 member of an aggregation group which is a top-
21 heavy group, contributions under the plan may
22 be taken into account in determining whether
23 any other plan in the group meets the require-
24 ments of subsection (c)(2).”.

1 (e) FROZEN PLAN EXEMPT FROM MINIMUM BEN-
2 EFIT REQUIREMENT.—Subparagraph (C) of section
3 416(e)(1) (relating to defined benefit plans) is amended—

4 (A) by striking “clause (ii)” in clause (i)
5 and inserting “clause (ii) or (iii)”, and

6 (B) by adding at the end the following:

7 “(iii) EXCEPTION FOR FROZEN
8 PLAN.—For purposes of determining an
9 employee’s years of service with the em-
10 ployer, any service with the employer shall
11 be disregarded to the extent that such
12 service occurs during a plan year when the
13 plan benefits (within the meaning of sec-
14 tion 410(b)) no employee or former em-
15 ployee.”.

16 (f) ELIMINATION OF FAMILY ATTRIBUTION.—Sec-
17 tion 416(i)(1)(B) (defining 5-percent owner) is amended
18 by adding at the end the following new clause:

19 “(iv) FAMILY ATTRIBUTION DIS-
20 REGARDED.—Solely for purposes of apply-
21 ing this paragraph (and not for purposes
22 of any provision of this title which incor-
23 porates by reference the definition of a key
24 employee or 5-percent owner under this
25 paragraph), section 318 shall be applied

1 without regard to subsection (a)(1) thereof
2 in determining whether any person is a 5-
3 percent owner.”.

4 (g) EFFECTIVE DATE.—The amendments made by
5 this section shall apply to years beginning after December
6 31, 2000.

7 **SEC. 204. ELECTIVE DEFERRALS NOT TAKEN INTO AC-**
8 **COUNT FOR PURPOSES OF DEDUCTION LIM-**
9 **ITS.**

10 (a) IN GENERAL.—Section 404 (relating to deduction
11 for contributions of an employer to an employees’ trust
12 or annuity plan and compensation under a deferred pay-
13 ment plan) is amended by adding at the end the following
14 new subsection:

15 “(n) ELECTIVE DEFERRALS NOT TAKEN INTO AC-
16 COUNT FOR PURPOSES OF DEDUCTION LIMITS.—Elective
17 deferrals (as defined in section 402(g)(3)) shall not be
18 subject to any limitation contained in paragraph (3), (7),
19 or (9) of subsection (a), and such elective deferrals shall
20 not be taken into account in applying any such limitation
21 to any other contributions.”.

22 (b) EFFECTIVE DATE.—The amendment made by
23 this section shall apply to years beginning after December
24 31, 2000.

1 **SEC. 205. REPEAL OF COORDINATION REQUIREMENTS FOR**
2 **DEFERRED COMPENSATION PLANS OF STATE**
3 **AND LOCAL GOVERNMENTS AND TAX-EX-**
4 **EMPT ORGANIZATIONS.**

5 (a) IN GENERAL.—Subsection (c) of section 457 (re-
6 lating to deferred compensation plans of State and local
7 governments and tax-exempt organizations), as amended
8 by section 211, is amended to read as follows:

9 “(c) LIMITATION.—The maximum amount of the
10 compensation of any one individual which may be deferred
11 under subsection (a) during any taxable year shall not ex-
12 ceed the amount in effect under subsection (b)(2)(A) (as
13 modified by any adjustment provided under subsection
14 (b)(3)).”.

15 (b) EFFECTIVE DATE.—The amendment made by
16 subsection (a) shall apply to years beginning after Decem-
17 ber 31, 2000.

18 **SEC. 206. ELIMINATION OF USER FEE FOR REQUESTS TO**
19 **IRS REGARDING PENSION PLANS.**

20 (a) ELIMINATION OF CERTAIN USER FEES.—The
21 Secretary of the Treasury or the Secretary’s delegate shall
22 not require payment of user fees under the program estab-
23 lished under section 7527 of the Internal Revenue Code
24 of 1986 for requests to the Internal Revenue Service for
25 determination letters with respect to the qualified status
26 of a pension benefit plan maintained solely by one or more

1 eligible employers or any trust which is part of the plan.

2 The preceding sentence shall not apply to any request—

3 (1) made after the 5th plan year the pension
4 benefit plan is in existence, or

5 (2) made by the sponsor of any prototype or
6 similar plan which the sponsor intends to market to
7 participating employers.

8 (b) PENSION BENEFIT PLAN.—For purposes of this
9 section, the term “pension benefit plan” means a pension,
10 profit-sharing, stock bonus, annuity, or employee stock
11 ownership plan.

12 (c) ELIGIBLE EMPLOYER.—For purposes of this sec-
13 tion, the term “eligible employer” has the same meaning
14 given such term in section 408(p)(2)(C)(i)(I) of the Inter-
15 nal Revenue Code of 1986. The determination of whether
16 an employer is an eligible employer under this section shall
17 be made as of the date of the request described in sub-
18 section (a).

19 (d) EFFECTIVE DATE.—The provisions of this sec-
20 tion shall apply with respect to requests made after De-
21 cember 31, 2000.

22 **SEC. 207. DEDUCTION LIMITS.**

23 (a) IN GENERAL.—Section 404(a) (relating to gen-
24 eral rule) is amended by adding at the end the following:

1 ter, except that such contribution shall not be ex-
2 cludable from gross income, and

3 “(2) such plan (and any arrangement which is
4 part of such plan) shall not be treated as failing to
5 meet any requirement of this chapter solely by rea-
6 son of including such program.

7 “(b) QUALIFIED PLUS CONTRIBUTION PROGRAM.—
8 For purposes of this section—

9 “(1) IN GENERAL.—The term ‘qualified plus
10 contribution program’ means a program under which
11 an employee may elect to make designated plus con-
12 tributions in lieu of all or a portion of elective defer-
13 rals the employee is otherwise eligible to make under
14 the applicable retirement plan.

15 “(2) SEPARATE ACCOUNTING REQUIRED.—A
16 program shall not be treated as a qualified plus con-
17 tribution program unless the applicable retirement
18 plan—

19 “(A) establishes separate accounts (‘des-
20 ignated plus accounts’) for the designated plus
21 contributions of each employee and any earn-
22 ings properly allocable to the contributions, and

23 “(B) maintains separate recordkeeping
24 with respect to each account.

1 “(c) DEFINITIONS AND RULES RELATING TO DES-
2 IGNATED PLUS CONTRIBUTIONS.—For purposes of this
3 section—

4 “(1) DESIGNATED PLUS CONTRIBUTION.—The
5 term ‘designated plus contribution’ means any elec-
6 tive deferral which—

7 “(A) is excludable from gross income of an
8 employee without regard to this section, and

9 “(B) the employee designates (at such time
10 and in such manner as the Secretary may pre-
11 scribe) as not being so excludable.

12 “(2) DESIGNATION LIMITS.—The amount of
13 elective deferrals which an employee may designate
14 under paragraph (1) shall not exceed the excess (if
15 any) of—

16 “(A) the maximum amount of elective de-
17 ferrals excludable from gross income of the em-
18 ployee for the taxable year (without regard to
19 this section), over

20 “(B) the aggregate amount of elective de-
21 ferrals of the employee for the taxable year
22 which the employee does not designate under
23 paragraph (1).

24 “(3) ROLLOVER CONTRIBUTIONS.—

1 “(A) IN GENERAL.—A rollover contribu-
2 tion of any payment or distribution from a des-
3 ignated plus account which is otherwise allow-
4 able under this chapter may be made only if the
5 contribution is to—

6 “(i) another designated plus account
7 of the individual from whose account the
8 payment or distribution was made, or

9 “(ii) a Roth IRA of such individual.

10 “(B) COORDINATION WITH LIMIT.—Any
11 rollover contribution to a designated plus ac-
12 count under subparagraph (A) shall not be
13 taken into account for purposes of paragraph
14 (1).

15 “(d) DISTRIBUTION RULES.—For purposes of this
16 title—

17 “(1) EXCLUSION.—Any qualified distribution
18 from a designated plus account shall not be includ-
19 ible in gross income.

20 “(2) QUALIFIED DISTRIBUTION.—For purposes
21 of this subsection—

22 “(A) IN GENERAL.—The term ‘qualified
23 distribution’ has the meaning given such term
24 by section 408A(d)(2)(A) (without regard to
25 clause (iv) thereof).

1 “(B) DISTRIBUTIONS WITHIN NONEXCLU-
2 SION PERIOD.—A payment or distribution from
3 a designated plus account shall not be treated
4 as a qualified distribution if such payment or
5 distribution is made within the 5-taxable-year
6 period beginning with the earlier of—

7 “(i) the first taxable year for which
8 the individual made a designated plus con-
9 tribution to any designated plus account
10 established for such individual under the
11 same applicable retirement plan, or

12 “(ii) if a rollover contribution was
13 made to such designated plus account from
14 a designated plus account previously estab-
15 lished for such individual under another
16 applicable retirement plan, the first taxable
17 year for which the individual made a des-
18 ignated plus contribution to such pre-
19 viously established account.

20 “(C) DISTRIBUTIONS OF EXCESS DEFER-
21 RALS AND EARNINGS.—The term ‘qualified dis-
22 tribution’ shall not include any distribution of
23 any excess deferral under section 402(g)(2) and
24 any income on the excess deferral.

1 “(3) AGGREGATION RULES.—Section 72 shall
2 be applied separately with respect to distributions
3 and payments from a designated plus account and
4 other distributions and payments from the plan.

5 “(e) OTHER DEFINITIONS.—For purposes of this
6 section—

7 “(1) APPLICABLE RETIREMENT PLAN.—The
8 term ‘applicable retirement plan’ means—

9 “(A) an employees’ trust described in sec-
10 tion 401(a) which is exempt from tax under
11 section 501(a), and

12 “(B) a plan under which amounts are con-
13 tributed by an individual’s employer for an an-
14 nuity contract described in section 403(b).

15 “(2) ELECTIVE DEFERRAL.—The term ‘elective
16 deferral’ means any elective deferral described in
17 subparagraph (A) or (C) of section 402(g)(3).”.

18 (b) EXCESS DEFERRALS.—Section 402(g) (relating
19 to limitation on exclusion for elective deferrals) is
20 amended—

21 (1) by adding at the end of paragraph (1) the
22 following new sentence: “The preceding sentence
23 shall not apply to so much of such excess as does
24 not exceed the designated plus contributions of the
25 individual for the taxable year.”, and

1 (2) by inserting “(or would be included but for
2 the last sentence thereof)” after “paragraph (1)” in
3 paragraph (2)(A).

4 (c) ROLLOVERS.—Subparagraph (B) of section
5 402(c)(8) is amended by adding at the end the following:

6 “If any portion of an eligible rollover distribu-
7 tion is attributable to payments or distributions
8 from a designated plus account (as defined in
9 section 402A), an eligible retirement plan with
10 respect to such portion shall include only an-
11 other designated plus account and a Roth
12 IRA.”.

13 (d) REPORTING REQUIREMENTS.—

14 (1) W-2 INFORMATION.—Section 6051(a)(8) is
15 amended by inserting “, including the amount of
16 designated plus contributions (as defined in section
17 402A)” before the comma at the end.

18 (2) INFORMATION.—Section 6047 is amended
19 by redesignating subsection (f) as subsection (g)
20 and by inserting after subsection (e) the following
21 new subsection:

22 “(f) DESIGNATED PLUS CONTRIBUTIONS.—The Sec-
23 retary shall require the plan administrator of each applica-
24 ble retirement plan (as defined in section 402A) to make
25 such returns and reports regarding designated plus con-

1 tributions (as so defined) to the Secretary, participants
 2 and beneficiaries of the plan, and such other persons as
 3 the Secretary may prescribe.”.

4 (e) CONFORMING AMENDMENTS.—

5 (1) Section 408A(e) is amended by adding after
 6 the first sentence the following new sentence: “Such
 7 term includes a rollover contribution described in
 8 section 402A(c)(3)(A).”.

9 (2) The table of sections for subpart A of part
 10 I of subchapter D of chapter 1 is amended by insert-
 11 ing after the item relating to section 402 the fol-
 12 lowing new item:

“Sec. 402A. Optional treatment of elective deferrals as plus con-
 tributions.”.

13 (f) EFFECTIVE DATE.—The amendments made by
 14 this section shall apply to taxable years beginning after
 15 December 31, 2000.

16 **Subtitle B—Enhancing Fairness for** 17 **Women**

18 **SEC. 221. CATCHUP CONTRIBUTIONS FOR INDIVIDUALS** 19 **AGE 50 OR OVER.**

20 (a) IN GENERAL.—Section 414 (relating to defini-
 21 tions and special rules) is amended by adding at the end
 22 the following new subsection:

23 “(v) CATCHUP CONTRIBUTIONS FOR INDIVIDUALS
 24 AGE 50 OR OVER.—

1 “(1) IN GENERAL.—An applicable employer
2 plan shall not be treated as failing to meet any re-
3 quirement of this title solely because the plan per-
4 mits an eligible participant to make additional elec-
5 tive deferrals in any plan year.

6 “(2) LIMITATION ON AMOUNT OF ADDITIONAL
7 DEFERRALS.—

8 “(A) IN GENERAL.—A plan shall not per-
9 mit additional elective deferrals under para-
10 graph (1) for any year in an amount greater
11 than the lesser of—

12 “(i) the applicable percentage of the
13 applicable dollar amount for such elective
14 deferrals for such year, or

15 “(ii) the excess (if any) of—

16 “(I) the participant’s compensa-
17 tion for the year, over

18 “(II) any other elective deferrals
19 of the participant for such year which
20 are made without regard to this sub-
21 section.

22 “(B) APPLICABLE PERCENTAGE.—For
23 purposes of this paragraph, the applicable per-
24 centage shall be determined in accordance with
25 the following table:

“For taxable years beginning in:	The applicable percentage is:
2001	10 percent
2002	20 percent
2003	30 percent
2004 and thereafter	40 percent.

1 “(3) TREATMENT OF CONTRIBUTIONS.—In the
2 case of any contribution to a plan under paragraph
3 (1)—

4 “(A) such contribution shall not, with re-
5 spect to the year in which the contribution is
6 made—

7 “(i) be subject to any otherwise appli-
8 cable limitation contained in section
9 402(g), 402(h), 403(b), 404(a), 404(h),
10 408, 415, or 457, or

11 “(ii) be taken into account in applying
12 such limitations to other contributions or
13 benefits under such plan or any other such
14 plan, and

15 “(B) such plan shall not be treated as fail-
16 ing to meet the requirements of section
17 401(a)(4), 401(a)(26), 401(k)(3), 401(k)(11),
18 401(k)(12), 401(m), 403(b)(12), 408(k),
19 408(p), 408B, 410(b), or 416 by reason of the
20 making of (or the right to make) such contribu-
21 tion.

1 “(4) ELIGIBLE PARTICIPANT.—For purposes of
2 this subsection, the term ‘eligible participant’ means,
3 with respect to any plan year, a participant in a
4 plan—

5 “(A) who has attained the age of 50 before
6 the close of the plan year, and

7 “(B) with respect to whom no other elec-
8 tive deferrals may (without regard to this sub-
9 section) be made to the plan for the plan year
10 by reason of the application of any limitation or
11 other restriction described in paragraph (3) or
12 contained in the terms of the plan.

13 “(5) OTHER DEFINITIONS AND RULES.—For
14 purposes of this subsection—

15 “(A) APPLICABLE DOLLAR AMOUNT.—The
16 term ‘applicable dollar amount’ means, with re-
17 spect to any year, the amount in effect under
18 section 402(g)(1)(B), 408(p)(2)(E)(i), or
19 457(e)(15)(A), whichever is applicable to an ap-
20 plicable employer plan, for such year.

21 “(B) APPLICABLE EMPLOYER PLAN.—The
22 term ‘applicable employer plan’ means—

23 “(i) an employees’ trust described in
24 section 401(a) which is exempt from tax
25 under section 501(a),

1 (1) IN GENERAL.—Subparagraph (B) of section
2 415(c)(1) (relating to limitation for defined con-
3 tribution plans) is amended by striking “25 percent”
4 and inserting “100 percent”.

5 (2) APPLICATION TO SECTION 403(b).—Section
6 403(b) is amended—

7 (A) by striking “the exclusion allowance
8 for such taxable year” in paragraph (1) and in-
9 serting “the applicable limit under section
10 415”,

11 (B) by striking paragraph (2), and

12 (C) by inserting “or any amount received
13 by a former employee after the 5th taxable year
14 following the taxable year in which such em-
15 ployee was terminated” before the period at the
16 end of the second sentence of paragraph (3).

17 (3) CONFORMING AMENDMENTS.—

18 (A) Subsection (f) of section 72 is amend-
19 ed by striking “section 403(b)(2)(D)(iii)” and
20 inserting “section 403(b)(2)(D)(iii), as in effect
21 before the enactment of the Small Business Tax
22 Fairness Act of 2000”.

23 (B) Section 404(a)(10)(B) is amended by
24 striking “, the exclusion allowance under sec-
25 tion 403(b)(2),”.

1 (C) Section 415(a)(2) is amended by strik-
2 ing “, and the amount of the contribution for
3 such portion shall reduce the exclusion allow-
4 ance as provided in section 403(b)(2)”.

5 (D) Section 415(c)(3) is amended by add-
6 ing at the end the following new subparagraph:

7 “(E) ANNUITY CONTRACTS.—In the case
8 of an annuity contract described in section
9 403(b), the term ‘participant’s compensation’
10 means the participant’s includible compensation
11 determined under section 403(b)(3).”.

12 (E) Section 415(c) is amended by striking
13 paragraph (4).

14 (F) Section 415(c)(7) is amended to read
15 as follows:

16 “(7) CERTAIN CONTRIBUTIONS BY CHURCH
17 PLANS NOT TREATED AS EXCEEDING LIMIT.—

18 “(A) IN GENERAL.—Notwithstanding any
19 other provision of this subsection, at the elec-
20 tion of a participant who is an employee of a
21 church or a convention or association of church-
22 es, including an organization described in sec-
23 tion 414(e)(3)(B)(ii), contributions and other
24 additions for an annuity contract or retirement
25 income account described in section 403(b) with

1 respect to such participant, when expressed as
2 an annual addition to such participant's ac-
3 count, shall be treated as not exceeding the lim-
4 itation of paragraph (1) if such annual addition
5 is not in excess of \$10,000.

6 “(B) \$40,000 AGGREGATE LIMITATION.—
7 The total amount of additions with respect to
8 any participant which may be taken into ac-
9 count for purposes of this subparagraph for all
10 years may not exceed \$40,000.

11 “(C) ANNUAL ADDITION.—For purposes of
12 this paragraph, the term ‘annual addition’ has
13 the meaning given such term by paragraph
14 (2).”.

15 (G) Subparagraph (B) of section 402(g)(7)
16 (as redesignated by section 211) is amended by
17 inserting before the period at the end the fol-
18 lowing: “(as in effect before the enactment of
19 the Small Business Tax Fairness Act of
20 2000)”.

21 (3) EFFECTIVE DATE.—The amendments made
22 by this subsection shall apply to years beginning
23 after December 31, 2000.

24 (b) SPECIAL RULES FOR SECTIONS 403(b) AND
25 408.—

1 (1) IN GENERAL.—Subsection (k) of section
2 415 is amended by adding at the end the following
3 new paragraph:

4 “(4) SPECIAL RULES FOR SECTIONS 403(b) AND
5 408.—For purposes of this section, any annuity con-
6 tract described in section 403(b) for the benefit of
7 a participant shall be treated as a defined contribu-
8 tion plan maintained by each employer with respect
9 to which the participant has the control required
10 under subsection (b) or (c) of section 414 (as modi-
11 fied by subsection (h)). For purposes of this section,
12 any contribution by an employer to a simplified em-
13 ployee pension plan for an individual for a taxable
14 year shall be treated as an employer contribution to
15 a defined contribution plan for such individual for
16 such year.”.

17 (2) EFFECTIVE DATE.—

18 (A) IN GENERAL.—The amendment made
19 by paragraph (1) shall apply to limitation years
20 beginning after December 31, 1999.

21 (B) EXCLUSION ALLOWANCE.—Effective
22 for limitation years beginning in 2000, in the
23 case of any annuity contract described in sec-
24 tion 403(b) of the Internal Revenue Code of
25 1986, the amount of the contribution disquali-

1 fied by reason of section 415(g) of such Code
2 shall reduce the exclusion allowance as provided
3 in section 403(b)(2) of such Code.

4 (3) MODIFICATION OF 403(b) EXCLUSION AL-
5 LOWANCE TO CONFORM TO 415 MODIFICATION.—The
6 Secretary of the Treasury shall modify the regula-
7 tions regarding the exclusion allowance under section
8 403(b)(2) of the Internal Revenue Code of 1986 to
9 render void the requirement that contributions to a
10 defined benefit pension plan be treated as previously
11 excluded amounts for purposes of the exclusion al-
12 lowance. For taxable years beginning after Decem-
13 ber 31, 1999, such regulations shall be applied as if
14 such requirement were void.

15 (c) DEFERRED COMPENSATION PLANS OF STATE
16 AND LOCAL GOVERNMENTS AND TAX-EXEMPT ORGANI-
17 ZATIONS.—

18 (1) IN GENERAL.—Subparagraph (B) of section
19 457(b)(2) (relating to salary limitation on eligible
20 deferred compensation plans) is amended by striking
21 “33 $\frac{1}{3}$ percent” and inserting “100 percent”.

22 (2) EFFECTIVE DATE.—The amendment made
23 by this subsection shall apply to years beginning
24 after December 31, 2000.

1 **SEC. 223. FASTER VESTING OF CERTAIN EMPLOYER**
 2 **MATCHING CONTRIBUTIONS.**

3 (a) AMENDMENTS TO 1986 CODE.—Section 411(a)
 4 (relating to minimum vesting standards) is amended—

5 (1) in paragraph (2), by striking “A plan” and
 6 inserting “Except as provided in paragraph (12), a
 7 plan”, and

8 (2) by adding at the end the following:

9 “(12) FASTER VESTING FOR MATCHING CON-
 10 TRIBUTIONS.—In the case of matching contributions
 11 (as defined in section 401(m)(4)(A)), paragraph (2)
 12 shall be applied—

13 “(A) by substituting ‘3 years’ for ‘5 years’
 14 in subparagraph (A), and

15 “(B) by substituting the following table for
 16 the table contained in subparagraph (B):

“Years of service:	The nonforfeitable percentage is:
2	20
3	40
4	60
5	80
6	100.”.

17 (b) EFFECTIVE DATES.—

18 (1) IN GENERAL.—Except as provided in para-
 19 graph (2), the amendments made by this section
 20 shall apply to contributions for plan years beginning
 21 after December 31, 2000.

1 (2) COLLECTIVE BARGAINING AGREEMENTS.—

2 In the case of a plan maintained pursuant to one or
3 more collective bargaining agreements between em-
4 ployee representatives and one or more employers
5 ratified by the date of the enactment of this Act, the
6 amendments made by this section shall not apply to
7 contributions on behalf of employees covered by any
8 such agreement for plan years beginning before the
9 earlier of—

10 (A) the later of—

11 (i) the date on which the last of such
12 collective bargaining agreements termi-
13 nates (determined without regard to any
14 extension thereof on or after such date of
15 the enactment), or

16 (ii) January 1, 2001, or

17 (B) January 1, 2005.

18 (3) SERVICE REQUIRED.—With respect to any
19 plan, the amendments made by this section shall not
20 apply to any employee before the date that such em-
21 ployee has 1 hour of service under such plan in any
22 plan year to which the amendments made by this
23 section apply.

1 **SEC. 224. SIMPLIFY AND UPDATE THE MINIMUM DISTRIBUTION RULES.**
2

3 (a) SIMPLIFICATION AND FINALIZATION OF MINIMUM DISTRIBUTION REQUIREMENTS.—
4

5 (1) IN GENERAL.—The Secretary of the Treasury shall—
6

7 (A) simplify and finalize the regulations relating to minimum distribution requirements
8 under sections 401(a)(9), 408(a)(6) and (b)(3),
9 403(b)(10), and 457(d)(2) of the Internal Revenue Code of 1986, and
10
11

12 (B) modify such regulations to—

13 (i) reflect current life expectancy, and

14 (ii) revise the required distribution
15 methods so that, under reasonable assumptions,
16 the amount of the required minimum
17 distribution does not decrease over a participant's
18 life expectancy.

19 (2) FRESH START.—Notwithstanding subparagraph (D) of section 401(a)(9) of such Code, during
20 the first year that regulations are in effect under
21 this subsection, required distributions for future
22 years may be redetermined to reflect changes under
23 such regulations. Such redetermination shall include
24 the opportunity to choose a new designated bene-
25

1 ficiary and to elect a new method of calculating life
2 expectancy.

3 (3) EFFECTIVE DATE FOR REGULATIONS.—
4 Regulations referred to in paragraph (1) shall be ef-
5 fective for years beginning after December 31, 2000,
6 and shall apply in such years without regard to
7 whether an individual had previously begun receiving
8 minimum distributions.

9 (b) REPEAL OF RULE WHERE DISTRIBUTIONS HAD
10 BEGUN BEFORE DEATH OCCURS.—

11 (1) IN GENERAL.—Subparagraph (B) of section
12 401(a)(9) is amended by striking clause (i) and re-
13 designating clauses (ii), (iii), and (iv) as clauses (i),
14 (ii), and (iii), respectively.

15 (2) CONFORMING CHANGES.—

16 (A) Clause (i) of section 401(a)(9)(B) (as
17 so redesignated) is amended—

18 (i) by striking “FOR OTHER CASES” in
19 the heading, and

20 (ii) by striking “the distribution of the
21 employee’s interest has begun in accord-
22 ance with subparagraph (A)(ii)” and in-
23 serting “his entire interest has been dis-
24 tributed to him,”.

1 (B) Clause (ii) of section 401(a)(9)(B) (as
2 so redesignated) is amended by striking “clause
3 (ii)” and inserting “clause (i)”.

4 (C) Clause (iii) of section 401(a)(9)(B) (as
5 so redesignated) is amended—

6 (i) by striking “clause (iii)(I)” and in-
7 serting “clause (ii)(I)”,

8 (ii) by striking “clause (iii)(III)” in
9 subclause (I) and inserting “clause
10 (ii)(III)”,

11 (iii) by striking “the date on which
12 the employee would have attained the age
13 70 $\frac{1}{2}$,” in subclause (I) and inserting
14 “April 1 of the calendar year following the
15 calendar year in which the spouse attains
16 70 $\frac{1}{2}$,” and

17 (iv) by striking “the distributions to
18 such spouse begin,” in subclause (II) and
19 inserting “his entire interest has been dis-
20 tributed to him,”.

21 (3) EFFECTIVE DATE.—The amendments made
22 by this subsection shall apply to years beginning
23 after December 31, 2000.

24 (c) REDUCTION IN EXCISE TAX.—

1 (1) IN GENERAL.—Subsection (a) of section
2 4974 is amended by striking “50 percent” and in-
3 serting “10 percent”.

4 (2) EFFECTIVE DATE.—The amendment made
5 by this subsection shall apply to years beginning
6 after December 31, 2000.

7 **SEC. 225. CLARIFICATION OF TAX TREATMENT OF DIVISION**
8 **OF SECTION 457 PLAN BENEFITS UPON DI-**
9 **VORCE.**

10 (a) IN GENERAL.—Section 414(p)(11) (relating to
11 application of rules to governmental and church plans) is
12 amended—

13 (1) by inserting “or an eligible deferred com-
14 pensation plan (within the meaning of section
15 457(b))” after “subsection (e)”, and

16 (2) in the heading, by striking “GOVERN-
17 MENTAL AND CHURCH PLANS” and inserting “CER-
18 TAIN OTHER PLANS”.

19 (b) WAIVER OF CERTAIN DISTRIBUTION REQUIRE-
20 MENTS.—Paragraph (10) of section 414(p) is amended by
21 striking “and section 409(d)” and inserting “section
22 409(d), and section 457(d)”.

23 (c) TAX TREATMENT OF PAYMENTS FROM A SEC-
24 TION 457 PLAN.—Subsection (p) of section 414 is amend-
25 ed by redesignating paragraph (12) as paragraph (13) and

1 inserting after paragraph (11) the following new para-
2 graph:

3 “(12) TAX TREATMENT OF PAYMENTS FROM A
4 SECTION 457 PLAN.—If a distribution or payment
5 from an eligible deferred compensation plan de-
6 scribed in section 457(b) is made pursuant to a
7 qualified domestic relations order, rules similar to
8 the rules of section 402(e)(1)(A) shall apply to such
9 distribution or payment.”.

10 (d) EFFECTIVE DATE.—The amendments made by
11 this section shall apply to transfers, distributions, and
12 payments made after December 31, 2000.

13 **SEC. 226. MODIFICATION OF SAFE HARBOR RELIEF FOR**
14 **HARDSHIP WITHDRAWALS FROM CASH OR**
15 **DEFERRED ARRANGEMENTS.**

16 (a) IN GENERAL.—The Secretary of the Treasury
17 shall revise the regulations relating to hardship distribu-
18 tions under section 401(k)(2)(B)(i)(IV) of the Internal
19 Revenue Code of 1986 to provide that the period an em-
20 ployee is prohibited from making elective and employee
21 contributions in order for a distribution to be deemed nec-
22 essary to satisfy financial need shall be equal to 6 months.

23 (b) EFFECTIVE DATE.—The revised regulations
24 under subsection (a) shall apply to years beginning after
25 December 31, 2000.

1 **Subtitle C—Increasing Portability**
2 **for Participants**

3 **SEC. 231. ROLLOVERS ALLOWED AMONG VARIOUS TYPES**
4 **OF PLANS.**

5 (a) ROLLOVERS FROM AND TO SECTION 457
6 PLANS.—

7 (1) ROLLOVERS FROM SECTION 457 PLANS.—

8 (A) IN GENERAL.—Section 457(e) (relat-
9 ing to other definitions and special rules) is
10 amended by adding at the end the following:

11 “(16) ROLLOVER AMOUNTS.—

12 “(A) GENERAL RULE.—In the case of an
13 eligible deferred compensation plan established
14 and maintained by an employer described in
15 subsection (e)(1)(A), if—

16 “(i) any portion of the balance to the
17 credit of an employee in such plan is paid
18 to such employee in an eligible rollover dis-
19 tribution (within the meaning of section
20 402(c)(4) without regard to subparagraph
21 (C) thereof),

22 “(ii) the employee transfers any por-
23 tion of the property such employee receives
24 in such distribution to an eligible retire-

1 ment plan described in section
2 402(c)(8)(B), and

3 “(iii) in the case of a distribution of
4 property other than money, the amount so
5 transferred consists of the property distrib-
6 uted,

7 then such distribution (to the extent so trans-
8 ferred) shall not be includible in gross income
9 for the taxable year in which paid.

10 “(B) CERTAIN RULES MADE APPLICA-
11 BLE.—The rules of paragraphs (2) through (7)
12 (other than paragraph (4)(C)) and (9) of sec-
13 tion 402(c) and section 402(f) shall apply for
14 purposes of subparagraph (A).

15 “(C) REPORTING.—Rollovers under this
16 paragraph shall be reported to the Secretary in
17 the same manner as rollovers from qualified re-
18 tirement plans (as defined in section
19 4974(c)).”.

20 (B) DEFERRAL LIMIT DETERMINED WITH-
21 OUT REGARD TO ROLLOVER AMOUNTS.—Section
22 457(b)(2) (defining eligible deferred compensa-
23 tion plan) is amended by inserting “(other than
24 rollover amounts)” after “taxable year”.

1 (C) DIRECT ROLLOVER.—Paragraph (1) of
2 section 457(d) is amended by striking “and” at
3 the end of subparagraph (A), by striking the
4 period at the end of subparagraph (B) and in-
5 serting “, and”, and by inserting after subpara-
6 graph (B) the following:

7 “(C) in the case of a plan maintained by
8 an employer described in subsection (e)(1)(A),
9 the plan meets requirements similar to the re-
10 quirements of section 401(a)(31).

11 Any amount transferred in a direct trustee-to-trust-
12 ee transfer in accordance with section 401(a)(31)
13 shall not be includible in gross income for the tax-
14 able year of transfer.”.

15 (D) WITHHOLDING.—

16 (i) Paragraph (12) of section 3401(a)
17 is amended by adding at the end the fol-
18 lowing:

19 “(E) under or to an eligible deferred com-
20 pensation plan which, at the time of such pay-
21 ment, is a plan described in section 457(b)
22 maintained by an employer described in section
23 457(e)(1)(A); or”.

24 (ii) Paragraph (3) of section 3405(c)
25 is amended to read as follows:

1 “(3) ELIGIBLE ROLLOVER DISTRIBUTION.—For
2 purposes of this subsection, the term ‘eligible roll-
3 over distribution’ has the meaning given such term
4 by section 402(f)(2)(A).”.

5 (iii) LIABILITY FOR WITHHOLDING.—

6 Subparagraph (B) of section 3405(d)(2) is
7 amended by striking “or” at the end of
8 clause (ii), by striking the period at the
9 end of clause (iii) and inserting “, or”, and
10 by adding at the end the following:

11 “(iv) section 457(b).”.

12 (2) ROLLOVERS TO SECTION 457 PLANS.—

13 (A) IN GENERAL.—Section 402(c)(8)(B)
14 (defining eligible retirement plan) is amended
15 by striking “and” at the end of clause (iii), by
16 striking the period at the end of clause (iv) and
17 inserting “, and”, and by inserting after clause
18 (iv) the following new clause:

19 “(v) an eligible deferred compensation
20 plan described in section 457(b) of an em-
21 ployer described in section 457(e)(1)(A).”.

22 (B) SEPARATE ACCOUNTING.—Section
23 402(c) is amended by adding at the end the fol-
24 lowing new paragraph:

1 “(11) SEPARATE ACCOUNTING.—Unless a plan
2 described in clause (v) of paragraph (8)(B) agrees to
3 separately account for amounts rolled into such plan
4 from eligible retirement plans not described in such
5 clause, the plan described in such clause may not ac-
6 cept transfers or rollovers from such retirement
7 plans.”.

8 (C) 10 PERCENT ADDITIONAL TAX.—Sub-
9 section (t) of section 72 (relating to 10-percent
10 additional tax on early distributions from quali-
11 fied retirement plans) is amended by adding at
12 the end the following new paragraph:

13 “(9) SPECIAL RULE FOR ROLLOVERS TO SEC-
14 TION 457 PLANS.—For purposes of this subsection,
15 a distribution from an eligible deferred compensation
16 plan (as defined in section 457(b)) of an employer
17 described in section 457(e)(1)(A) shall be treated as
18 a distribution from a qualified retirement plan de-
19 scribed in 4974(e)(1) to the extent that such dis-
20 tribution is attributable to an amount transferred to
21 an eligible deferred compensation plan from a quali-
22 fied retirement plan (as defined in section
23 4974(e)).”.

24 (b) ALLOWANCE OF ROLLOVERS FROM AND TO 403
25 (b) PLANS.—

1 (1) ROLLOVERS FROM SECTION 403 (b)
2 PLANS.—Section 403(b)(8)(A)(ii) (relating to roll-
3 over amounts) is amended by striking “such dis-
4 tribution” and all that follows and inserting “such
5 distribution to an eligible retirement plan described
6 in section 402(c)(8)(B), and”.

7 (2) ROLLOVERS TO SECTION 403 (b) PLANS.—
8 Section 402(c)(8)(B) (defining eligible retirement
9 plan), as amended by subsection (a), is amended by
10 striking “and” at the end of clause (iv), by striking
11 the period at the end of clause (v) and inserting “,
12 and”, and by inserting after clause (v) the following
13 new clause:

14 “(vi) an annuity contract described in
15 section 403(b).”.

16 (c) EXPANDED EXPLANATION TO RECIPIENTS OF
17 ROLLOVER DISTRIBUTIONS.—Paragraph (1) of section
18 402(f) (relating to written explanation to recipients of dis-
19 tributions eligible for rollover treatment) is amended by
20 striking “and” at the end of subparagraph (C), by striking
21 the period at the end of subparagraph (D) and inserting
22 “, and”, and by adding at the end the following new sub-
23 paragraph:

24 “(E) of the provisions under which dis-
25 tributions from the eligible retirement plan re-

1 ceiving the distribution may be subject to re-
2 strictions and tax consequences which are dif-
3 ferent from those applicable to distributions
4 from the plan making such distribution.”.

5 (d) SPOUSAL ROLLOVERS.—Section 402(c)(9) (relat-
6 ing to rollover where spouse receives distribution after
7 death of employee) is amended by striking “; except that”
8 and all that follows up to the end period.

9 (e) CONFORMING AMENDMENTS.—

10 (1) Section 72(o)(4) is amended by striking
11 “and 408(d)(3)” and inserting “403(b)(8),
12 408(d)(3), and 457(e)(16)”.

13 (2) Section 219(d)(2) is amended by striking
14 “or 408(d)(3)” and inserting “408(d)(3), or
15 457(e)(16)”.

16 (3) Section 401(a)(31)(B) is amended by strik-
17 ing “and 403(a)(4)” and inserting “, 403(a)(4),
18 403(b)(8), and 457(e)(16)”.

19 (4) Subparagraph (A) of section 402(f)(2) is
20 amended by striking “or paragraph (4) of section
21 403(a)” and inserting “, paragraph (4) of section
22 403(a), subparagraph (A) of section 403(b)(8), or
23 subparagraph (A) of section 457(e)(16)”.

24 (5) Paragraph (1) of section 402(f) is amended
25 by striking “from an eligible retirement plan”.

1 (6) Subparagraphs (A) and (B) of section
2 402(f)(1) are amended by striking “another eligible
3 retirement plan” and inserting “an eligible retire-
4 ment plan”.

5 (7) Subparagraph (B) of section 403(b)(8) is
6 amended to read as follows:

7 “(B) CERTAIN RULES MADE APPLICA-
8 BLE.—The rules of paragraphs (2) through (7)
9 and (9) of section 402(c) and section 402(f)
10 shall apply for purposes of subparagraph (A),
11 except that section 402(f) shall be applied to
12 the payor in lieu of the plan administrator.”.

13 (8) Section 408(a)(1) is amended by striking
14 “or 403(b)(8)” and inserting “, 403(b)(8), or
15 457(e)(16)”.

16 (9) Subparagraphs (A) and (B) of section
17 415(b)(2) are each amended by striking “and
18 408(d)(3)” and inserting “403(b)(8), 408(d)(3), and
19 457(e)(16)”.

20 (10) Section 415(c)(2) is amended by striking
21 “and 408(d)(3)” and inserting “408(d)(3), and
22 457(e)(16)”.

23 (11) Section 4973(b)(1)(A) is amended by
24 striking “or 408(d)(3)” and inserting “408(d)(3), or
25 457(e)(16)”.

1 (f) EFFECTIVE DATE; SPECIAL RULE.—

2 (1) EFFECTIVE DATE.—The amendments made
3 by this section shall apply to distributions after De-
4 cember 31, 2000.

5 (2) SPECIAL RULE.—Notwithstanding any other
6 provision of law, subsections (h)(3) and (h)(5) of
7 section 1122 of the Tax Reform Act of 1986 shall
8 not apply to any distribution from an eligible retire-
9 ment plan (as defined in clause (iii) or (iv) of section
10 402(c)(8)(B) of the Internal Revenue Code of 1986)
11 on behalf of an individual if there was a rollover to
12 such plan on behalf of such individual which is per-
13 mitted solely by reason of any amendment made by
14 this section.

15 **SEC. 232. ROLLOVERS OF IRAS INTO WORKPLACE RETIRE-**
16 **MENT PLANS.**

17 (a) IN GENERAL.—Subparagraph (A) of section
18 408(d)(3) (relating to rollover amounts) is amended by
19 adding “or” at the end of clause (i), by striking clauses
20 (ii) and (iii), and by adding at the end the following:

21 “(ii) the entire amount received (in-
22 cluding money and any other property) is
23 paid into an eligible retirement plan for
24 the benefit of such individual not later
25 than the 60th day after the date on which

1 the payment or distribution is received, ex-
2 cept that the maximum amount which may
3 be paid into such plan may not exceed the
4 portion of the amount received which is in-
5 cludible in gross income (determined with-
6 out regard to this paragraph).

7 For purposes of clause (ii), the term ‘eligible re-
8 tirement plan’ means an eligible retirement plan
9 described in clause (iii), (iv), (v), or (vi) of sec-
10 tion 402(c)(8)(B).”.

11 (b) CONFORMING AMENDMENTS.—

12 (1) Paragraph (1) of section 403(b) is amended
13 by striking “section 408(d)(3)(A)(iii)” and inserting
14 “section 408(d)(3)(A)(ii)”.

15 (2) Clause (i) of section 408(d)(3)(D) is amend-
16 ed by striking “(i), (ii), or (iii)” and inserting “(i)
17 or (ii)”.

18 (3) Subparagraph (G) of section 408(d)(3) is
19 amended to read as follows:

20 “(G) SIMPLE RETIREMENT ACCOUNTS.—In
21 the case of any payment or distribution out of
22 a simple retirement account (as defined in sub-
23 section (p)) to which section 72(t)(6) applies,
24 this paragraph shall not apply unless such pay-

1 ment or distribution is paid into another simple
2 retirement account.”.

3 (c) EFFECTIVE DATE; SPECIAL RULE.—

4 (1) EFFECTIVE DATE.—The amendments made
5 by this section shall apply to distributions after De-
6 cember 31, 2000.

7 (2) SPECIAL RULE.—Notwithstanding any other
8 provision of law, subsections (h)(3) and (h)(5) of
9 section 1122 of the Tax Reform Act of 1986 shall
10 not apply to any distribution from an eligible retire-
11 ment plan (as defined in clause (iii) or (iv) of section
12 402(c)(8)(B) of the Internal Revenue Code of 1986)
13 on behalf of an individual if there was a rollover to
14 such plan on behalf of such individual which is per-
15 mitted solely by reason of the amendments made by
16 this section.

17 **SEC. 233. ROLLOVERS OF AFTER-TAX CONTRIBUTIONS.**

18 (a) ROLLOVERS FROM EXEMPT TRUSTS.—Para-
19 graph (2) of section 402(c) (relating to maximum amount
20 which may be rolled over) is amended by adding at the
21 end the following: “The preceding sentence shall not apply
22 to such distribution to the extent—

23 “(A) such portion is transferred in a direct
24 trustee-to-trustee transfer to a qualified trust
25 which is part of a plan which is a defined con-

1 tribution plan and which agrees to separately
2 account for amounts so transferred, including
3 separately accounting for the portion of such
4 distribution which is includible in gross income
5 and the portion of such distribution which is
6 not so includible, or

7 “(B) such portion is transferred to an eli-
8 gible retirement plan described in clause (i) or
9 (ii) of paragraph (8)(B).”.

10 (b) OPTIONAL DIRECT TRANSFER OF ELIGIBLE
11 ROLLOVER DISTRIBUTIONS.—Subparagraph (B) of sec-
12 tion 401(a)(31) (relating to limitation) is amended by add-
13 ing at the end the following: “The preceding sentence shall
14 not apply to such distribution if the plan to which such
15 distribution is transferred—

16 “(i) agrees to separately account for
17 amounts so transferred, including sepa-
18 rately accounting for the portion of such
19 distribution which is includible in gross in-
20 come and the portion of such distribution
21 which is not so includible, or

22 “(ii) is an eligible retirement plan de-
23 scribed in clause (i) or (ii) of section
24 402(c)(8)(B).”.

1 (c) RULES FOR APPLYING SECTION 72 TO IRAS.—
2 Paragraph (3) of section 408(d) (relating to special rules
3 for applying section 72) is amended by inserting at the
4 end the following:

5 “(H) APPLICATION OF SECTION 72.—

6 “(i) IN GENERAL.—If—

7 “(I) a distribution is made from
8 an individual retirement plan, and

9 “(II) a rollover contribution is
10 made to an eligible retirement plan
11 described in section 402(c)(8)(B)(iii),
12 (iv), (v), or (vi) with respect to all or
13 part of such distribution,

14 then, notwithstanding paragraph (2), the
15 rules of clause (ii) shall apply for purposes
16 of applying section 72.

17 “(ii) APPLICABLE RULES.—In the
18 case of a distribution described in clause
19 (i)—

20 “(I) section 72 shall be applied
21 separately to such distribution,

22 “(II) notwithstanding the pro
23 rata allocation of income on, and in-
24 vestment in, the contract to distribu-
25 tions under section 72, the portion of

1 such distribution rolled over to an eli-
2 gible retirement plan described in
3 clause (i) shall be treated as from in-
4 come on the contract (to the extent of
5 the aggregate income on the contract
6 from all individual retirement plans of
7 the distributee), and

8 “(III) appropriate adjustments
9 shall be made in applying section 72
10 to other distributions in such taxable
11 year and subsequent taxable years.”.

12 (d) EFFECTIVE DATE.—The amendments made by
13 this section shall apply to distributions made after Decem-
14 ber 31, 2000.

15 **SEC. 234. HARDSHIP EXCEPTION TO 60-DAY RULE.**

16 (a) EXEMPT TRUSTS.—Paragraph (3) of section
17 402(c) (relating to transfer must be made within 60 days
18 of receipt) is amended to read as follows:

19 “(3) TRANSFER MUST BE MADE WITHIN 60
20 DAYS OF RECEIPT.—

21 “(A) IN GENERAL.—Except as provided in
22 subparagraph (B), paragraph (1) shall not
23 apply to any transfer of a distribution made
24 after the 60th day following the day on which

1 the distributee received the property distrib-
2 uted.

3 “(B) HARDSHIP EXCEPTION.—The Sec-
4 retary may waive the 60-day requirement under
5 subparagraph (A) where the failure to waive
6 such requirement would be against equity or
7 good conscience, including casualty, disaster, or
8 other events beyond the reasonable control of
9 the individual subject to such requirement.”.

10 (b) IRAS.—Paragraph (3) of section 408(d) (relating
11 to rollover contributions), as amended by section 233, is
12 amended by adding after subparagraph (H) the following
13 new subparagraph:

14 “(I) WAIVER OF 60-DAY REQUIREMENT.—
15 The Secretary may waive the 60-day require-
16 ment under subparagraphs (A) and (D) where
17 the failure to waive such requirement would be
18 against equity or good conscience, including
19 casualty, disaster, or other events beyond the
20 reasonable control of the individual subject to
21 such requirement.”.

22 (c) EFFECTIVE DATE.—The amendments made by
23 this section shall apply to distributions after December 31,
24 2000.

1 **SEC. 235. TREATMENT OF FORMS OF DISTRIBUTION.**

2 (a) PLAN TRANSFERS.—

3 (1) AMENDMENT TO INTERNAL REVENUE CODE
4 OF 1986.—Paragraph (6) of section 411(d) (relating
5 to accrued benefit not to be decreased by amend-
6 ment) is amended by adding at the end the fol-
7 lowing:

8 “(D) PLAN TRANSFERS.—

9 “(i) A defined contribution plan (in
10 this subparagraph referred to as the
11 ‘transferee plan’) shall not be treated as
12 failing to meet the requirements of this
13 subsection merely because the transferee
14 plan does not provide some or all of the
15 forms of distribution previously available
16 under another defined contribution plan
17 (in this subparagraph referred to as the
18 ‘transferor plan’) to the extent that—

19 “(I) the forms of distribution
20 previously available under the trans-
21 feror plan applied to the account of a
22 participant or beneficiary under the
23 transferor plan that was transferred
24 from the transferor plan to the trans-
25 feree plan pursuant to a direct trans-

1 fer rather than pursuant to a distribu-
2 tion from the transferor plan,

3 “(II) the terms of both the trans-
4 feror plan and the transferee plan au-
5 thorize the transfer described in sub-
6 clause (I),

7 “(III) the transfer described in
8 subclause (I) was made pursuant to a
9 voluntary election by the participant
10 or beneficiary whose account was
11 transferred to the transferee plan,

12 “(IV) the election described in
13 subclause (III) was made after the
14 participant or beneficiary received a
15 notice describing the consequences of
16 making the election,

17 “(V) if the transferor plan pro-
18 vides for an annuity as the normal
19 form of distribution under the plan in
20 accordance with section 417, the
21 transfer is made with the consent of
22 the participant’s spouse (if any), and
23 such consent meets requirements simi-
24 lar to the requirements imposed by
25 section 417(a)(2), and

1 times as the form of distribution being
2 eliminated, and

3 “(ii) such single sum payment is
4 based on the same or greater portion of
5 the participant’s account as the form of
6 distribution being eliminated.”.

7 (2) EFFECTIVE DATE.—The amendment made
8 by this subsection shall apply to years beginning
9 after December 31, 2000.

10 (b) REGULATIONS.—

11 (1) AMENDMENT TO INTERNAL REVENUE CODE
12 OF 1986.—The last sentence of paragraph (6)(B) of
13 section 411(d) (relating to accrued benefit not to be
14 decreased by amendment) is amended to read as fol-
15 lows: “The Secretary shall by regulations provide
16 that this subparagraph shall not apply to any plan
17 amendment that does not adversely affect the rights
18 of participants in a material manner.”.

19 (2) SECRETARY DIRECTED.—Not later than
20 December 31, 2001, the Secretary of the Treasury
21 is directed to issue final regulations under section
22 411(d)(6) of the Internal Revenue Code of 1986, in-
23 cluding the regulations required by the amendments
24 made by this subsection. Such regulations shall
25 apply to plan years beginning after December 31,

1 2001, or such earlier date as is specified by the Sec-
2 retary of the Treasury.

3 **SEC. 236. RATIONALIZATION OF RESTRICTIONS ON DIS-**
4 **TRIBUTIONS.**

5 (a) MODIFICATION OF SAME DESK EXCEPTION.—

6 (1) SECTION 401(k).—

7 (A) Section 401(k)(2)(B)(i)(I) (relating to
8 qualified cash or deferred arrangements) is
9 amended by striking “separation from service”
10 and inserting “severance from employment”.

11 (B) Subparagraph (A) of section
12 401(k)(10) (relating to distributions upon ter-
13 mination of plan or disposition of assets or sub-
14 sidiary) is amended to read as follows:

15 “(A) IN GENERAL.—An event described in
16 this subparagraph is the termination of the
17 plan without establishment or maintenance of
18 another defined contribution plan (other than
19 an employee stock ownership plan as defined in
20 section 4975(e)(7)).”.

21 (C) Section 401(k)(10) is amended—

22 (i) in subparagraph (B)—

23 (I) by striking “An event” in
24 clause (i) and inserting “A termi-
25 nation”, and

1 (II) by striking “the event” in
2 clause (i) and inserting “the termi-
3 nation”,
4 (ii) by striking subparagraph (C), and
5 (iii) by striking “OR DISPOSITION OF
6 ASSETS OR SUBSIDIARY” in the heading.

7 (2) SECTION 403(b).—

8 (A) Paragraphs (7)(A)(ii) and (11)(A) of
9 section 403(b) are each amended by striking
10 “separates from service” and inserting “has a
11 severance from employment”.

12 (B) The heading for paragraph (11) of
13 section 403(b) is amended by striking “SEPARA-
14 TION FROM SERVICE” and inserting “SEVER-
15 ANCE FROM EMPLOYMENT”.

16 (3) SECTION 457.—Clause (ii) of section
17 457(d)(1)(A) is amended by striking “is separated
18 from service” and inserting “has a severance from
19 employment”.

20 (b) EFFECTIVE DATE.—The amendments made by
21 this section shall apply to distributions after December 31,
22 2000.

1 **SEC. 237. PURCHASE OF SERVICE CREDIT IN GOVERN-**
2 **MENTAL DEFINED BENEFIT PLANS.**

3 (a) 403(b) PLANS.—Subsection (b) of section 403 is
4 amended by adding at the end the following new para-
5 graph:

6 “(13) TRUSTEE-TO-TRUSTEE TRANSFERS TO
7 PURCHASE PERMISSIVE SERVICE CREDIT.—No
8 amount shall be includible in gross income by reason
9 of a direct trustee-to-trustee transfer to a defined
10 benefit governmental plan (as defined in section
11 414(d)) if such transfer is—

12 “(A) for the purchase of permissive service
13 credit (as defined in section 415(n)(3)(A))
14 under such plan, or

15 “(B) a repayment to which section 415
16 does not apply by reason of subsection (k)(3)
17 thereof.”.

18 (b) 457 PLANS.—

19 (1) Subsection (e) of section 457 is amended by
20 adding after paragraph (16) the following new para-
21 graph:

22 “(17) TRUSTEE-TO-TRUSTEE TRANSFERS TO
23 PURCHASE PERMISSIVE SERVICE CREDIT.—No
24 amount shall be includible in gross income by reason
25 of a direct trustee-to-trustee transfer to a defined

1 benefit governmental plan (as defined in section
2 414(d)) if such transfer is—

3 “(A) for the purchase of permissive service
4 credit (as defined in section 415(n)(3)(A))
5 under such plan, or

6 “(B) a repayment to which section 415
7 does not apply by reason of subsection (k)(3)
8 thereof.”.

9 (2) Section 457(b)(2) is amended by striking
10 “(other than rollover amounts)” and inserting
11 “(other than rollover amounts and amounts received
12 in a transfer referred to in subsection (e)(17))”.

13 (c) EFFECTIVE DATE.—The amendments made by
14 this section shall apply to trustee-to-trustee transfers after
15 December 31, 2000.

16 **SEC. 238. EMPLOYERS MAY DISREGARD ROLLOVERS FOR**
17 **PURPOSES OF CASH-OUT AMOUNTS.**

18 (a) QUALIFIED PLANS.—Section 411(a)(11) (relating
19 to restrictions on certain mandatory distributions) is
20 amended by adding at the end the following:

21 “(D) SPECIAL RULE FOR ROLLOVER CON-
22 TRIBUTIONS.—A plan shall not fail to meet the
23 requirements of this paragraph if, under the
24 terms of the plan, the present value of the non-
25 forfeitable accrued benefit is determined with-

1 out regard to that portion of such benefit which
2 is attributable to rollover contributions (and
3 earnings allocable thereto). For purposes of this
4 subparagraph, the term ‘rollover contributions’
5 means any rollover contribution under sections
6 402(c), 403(a)(4), 403(b)(8), 408(d)(3)(A)(ii),
7 and 457(e)(16).’.

8 (b) ELIGIBLE DEFERRED COMPENSATION PLANS.—
9 Clause (i) of section 457(e)(9)(A) is amended by striking
10 “such amount” and inserting “the portion of such amount
11 which is not attributable to rollover contributions (as de-
12 fined in section 411(a)(11)(D))”.

13 (c) EFFECTIVE DATE.—The amendments made by
14 this section shall apply to distributions after December 31,
15 2000.

16 **SEC. 239. MINIMUM DISTRIBUTION AND INCLUSION RE-**
17 **QUIREMENTS FOR SECTION 457 PLANS.**

18 (a) MINIMUM DISTRIBUTION REQUIREMENTS.—
19 Paragraph (2) of section 457(d) (relating to distribution
20 requirements) is amended to read as follows:

21 “(2) MINIMUM DISTRIBUTION REQUIRE-
22 MENTS.—A plan meets the minimum distribution re-
23 quirements of this paragraph if such plan meets the
24 requirements of section 401(a)(9).”.

25 (b) INCLUSION IN GROSS INCOME.—

1 (1) YEAR OF INCLUSION.—Subsection (a) of
2 section 457 (relating to year of inclusion in gross in-
3 come) is amended to read as follows:

4 “(a) YEAR OF INCLUSION IN GROSS INCOME.—

5 “(1) IN GENERAL.—Any amount of compensa-
6 tion deferred under an eligible deferred compensa-
7 tion plan, and any income attributable to the
8 amounts so deferred, shall be includible in gross in-
9 come only for the taxable year in which such com-
10 pensation or other income—

11 “(A) is paid to the participant or other
12 beneficiary, in the case of a plan of an eligible
13 employer described in subsection (e)(1)(A), and

14 “(B) is paid or otherwise made available to
15 the participant or other beneficiary, in the case
16 of a plan of an eligible employer described in
17 subsection (e)(1)(B).

18 “(2) SPECIAL RULE FOR ROLLOVER
19 AMOUNTS.—To the extent provided in section
20 72(t)(9), section 72(t) shall apply to any amount in-
21 cludible in gross income under this subsection.”.

22 (2) CONFORMING AMENDMENTS.—

23 (A) So much of paragraph (9) of section
24 457(e) as precedes subparagraph (A) is amend-
25 ed to read as follows:

1 “(9) BENEFITS OF TAX EXEMPT ORGANIZATION
2 PLANS NOT TREATED AS MADE AVAILABLE BY REA-
3 SON OF CERTAIN ELECTIONS, ETC.—In the case of
4 an eligible deferred compensation plan of an em-
5 ployer described in subsection (e)(1)(B)—”.

6 (B) Section 457(d) is amended by adding
7 at the end the following new paragraph:

8 “(3) SPECIAL RULE FOR GOVERNMENT PLAN.—
9 An eligible deferred compensation plan of an em-
10 ployer described in subsection (e)(1)(A) shall not be
11 treated as failing to meet the requirements of this
12 subsection solely by reason of making a distribution
13 described in subsection (e)(9)(A).”.

14 (c) EFFECTIVE DATE.—The amendments made by
15 this section shall apply to distributions after December 31,
16 2000.

17 **Subtitle D—Strengthening Pension** 18 **Security and Enforcement**

19 **SEC. 241. REPEAL OF 150 PERCENT OF CURRENT LIABILITY** 20 **FUNDING LIMIT.**

21 (a) AMENDMENT TO INTERNAL REVENUE CODE OF
22 1986.—Section 412(c)(7) (relating to full-funding limita-
23 tion) is amended—

24 (1) by striking “the applicable percentage” in
25 subparagraph (A)(i)(I) and inserting “in the case of

1 plan years beginning before January 1, 2004, the
 2 applicable percentage”, and

3 (2) by amending subparagraph (F) to read as
 4 follows:

5 “(F) APPLICABLE PERCENTAGE.—For
 6 purposes of subparagraph (A)(i)(I), the applica-
 7 ble percentage shall be determined in accord-
 8 ance with the following table:

“In the case of any plan year beginning in—	The applicable percentage is—
2001	160
2002	165
2003	170.”.

9 (b) EFFECTIVE DATE.—The amendments made by
 10 this section shall apply to plan years beginning after De-
 11 cember 31, 2000.

12 **SEC. 242. MAXIMUM CONTRIBUTION DEDUCTION RULES**
 13 **MODIFIED AND APPLIED TO ALL DEFINED**
 14 **BENEFIT PLANS.**

15 (a) IN GENERAL.—Subparagraph (D) of section
 16 404(a)(1) (relating to special rule in case of certain plans)
 17 is amended to read as follows:

18 “(D) SPECIAL RULE IN CASE OF CERTAIN
 19 PLANS.—

20 “(i) IN GENERAL.—In the case of any
 21 defined benefit plan, except as provided in
 22 regulations, the maximum amount deduct-
 23 ible under the limitations of this paragraph

1 shall not be less than the unfunded termi-
2 nation liability (determined as if the pro-
3 posed termination date referred to in sec-
4 tion 4041(b)(2)(A)(i)(II) of the Employee
5 Retirement Income Security Act of 1974
6 were the last day of the plan year).

7 “(ii) PLANS WITH LESS THAN 100
8 PARTICIPANTS.—For purposes of this sub-
9 paragraph, in the case of a plan which has
10 less than 100 participants for the plan
11 year, termination liability shall not include
12 the liability attributable to benefit in-
13 creases for highly compensated employees
14 (as defined in section 414(q)) resulting
15 from a plan amendment which is made or
16 becomes effective, whichever is later, within
17 the last 2 years before the termination
18 date.

19 “(iii) RULE FOR DETERMINING NUM-
20 BER OF PARTICIPANTS.—For purposes of
21 determining whether a plan has more than
22 100 participants, all defined benefit plans
23 maintained by the same employer (or any
24 member of such employer’s controlled
25 group (within the meaning of section

1 412(l)(8)(C))) shall be treated as one plan,
2 but only employees of such member or em-
3 ployer shall be taken into account.

4 “(iv) PLANS ESTABLISHED AND MAIN-
5 TAIN BY PROFESSIONAL SERVICE EMPLOY-
6 ERS.—Clause (i) shall not apply to a plan
7 described in section 4021(b)(13) of the
8 Employee Retirement Income Security Act
9 of 1974.”.

10 (b) CONFORMING AMENDMENT.—Paragraph (6) of
11 section 4972(c) is amended to read as follows:

12 “(6) EXCEPTIONS.—In determining the amount
13 of nondeductible contributions for any taxable year,
14 there shall not be taken into account so much of the
15 contributions to one or more defined contribution
16 plans which are not deductible when contributed
17 solely because of section 404(a)(7) as does not ex-
18 ceed the greater of—

19 “(A) the amount of contributions not in
20 excess of 6 percent of compensation (within the
21 meaning of section 404(a)) paid or accrued
22 (during the taxable year for which the contribu-
23 tions were made) to beneficiaries under the
24 plans, or

25 “(B) the sum of—

1 “(i) the amount of contributions de-
2 scribed in section 401(m)(4)(A), plus

3 “(ii) the amount of contributions de-
4 scribed in section 402(g)(3)(A).

5 For purposes of this paragraph, the deductible limits
6 under section 404(a)(7) shall first be applied to
7 amounts contributed to a defined benefit plan and
8 then to amounts described in subparagraph (B).”.

9 (c) EFFECTIVE DATE.—The amendments made by
10 this section shall apply to plan years beginning after De-
11 cember 31, 2000.

12 **SEC. 243. EXCISE TAX RELIEF FOR SOUND PENSION FUND-**
13 **ING.**

14 (a) IN GENERAL.—Subsection (c) of section 4972
15 (relating to nondeductible contributions) is amended by
16 adding at the end the following new paragraph:

17 “(7) DEFINED BENEFIT PLAN EXCEPTION.—In
18 determining the amount of nondeductible contribu-
19 tions for any taxable year, an employer may elect for
20 such year not to take into account any contributions
21 to a defined benefit plan except to the extent that
22 such contributions exceed the full-funding limitation
23 (as defined in section 412(c)(7), determined without
24 regard to subparagraph (A)(i)(I) thereof). For pur-
25 poses of this paragraph, the deductible limits under

1 section 404(a)(7) shall first be applied to amounts
2 contributed to defined contribution plans and then
3 to amounts described in this paragraph. If an em-
4 ployer makes an election under this paragraph for a
5 taxable year, paragraph (6) shall not apply to such
6 employer for such taxable year.”.

7 (b) EFFECTIVE DATE.—The amendments made by
8 this section shall apply to years beginning after December
9 31, 2000.

10 **SEC. 244. EXCISE TAX ON FAILURE TO PROVIDE NOTICE BY**
11 **DEFINED BENEFIT PLANS SIGNIFICANTLY**
12 **REDUCING FUTURE BENEFIT ACCRUALS.**

13 (a) AMENDMENT TO 1986 CODE.—Chapter 43 (relat-
14 ing to qualified pension, etc., plans) is amended by adding
15 at the end the following new section:

16 **“SEC. 4980F. FAILURE OF APPLICABLE PLANS REDUCING**
17 **BENEFIT ACCRUALS TO SATISFY NOTICE RE-**
18 **QUIREMENTS.**

19 “(a) IMPOSITION OF TAX.—There is hereby imposed
20 a tax on the failure of any applicable pension plan to meet
21 the requirements of subsection (e) with respect to any ap-
22 plicable individual.

23 “(b) AMOUNT OF TAX.—

24 “(1) IN GENERAL.—The amount of the tax im-
25 posed by subsection (a) on any failure with respect

1 to any applicable individual shall be \$100 for each
2 day in the noncompliance period with respect to such
3 failure.

4 “(2) NONCOMPLIANCE PERIOD.—For purposes
5 of this section, the term ‘noncompliance period’
6 means, with respect to any failure, the period begin-
7 ning on the date the failure first occurs and ending
8 on the date the failure is corrected.

9 “(c) LIMITATIONS ON AMOUNT OF TAX.—

10 “(1) OVERALL LIMITATION FOR UNINTEN-
11 TIONAL FAILURES.—In the case of failures that are
12 due to reasonable cause and not to willful neglect,
13 the tax imposed by subsection (a) for failures during
14 the taxable year of the employer (or, in the case of
15 a multiemployer plan, the taxable year of the trust
16 forming part of the plan) shall not exceed \$500,000.
17 For purposes of the preceding sentence, all multiem-
18 ployer plans of which the same trust forms a part
19 shall be treated as one plan. For purposes of this
20 paragraph, if not all persons who are treated as a
21 single employer for purposes of this section have the
22 same taxable year, the taxable years taken into ac-
23 count shall be determined under principles similar to
24 the principles of section 1561.

1 “(2) WAIVER BY SECRETARY.—In the case of a
2 failure which is due to reasonable cause and not to
3 willful neglect, the Secretary may waive part or all
4 of the tax imposed by subsection (a) to the extent
5 that the payment of such tax would be excessive rel-
6 ative to the failure involved.

7 “(d) LIABILITY FOR TAX.—The following shall be lia-
8 ble for the tax imposed by subsection (a):

9 “(1) In the case of a plan other than a multi-
10 employer plan, the employer.

11 “(2) In the case of a multiemployer plan, the
12 plan.

13 “(e) NOTICE REQUIREMENTS FOR PLANS SIGNIFI-
14 CANTLY REDUCING BENEFIT ACCRUALS.—

15 “(1) IN GENERAL.—If an applicable pension
16 plan is amended to provide for a significant reduc-
17 tion in the rate of future benefit accrual, the plan
18 administrator shall provide written notice to each
19 applicable individual (and to each employee organi-
20 zation representing applicable individuals).

21 “(2) NOTICE.—The notice required by para-
22 graph (1) shall be written in a manner calculated to
23 be understood by the average plan participant and
24 shall provide sufficient information (as determined
25 in accordance with regulations prescribed by the

1 Secretary) to allow applicable individuals to under-
2 stand the effect of the plan amendment.

3 “(3) TIMING OF NOTICE.—Except as provided
4 in regulations, the notice required by paragraph (1)
5 shall be provided within a reasonable time before the
6 effective date of the plan amendment.

7 “(4) DESIGNEES.—Any notice under paragraph
8 (1) may be provided to a person designated, in writ-
9 ing, by the person to which it would otherwise be
10 provided.

11 “(5) NOTICE BEFORE ADOPTION OF AMEND-
12 MENT.—A plan shall not be treated as failing to
13 meet the requirements of paragraph (1) merely be-
14 cause notice is provided before the adoption of the
15 plan amendment if no material modification of the
16 amendment occurs before the amendment is adopt-
17 ed.

18 “(f) APPLICABLE INDIVIDUAL; APPLICABLE PEN-
19 SION PLAN.—For purposes of this section—

20 “(1) APPLICABLE INDIVIDUAL.—The term ‘ap-
21 plicable individual’ means, with respect to any plan
22 amendment—

23 “(A) any participant in the plan, and

24 “(B) any beneficiary who is an alternate
25 payee (within the meaning of section 414(p)(8))

1 under an applicable qualified domestic relations
2 order (within the meaning of section
3 414(p)(1)(A)),
4 who may reasonably be expected to be affected by
5 such plan amendment.

6 “(2) APPLICABLE PENSION PLAN.—The term
7 ‘applicable pension plan’ means—

8 “(A) any defined benefit plan, or

9 “(B) an individual account plan which is
10 subject to the funding standards of section 412,
11 which had 100 or more participants who had ac-
12 crued a benefit, or with respect to whom contribu-
13 tions were made, under the plan (whether or not
14 vested) as of the last day of the plan year preceding
15 the plan year in which the plan amendment becomes
16 effective. Such term shall not include a governmental
17 plan (within the meaning of section 414(d)) or a
18 church plan (within the meaning of section 414(e))
19 with respect to which the election provided by sec-
20 tion 410(d) has not been made.”.

21 (b) CLERICAL AMENDMENT.—The table of sections
22 for chapter 43 is amended by adding at the end the fol-
23 lowing new item:

 “Sec. 4980F. Failure of applicable plans reducing benefit accruals
 to satisfy notice requirements.”.

24 (c) EFFECTIVE DATES.—

1 (1) IN GENERAL.—The amendments made by
2 this section shall apply to plan amendments taking
3 effect on or after the date of the enactment of this
4 Act.

5 (2) TRANSITION.—Until such time as the Sec-
6 retary of the Treasury issues regulations under sec-
7 tions 4980F(e)(2) and (3) of the Internal Revenue
8 Code of 1986 (as added by the amendments made
9 by this section), a plan shall be treated as meeting
10 the requirements of such sections if it makes a good
11 faith effort to comply with such requirements.

12 (3) SPECIAL RULE.—The period for providing
13 any notice required by the amendments made by this
14 section shall not end before the date which is 3
15 months after the date of the enactment of this Act.

16 **SEC. 245. TREATMENT OF MULTIEMPLOYER PLANS UNDER**
17 **SECTION 415.**

18 (a) COMPENSATION LIMIT.—Paragraph (11) of sec-
19 tion 415(b) (relating to limitation for defined benefit
20 plans) is amended to read as follows:

21 “(11) SPECIAL LIMITATION RULE FOR GOVERN-
22 MENTAL AND MULTIEMPLOYER PLANS.—In the case
23 of a governmental plan (as defined in section
24 414(d)) or a multiemployer plan (as defined in sec-

1 tion 414(f)), subparagraph (B) of paragraph (1)
2 shall not apply.”.

3 (b) EFFECTIVE DATE.—The amendment made by
4 this section shall apply to years beginning after December
5 31, 2000.

6 **Subtitle E—Reducing Regulatory** 7 **Burdens**

8 **SEC. 261. MODIFICATION OF TIMING OF PLAN VALUATIONS.**

9 (a) AMENDMENTS TO 1986 CODE.—Section
10 412(c)(9) (relating to annual valuation) is amended—

11 (1) by striking “For purposes” and inserting
12 the following:

13 “(A) IN GENERAL.—For purposes”, and

14 (2) by adding at the end the following:

15 “(B) ELECTION TO USE PRIOR YEAR
16 VALUATION.—

17 “(i) IN GENERAL.—Except as pro-
18 vided in clause (ii), if, for any plan year—

19 “(I) an election is in effect under
20 this subparagraph with respect to a
21 plan, and

22 “(II) the assets of the plan are
23 not less than 125 percent of the
24 plan’s current liability (as defined in
25 paragraph (7)(B)), determined as of

1 the valuation date for the preceding
2 plan year,
3 then this section shall be applied using the
4 information available as of such valuation
5 date.

6 “(ii) EXCEPTIONS.—

7 “(I) ACTUAL VALUATION EVERY
8 3 YEARS.—Clause (i) shall not apply
9 for more than 2 consecutive plan
10 years and valuation shall be under
11 subparagraph (A) with respect to any
12 plan year to which clause (i) does not
13 apply by reason of this subclause.

14 “(II) REGULATIONS.—Clause (i)
15 shall not apply to the extent that
16 more frequent valuations are required
17 under the regulations under subpara-
18 graph (A).

19 “(iii) ADJUSTMENTS.—Information
20 under clause (i) shall, in accordance with
21 regulations, be actuarially adjusted to re-
22 flect significant differences in participants.

23 “(iv) ELECTION.—An election under
24 this subparagraph, once made, shall be ir-

1 revocable without the consent of the Sec-
2 retary.”.

3 (b) **EFFECTIVE DATE.**—The amendments made by
4 this section shall apply to plan years beginning after De-
5 cember 31, 2000.

6 **SEC. 262. ESOP DIVIDENDS MAY BE REINVESTED WITHOUT**
7 **LOSS OF DIVIDEND DEDUCTION.**

8 (a) **IN GENERAL.**—Section 404(k)(2)(A) (defining
9 applicable dividends) is amended by striking “or” at the
10 end of clause (ii), by redesignating clause (iii) as clause
11 (iv), and by inserting after clause (ii) the following new
12 clause:

13 “(iii) is, at the election of such par-
14 ticipants or their beneficiaries—

15 “(I) payable as provided in clause
16 (i) or (ii), or

17 “(II) paid to the plan and rein-
18 vested in qualifying employer securi-
19 ties, or”.

20 (b) **EFFECTIVE DATE.**—The amendments made by
21 this section shall apply to taxable years beginning after
22 December 31, 2000.

1 **SEC. 263. REPEAL OF TRANSITION RULE RELATING TO CER-**
2 **TAIN HIGHLY COMPENSATED EMPLOYEES.**

3 (a) IN GENERAL.—Paragraph (4) of section 1114(c)
4 of the Tax Reform Act of 1986 is hereby repealed.

5 (b) EFFECTIVE DATE.—The repeal made by sub-
6 section (a) shall apply to plan years beginning after De-
7 cember 31, 2000.

8 **SEC. 264. EMPLOYEES OF TAX-EXEMPT ENTITIES.**

9 (a) IN GENERAL.—The Secretary of the Treasury
10 shall modify Treasury Regulations section 1.410(b)–6(g)
11 to provide that employees of an organization described in
12 section 403(b)(1)(A)(i) of the Internal Revenue Code of
13 1986 who are eligible to make contributions under section
14 403(b) of such Code pursuant to a salary reduction agree-
15 ment may be treated as excludable with respect to a plan
16 under section 401 (k) or (m) of such Code that is provided
17 under the same general arrangement as a plan under such
18 section 401(k), if—

19 (1) no employee of an organization described in
20 section 403(b)(1)(A)(i) of such Code is eligible to
21 participate in such section 401(k) plan or section
22 401(m) plan, and

23 (2) 95 percent of the employees who are not
24 employees of an organization described in section
25 403(b)(1)(A)(i) of such Code are eligible to partici-
26 pate in such plan under such section 401 (k) or (m).

1 (b) EFFECTIVE DATE.—The modification required by
2 subsection (a) shall apply as of the same date set forth
3 in section 1426(b) of the Small Business Job Protection
4 Act of 1996.

5 **SEC. 265. CLARIFICATION OF TREATMENT OF EMPLOYER-**
6 **PROVIDED RETIREMENT ADVICE.**

7 (a) IN GENERAL.—Subsection (a) of section 132 (re-
8 lating to exclusion from gross income) is amended by
9 striking “or” at the end of paragraph (5), by striking the
10 period at the end of paragraph (6) and inserting “, or”,
11 and by adding at the end the following new paragraph:

12 “(7) qualified retirement planning services.”.

13 (b) QUALIFIED RETIREMENT PLANNING SERVICES
14 DEFINED.—Section 132 is amended by redesignating sub-
15 section (m) as subsection (n) and by inserting after sub-
16 section (l) the following:

17 “(m) QUALIFIED RETIREMENT PLANNING SERV-
18 ICES.—

19 “(1) IN GENERAL.—For purposes of this sec-
20 tion, the term ‘qualified retirement planning serv-
21 ices’ means any retirement planning service provided
22 to an employee and his spouse by an employer main-
23 taining a qualified employer plan.

24 “(2) NONDISCRIMINATION RULE.—Subsection
25 (a)(7) shall apply in the case of highly compensated

1 employees only if such services are available on sub-
2 stantially the same terms to each member of the
3 group of employees normally provided education and
4 information regarding the employer's qualified em-
5 ployer plan.

6 “(3) QUALIFIED EMPLOYER PLAN.—For pur-
7 poses of this subsection, the term ‘qualified employer
8 plan’ means a plan, contract, pension, or account de-
9 scribed in section 219(g)(5).”.

10 (c) EFFECTIVE DATE.—The amendments made by
11 this section shall apply to years beginning after December
12 31, 2000.

13 **SEC. 266. REPORTING SIMPLIFICATION.**

14 (a) SIMPLIFIED ANNUAL FILING REQUIREMENT FOR
15 OWNERS AND THEIR SPOUSES.—

16 (1) IN GENERAL.—The Secretary of the Treas-
17 ury shall modify the requirements for filing annual
18 returns with respect to one-participant retirement
19 plans to ensure that such plans with assets of
20 \$250,000 or less as of the close of the plan year
21 need not file a return for that year.

22 (2) ONE-PARTICIPANT RETIREMENT PLAN DE-
23 FINED.—For purposes of this subsection, the term
24 “one-participant retirement plan” means a retire-
25 ment plan that—

1 (A) on the first day of the plan year—

2 (i) covered only the employer (and the
3 employer's spouse) and the employer
4 owned the entire business (whether or not
5 incorporated), or

6 (ii) covered only one or more partners
7 (and their spouses) in a business partner-
8 ship (including partners in an S or C cor-
9 poration),

10 (B) meets the minimum coverage require-
11 ments of section 410(b) of the Internal Revenue
12 Code of 1986 without being combined with any
13 other plan of the business that covers the em-
14 ployees of the business,

15 (C) does not provide benefits to anyone ex-
16 cept the employer (and the employer's spouse)
17 or the partners (and their spouses),

18 (D) does not cover a business that is a
19 member of an affiliated service group, a con-
20 trolled group of corporations, or a group of
21 businesses under common control, and

22 (E) does not cover a business that leases
23 employees.

24 (3) OTHER DEFINITIONS.—Terms used in para-
25 graph (2) which are also used in section 414 of the

1 Internal Revenue Code of 1986 shall have the re-
2 spective meanings given such terms by such section.

3 (b) SIMPLIFIED ANNUAL FILING REQUIREMENT FOR
4 PLANS WITH FEWER THAN 25 EMPLOYEES.—In the case
5 of a retirement plan which covers less than 25 employees
6 on the first day of the plan year and meets the require-
7 ments described in subparagraphs (B), (D), and (E) of
8 subsection (a)(2), the Secretary of the Treasury shall pro-
9 vide for the filing of a simplified annual return that is
10 substantially similar to the annual return required to be
11 filed by a one-participant retirement plan.

12 (c) EFFECTIVE DATE.—The provisions of this section
13 shall take effect on January 1, 2001.

14 **SEC. 267. IMPROVEMENT OF EMPLOYEE PLANS COMPLI-**
15 **ANCE RESOLUTION SYSTEM.**

16 The Secretary of the Treasury shall continue to up-
17 date and improve the Employee Plans Compliance Resolu-
18 tion System (or any successor program) giving special at-
19 tention to—

20 (1) increasing the awareness and knowledge of
21 small employers concerning the availability and use
22 of the program,

23 (2) taking into account special concerns and
24 circumstances that small employers face with respect
25 to compliance and correction of compliance failures,

1 (3) extending the duration of the self-correction
2 period under the Administrative Policy Regarding
3 Self-Correction for significant compliance failures,

4 (4) expanding the availability to correct insig-
5 nificant compliance failures under the Administra-
6 tive Policy Regarding Self-Correction during audit,
7 and

8 (5) assuring that any tax, penalty, or sanction
9 that is imposed by reason of a compliance failure is
10 not excessive and bears a reasonable relationship to
11 the nature, extent, and severity of the failure.

12 **SEC. 268. MODIFICATION OF EXCLUSION FOR EMPLOYER**
13 **PROVIDED TRANSIT PASSES.**

14 (a) IN GENERAL.—Section 132(f)(3) (relating to
15 cash reimbursements) is amended by striking the last sen-
16 tence.

17 (b) EFFECTIVE DATE.—The amendment made by
18 this section shall apply to taxable years beginning after
19 December 31, 2000.

20 **SEC. 269. REPEAL OF THE MULTIPLE USE TEST.**

21 (a) IN GENERAL.—Paragraph (9) of section 401(m)
22 is amended to read as follows:

23 “(9) REGULATIONS.—The Secretary shall pre-
24 scribe such regulations as may be necessary to carry
25 out the purposes of this subsection and subsection

1 (k), including regulations permitting appropriate ag-
2 gregation of plans and contributions.”.

3 (b) **EFFECTIVE DATE.**—The amendment made by
4 this section shall apply to years beginning after December
5 31, 2000.

6 **SEC. 270. FLEXIBILITY IN NONDISCRIMINATION, COV-**
7 **ERAGE, AND LINE OF BUSINESS RULES.**

8 (a) **NONDISCRIMINATION.**—

9 (1) **IN GENERAL.**—The Secretary of the Treas-
10 ury shall, by regulation, provide that a plan shall be
11 deemed to satisfy the requirements of section
12 401(a)(4) of the Internal Revenue Code of 1986 if
13 such plan satisfies the facts and circumstances test
14 under section 401(a)(4) of such Code, as in effect
15 before January 1, 1994, but only if—

16 (A) the plan satisfies conditions prescribed
17 by the Secretary to appropriately limit the
18 availability of such test, and

19 (B) the plan is submitted to the Secretary
20 for a determination of whether it satisfies such
21 test.

22 Subparagraph (B) shall only apply to the extent pro-
23 vided by the Secretary.

24 (2) **EFFECTIVE DATES.**—

1 (A) REGULATIONS.—The regulation re-
2 quired by paragraph (1) shall apply to years be-
3 ginning after December 31, 2000.

4 (B) CONDITIONS OF AVAILABILITY.—Any
5 condition of availability prescribed by the Sec-
6 retary under paragraph (1)(A) shall not apply
7 before the first year beginning not less than
8 120 days after the date on which such condition
9 is prescribed.

10 (b) COVERAGE TEST.—

11 (1) IN GENERAL.—Section 410(b)(1) (relating
12 to minimum coverage requirements) is amended by
13 adding at the end the following:

14 “(D) In the case that the plan fails to
15 meet the requirements of subparagraphs (A),
16 (B) and (C), the plan—

17 “(i) satisfies subparagraph (B), as in
18 effect immediately before the enactment of
19 the Tax Reform Act of 1986,

20 “(ii) is submitted to the Secretary for
21 a determination of whether it satisfies the
22 requirement described in clause (i), and

23 “(iii) satisfies conditions prescribed by
24 the Secretary by regulation that appro-

1 priately limit the availability of this sub-
2 paragraph.

3 Clause (ii) shall apply only to the extent pro-
4 vided by the Secretary.”.

5 (2) EFFECTIVE DATES.—

6 (A) IN GENERAL.—The amendment made
7 by paragraph (1) shall apply to years beginning
8 after December 31, 2000.

9 (B) CONDITIONS OF AVAILABILITY.—Any
10 condition of availability prescribed by the Sec-
11 retary under regulations prescribed by the Sec-
12 retary under section 410(b)(1)(D) of the Inter-
13 nal Revenue Code of 1986 shall not apply be-
14 fore the first year beginning not less than 120
15 days after the date on which such condition is
16 prescribed.

17 (c) LINE OF BUSINESS RULES.—The Secretary of
18 the Treasury shall, on or before December 31, 2000, mod-
19 ify the existing regulations issued under section 414(r) of
20 the Internal Revenue Code of 1986 in order to expand
21 (to the extent that the Secretary determines appropriate)
22 the ability of a pension plan to demonstrate compliance
23 with the line of business requirements based upon the
24 facts and circumstances surrounding the design and oper-
25 ation of the plan, even though the plan is unable to satisfy

1 the mechanical tests currently used to determine compli-
2 ance.

3 **SEC. 271. EXTENSION TO INTERNATIONAL ORGANIZATIONS**
4 **OF MORATORIUM ON APPLICATION OF CER-**
5 **TAIN NONDISCRIMINATION RULES APPLICA-**
6 **BLE TO STATE AND LOCAL PLANS.**

7 (a) IN GENERAL.—Subparagraph (G) of section
8 401(a)(5), subparagraph (H) of section 401(a)(26), sub-
9 paragraph (G) of section 401(k)(3), and paragraph (2) of
10 section 1505(d) of the Taxpayer Relief Act of 1997 are
11 each amended by inserting “or by an international organi-
12 zation which is described in section 414(d)” after “or in-
13 strumentality thereof”.

14 (b) CONFORMING AMENDMENTS.—

15 (1) The headings for subparagraph (G) of sec-
16 tion 401(a)(5) and subparagraph (H) of section
17 401(a)(26) are each amended by inserting “AND
18 INTERNATIONAL ORGANIZATION” after “GOVERN-
19 MENTAL”.

20 (2) Subparagraph (G) of section 401(k)(3) is
21 amended by inserting “STATE AND LOCAL GOVERN-
22 MENTAL AND INTERNATIONAL ORGANIZATION
23 PLANS.—” after “(G)”.

1 (c) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to years beginning after December
3 31, 2000.

4 **SEC. 272. NOTICE AND CONSENT PERIOD REGARDING DIS-**
5 **TRIBUTIONS.**

6 (a) EXPANSION OF PERIOD.—

7 (1) AMENDMENT TO 1986 CODE.—Subpara-
8 graph (A) of section 417(a)(6) is amended by strik-
9 ing “90-day” and inserting “180-day”.

10 (2) MODIFICATION OF REGULATIONS.—The
11 Secretary of the Treasury shall modify the regula-
12 tions under sections 402(f), 411(a)(11), and 417 of
13 the Internal Revenue Code of 1986 to substitute
14 “180 days” for “90 days” each place it appears in
15 Treasury Regulations sections 1.402(f)-1, 1.411(a)-
16 11(c), and 1.417(e)-1(b).

17 (3) EFFECTIVE DATE.—The amendment made
18 by paragraph (1) and the modifications required by
19 paragraph (2) shall apply to years beginning after
20 December 31, 2000.

21 (b) CONSENT REGULATION INAPPLICABLE TO CER-
22 TAIN DISTRIBUTIONS.—

23 (1) IN GENERAL.—The Secretary of the Treas-
24 ury shall modify the regulations under section
25 411(a)(11) of the Internal Revenue Code of 1986 to

1 provide that the description of a participant's right,
2 if any, to defer receipt of a distribution shall also de-
3 scribe the consequences of failing to defer such re-
4 ceipt.

5 (2) EFFECTIVE DATE.—The modifications re-
6 quired by paragraph (1) shall apply to years begin-
7 ning after December 31, 2000.

8 **Subtitle F—Plan Amendments**

9 **SEC. 281. PROVISIONS RELATING TO PLAN AMENDMENTS.**

10 (a) IN GENERAL.—If this section applies to any plan
11 or contract amendment—

12 (1) such plan or contract shall be treated as
13 being operated in accordance with the terms of the
14 plan during the period described in subsection
15 (b)(2)(A), and

16 (2) such plan shall not fail to meet the require-
17 ments of section 411(d)(6) of the Internal Revenue
18 Code of 1986 by reason of such amendment.

19 (b) AMENDMENTS TO WHICH SECTION APPLIES.—

20 (1) IN GENERAL.—This section shall apply to
21 any amendment to any plan or annuity contract
22 which is made—

23 (A) pursuant to any amendment made by
24 this title, or pursuant to any regulation issued
25 under this title, and

1 (B) on or before the last day of the first
2 plan year beginning on or after January 1,
3 2003.

4 In the case of a governmental plan (as defined in
5 section 414(d) of the Internal Revenue Code of
6 1986), this paragraph shall be applied by sub-
7 stituting “2005” for “2003”.

8 (2) CONDITIONS.—This section shall not apply
9 to any amendment unless—

10 (A) during the period—

11 (i) beginning on the date the legisla-
12 tive or regulatory amendment described in
13 paragraph (1)(A) takes effect (or in the
14 case of a plan or contract amendment not
15 required by such legislative or regulatory
16 amendment, the effective date specified by
17 the plan), and

18 (ii) ending on the date described in
19 paragraph (1)(B) (or, if earlier, the date
20 the plan or contract amendment is adopt-
21 ed),

22 the plan or contract is operated as if such plan
23 or contract amendment were in effect, and

24 (B) such plan or contract amendment ap-
25 plies retroactively for such period.

1 **TITLE III—ESTATE TAX RELIEF**
 2 **Subtitle A—Reductions of Estate**
 3 **and Gift Tax Rates**

4 **SEC. 301. REDUCTIONS OF ESTATE AND GIFT TAX RATES.**

5 (a) MAXIMUM RATE OF TAX REDUCED TO 50 PER-
 6 CENT.—

7 (1) IN GENERAL.—The table contained in sec-
 8 tion 2001(c)(1) is amended by striking the two high-
 9 est brackets and inserting the following:

“Over \$2,500,000 \$1,025,800, plus 50% of the excess
 over \$2,500,000.”.

10 (2) PHASE-IN OF REDUCED RATE.—Subsection
 11 (c) of section 2001 is amended by adding at the end
 12 the following new paragraph:

13 “(3) PHASE-IN OF REDUCED RATE.—In the
 14 case of decedents dying, and gifts made, during
 15 2001, the last item in the table contained in para-
 16 graph (1) shall be applied by substituting ‘53%’ for
 17 ‘50%’.”.

18 (b) REPEAL OF PHASEOUT OF GRADUATED
 19 RATES.—Subsection (c) of section 2001 is amended by
 20 striking paragraph (2) and redesignating paragraph (3),
 21 as added by subsection (a), as paragraph (2).

22 (c) ADDITIONAL REDUCTIONS OF RATES OF TAX.—
 23 Subsection (c) of section 2001, as so amended, is amended
 24 by adding at the end the following new paragraph:

1 “(3) PHASEDOWN OF TAX.—In the case of es-
 2 tates of decedents dying, and gifts made, during any
 3 calendar year after 2002—

4 “(A) IN GENERAL.—Except as provided in
 5 subparagraph (C), the tentative tax under this
 6 subsection shall be determined by using a table
 7 prescribed by the Secretary (in lieu of using the
 8 table contained in paragraph (1)) which is the
 9 same as such table; except that—

10 “(i) each of the rates of tax shall be
 11 reduced by the number of percentage
 12 points determined under subparagraph
 13 (B), and

14 “(ii) the amounts setting forth the tax
 15 shall be adjusted to the extent necessary to
 16 reflect the adjustments under clause (i).

17 “(B) PERCENTAGE POINTS OF REDUC-
 18 TION.—

“For calendar year:	The number of percentage points is:
2003	1.0
2004	2.0.

19 “(C) TABLE FOR YEARS AFTER 2004.—The
 20 table applicable under this subsection to estates
 21 of decedents dying, and gifts made, during cal-
 22 endar year 2004 shall apply to estates of dece-

1 dents dying, and gifts made, after calendar year
2 2004.

3 “(D) COORDINATION WITH CREDIT FOR
4 STATE DEATH TAXES.—Rules similar to the
5 rules of subparagraph (A) shall apply to the
6 table contained in section 2011(b) except that
7 the Secretary shall prescribe percentage point
8 reductions which maintain the proportionate re-
9 lationship (as in effect before any reduction
10 under this paragraph) between the credit under
11 section 2011 and the tax rates under subsection
12 (c).”.

13 (d) EFFECTIVE DATES.—

14 (1) SUBSECTIONS (a) AND (b).—The amend-
15 ments made by subsections (a) and (b) shall apply
16 to estates of decedents dying, and gifts made, after
17 December 31, 2000.

18 (2) SUBSECTION (c).—The amendment made by
19 subsection (c) shall apply to estates of decedents
20 dying, and gifts made, after December 31, 2002.

21 **SEC. 302. SENSE OF THE CONGRESS CONCERNING REPEAL**
22 **OF THE DEATH TAX.**

23 (a) FINDINGS.—Congress finds the following:

24 (1) The death tax stifles economic growth by
25 taking productive resources out of the private sector,

1 thereby causing unemployment and inhibiting job
2 creation.

3 (2) The death tax penalizes hard work and en-
4 trepreneurial activity by causing the demise of small,
5 family-owned businesses when an owner dies.

6 (3) The death tax rates in the United States
7 are the second highest among all industrialized na-
8 tions.

9 (4) The death tax prevents minorities from
10 gaining an economic foothold in the economy since
11 it limits the inter-generational transfer of wealth,
12 which is critical to establishing a legacy and power
13 base for minorities in our society.

14 (5) The death tax presents serious challenges
15 for farmers whose value is in their land, not liquid
16 assets, and who must sell land to pay the tax, there-
17 by jeopardizing the future existence of the already-
18 struggling family farm.

19 (6) The death tax contributes to the develop-
20 ment of rural areas by causing farms and ranches
21 to be sold and subdivided.

22 (7) Previous attempts by Congress to create
23 death tax exemptions have been ineffective due to an
24 inability to legislatively duplicate the complex family
25 relationships that exist in our society.

1 (8) Increasing entrepreneurship and investment
2 in retirement will bring a whole new class of people
3 under the death tax.

4 (b) SENSE OF CONGRESS.—It is the sense of Con-
5 gress that the death tax relief in this Act is considered
6 a first step in our effort to ultimately repeal this onerous
7 tax.

8 **Subtitle B—Unified Credit Re-**
9 **placed With Unified Exemption**
10 **Amount**

11 **SEC. 311. UNIFIED CREDIT AGAINST ESTATE AND GIFT**
12 **TAXES REPLACED WITH UNIFIED EXEMPTION**
13 **AMOUNT.**

14 (a) IN GENERAL.—

15 (1) ESTATE TAX.—Subsection (b) of section
16 2001 (relating to computation of tax) is amended to
17 read as follows:

18 “(b) COMPUTATION OF TAX.—

19 “(1) IN GENERAL.—The tax imposed by this
20 section shall be the amount equal to the excess (if
21 any) of—

22 “(A) the tentative tax determined under
23 paragraph (2), over

24 “(B) the aggregate amount of tax which
25 would have been payable under chapter 12 with

1 respect to gifts made by the decedent after De-
 2 cember 31, 1976, if the provisions of subsection
 3 (c) (as in effect at the decedent’s death) had
 4 been applicable at the time of such gifts.

5 “(2) TENTATIVE TAX.—For purposes of para-
 6 graph (1), the tentative tax determined under this
 7 paragraph is a tax computed under subsection (c) on
 8 the excess of—

- 9 “(A) the sum of—
- 10 “(i) the amount of the taxable estate,
 11 and
 12 “(ii) the amount of the adjusted tax-
 13 able gifts, over
- 14 “(B) the exemption amount for the cal-
 15 endar year in which the decedent died.

16 “(3) EXEMPTION AMOUNT.—For purposes of
 17 paragraph (2), the term ‘exemption amount’ means
 18 the amount determined in accordance with the fol-
 19 lowing table:

“In the case of calendar year:	The exemption amount is:
2001	\$675,000
2002 and 2003	\$700,000
2004	\$850,000
2005	\$950,000
2006 or thereafter	\$1,000,000.

20 “(4) ADJUSTED TAXABLE GIFTS.—For pur-
 21 poses of paragraph (2), the term ‘adjusted taxable
 22 gifts’ means the total amount of the taxable gifts

1 (within the meaning of section 2503) made by the
2 decedent after December 31, 1976, other than gifts
3 which are includible in the gross estate of the dece-
4 dent.”

5 (2) GIFT TAX.—Subsection (a) of section 2502
6 (relating to computation of tax) is amended to read
7 as follows:

8 “(a) COMPUTATION OF TAX.—

9 “(1) IN GENERAL.—The tax imposed by section
10 2501 for each calendar year shall be the amount
11 equal to the excess (if any) of—

12 “(A) the tentative tax determined under
13 paragraph (2), over

14 “(B) the tax paid under this section for all
15 prior calendar periods.

16 “(2) TENTATIVE TAX.—For purposes of para-
17 graph (1), the tentative tax determined under this
18 paragraph for a calendar year is a tax computed
19 under section 2001(c) on the excess of—

20 “(A) the aggregate sum of the taxable gifts
21 for such calendar year and for each of the pre-
22 ceding calendar periods, over

23 “(B) the exemption amount under section
24 2001(b)(3) for such calendar year.”

25 (b) REPEAL OF UNIFIED CREDITS.—

1 (1) Section 2010 (relating to unified credit
2 against estate tax) is hereby repealed.

3 (2) Section 2505 (relating to unified credit
4 against gift tax) is hereby repealed.

5 (c) CONFORMING AMENDMENTS.—

6 (1)(A) Subsection (b) of section 2011 is
7 amended—

8 (i) by striking “adjusted” in the table, and

9 (ii) by striking the last sentence.

10 (B) Subsection (f) of section 2011 is amended
11 by striking “, reduced by the amount of the unified
12 credit provided by section 2010”.

13 (2) Subsection (a) of section 2012 is amended
14 by striking “and the unified credit provided by sec-
15 tion 2010”.

16 (3) Subparagraph (A) of section 2013(c)(1) is
17 amended by striking “2010,”.

18 (4) Paragraph (2) of section 2014(b) is amend-
19 ed by striking “2010,”.

20 (5) Clause (ii) of section 2056A(b)(12)(C) is
21 amended to read as follows:

22 “(ii) to treat any reduction in the tax
23 imposed by paragraph (1)(A) by reason of
24 the credit allowable under section 2010 (as
25 in effect on the day before the date of the

1 enactment of the Small Business Tax Fair-
2 ness Act of 2000) or the exemption
3 amount allowable under section 2001(b)
4 with respect to the decedent as a credit
5 under section 2505 (as so in effect) or ex-
6 emption under section 2521 (as the case
7 may be) allowable to such surviving spouse
8 for purposes of determining the amount of
9 the exemption allowable under section
10 2521 with respect to taxable gifts made by
11 the surviving spouse during the year in
12 which the spouse becomes a citizen or any
13 subsequent year.”.

14 (6) Subsection (a) of section 2057 is amended
15 by striking paragraphs (2) and (3) and inserting the
16 following new paragraph:

17 “(2) MAXIMUM DEDUCTION.—The deduction al-
18 lowed by this section shall not exceed the excess of
19 \$1,300,000 over the exemption amount (as defined
20 in section 2001(b)(3)).”

21 (7)(A) Subsection (b) of section 2101 is amend-
22 ed amended to read as follows:

23 “(b) COMPUTATION OF TAX.—

1 “(1) IN GENERAL.—The tax imposed by this
2 section shall be the amount equal to the excess (if
3 any) of—

4 “(A) the tentative tax determined under
5 paragraph (2), over

6 “(B) a tentative tax computed under sec-
7 tion 2001(c) on the amount of the adjusted tax-
8 able gifts.

9 “(2) TENTATIVE TAX.—For purposes of para-
10 graph (1), the tentative tax determined under this
11 paragraph is a tax computed under section 2001(c)
12 on the excess of—

13 “(A) the sum of—

14 “(i) the amount of the taxable estate,
15 and

16 “(ii) the amount of the adjusted tax-
17 able gifts, over

18 “(B) the exemption amount for the cal-
19 endar year in which the decedent died.

20 “(3) EXEMPTION AMOUNT.—

21 “(A) IN GENERAL.—The term ‘exemption
22 amount’ means \$60,000.

23 “(B) RESIDENTS OF POSSESSIONS OF THE
24 UNITED STATES.—In the case of a decedent
25 who is considered to be a nonresident not a cit-

1 izen of the United States under section 2209,
2 the exemption amount under this paragraph
3 shall be the greater of—

4 “(i) \$60,000, or

5 “(ii) that proportion of \$175,000
6 which the value of that part of the dece-
7 dent’s gross estate which at the time of his
8 death is situated in the United States
9 bears to the value of his entire gross estate
10 wherever situated.

11 “(C) SPECIAL RULES.—

12 “(i) COORDINATION WITH TREA-
13 TIES.—To the extent required under any
14 treaty obligation of the United States, the
15 exemption amount allowed under this para-
16 graph shall be equal to the amount which
17 bears the same ratio to the exemption
18 amount under section 2001(b)(3) (for the
19 calendar year in which the decedent died)
20 as the value of the part of the decedent’s
21 gross estate which at the time of his death
22 is situated in the United States bears to
23 the value of his entire gross estate wher-
24 ever situated. For purposes of the pre-
25 ceding sentence, property shall not be

1 treated as situated in the United States if
2 such property is exempt from the tax im-
3 posed by this subchapter under any treaty
4 obligation of the United States.

5 “(ii) COORDINATION WITH GIFT TAX
6 EXEMPTION AND UNIFIED CREDIT.—If an
7 exemption has been allowed under section
8 2521 (or a credit has been allowed under
9 section 2505 as in effect on the day before
10 the date of the enactment of the Small
11 Business Tax Fairness Act of 2000) with
12 respect to any gift made by the decedent,
13 each dollar amount contained in subpara-
14 graph (A) or (B) or the exemption amount
15 applicable under clause (i) of this subpara-
16 graph (whichever applies) shall be reduced
17 by the exemption so allowed under 2521
18 (or, in the case of such a credit, by the
19 amount of the gift for which the credit was
20 so allowed).”.

21 (8) Section 2102 is amended by striking sub-
22 section (c).

23 (9)(A) Subsection (a) of section 2107 is amend-
24 ed by adding at the end the following new para-
25 graph:

1 “(3) LIMITATION ON EXEMPTION AMOUNT.—
2 Subparagraphs (B) and (C) of section 2101(b)(3)
3 shall not apply in applying section 2101 for purposes
4 of this section.”.

5 (B) Subsection (c) of section 2107 is
6 amended—

7 (i) by striking paragraph (1) and by
8 redesignating paragraphs (2) and (3) as
9 paragraphs (1) and (2), respectively, and

10 (ii) by striking the second sentence of
11 paragraph (2) (as so redesignated).

12 (10) Paragraph (1) of section 6018(a) is
13 amended by striking “the applicable exclusion
14 amount in effect under section 2010(e)” and insert-
15 ing “the exemption amount under section
16 2001(b)(3)”.

17 (11) Subparagraph (A) of section 6601(j)(2) is
18 amended to read as follows:

19 “(A) the amount of the tentative tax which
20 would be determined under the rate schedule
21 set forth in section 2001(e) if the amount with
22 respect to which such tentative tax is to be
23 computed were \$1,000,000, or”.

1 (12) The table of sections for part II of sub-
2 chapter A of chapter 11 is amended by striking the
3 item relating to section 2010.

4 (20) The table of sections for subchapter A of
5 chapter 12 is amended by striking the item relating
6 to section 2505.

7 (13) The table of sections for subchapter C of
8 chapter 12 is amended by inserting before the item
9 relating to section 2522 the following new item:

 “Sec. 2521. Exemption.”.

10 (d) **EFFECTIVE DATE.**—The amendments made by
11 this section—

12 (1) insofar as they relate to the tax imposed by
13 chapter 11 of the Internal Revenue Code of 1986,
14 shall apply to estates of decedents dying after De-
15 cember 31, 2000, and

16 (2) insofar as they relate to the tax imposed by
17 chapter 12 of such Code, shall apply to gifts made
18 after December 31, 2000.

19 **Subtitle C—Modifications of**
20 **Generation-skipping Transfer Tax**

21 **SEC. 321. DEEMED ALLOCATION OF GST EXEMPTION TO**
22 **LIFETIME TRANSFERS TO TRUSTS; RETRO-**
23 **ACTIVE ALLOCATIONS.**

24 (a) **IN GENERAL.**—Section 2632 (relating to special
25 rules for allocation of GST exemption) is amended by re-

1 designating subsection (c) as subsection (e) and by insert-
 2 ing after subsection (b) the following new subsections:

3 “(c) DEEMED ALLOCATION TO CERTAIN LIFETIME
 4 TRANSFERS TO GST TRUSTS.—

5 “(1) IN GENERAL.—If any individual makes an
 6 indirect skip during such individual’s lifetime, any
 7 unused portion of such individual’s GST exemption
 8 shall be allocated to the property transferred to the
 9 extent necessary to make the inclusion ratio for such
 10 property zero. If the amount of the indirect skip ex-
 11 ceeds such unused portion, the entire unused portion
 12 shall be allocated to the property transferred.

13 “(2) UNUSED PORTION.—For purposes of para-
 14 graph (1), the unused portion of an individual’s
 15 GST exemption is that portion of such exemption
 16 which has not previously been—

17 “(A) allocated by such individual,

18 “(B) treated as allocated under subsection
 19 (b) with respect to a direct skip occurring dur-
 20 ing or before the calendar year in which the in-
 21 direct skip is made, or

22 “(C) treated as allocated under paragraph
 23 (1) with respect to a prior indirect skip.

24 “(3) DEFINITIONS.—

1 “(A) INDIRECT SKIP.—For purposes of
2 this subsection, the term ‘indirect skip’ means
3 any transfer of property (other than a direct
4 skip) subject to the tax imposed by chapter 12
5 made to a GST trust.

6 “(B) GST TRUST.—The term ‘GST trust’
7 means a trust that could have a generation-
8 skipping transfer with respect to the transferor
9 unless—

10 “(i) the trust instrument provides that
11 more than 25 percent of the trust corpus
12 must be distributed to or may be with-
13 drawn by 1 or more individuals who are
14 non-skip persons—

15 “(I) before the date that the indi-
16 vidual attains age 46,

17 “(II) on or before one or more
18 dates specified in the trust instrument
19 that will occur before the date that
20 such individual attains age 46, or

21 “(III) upon the occurrence of an
22 event that, in accordance with regula-
23 tions prescribed by the Secretary, may
24 reasonably be expected to occur before

1 the date that such individual attains
2 age 46;

3 “(ii) the trust instrument provides
4 that more than 25 percent of the trust cor-
5 pus must be distributed to or may be with-
6 drawn by one or more individuals who are
7 non-skip persons and who are living on the
8 date of death of another person identified
9 in the instrument (by name or by class)
10 who is more than 10 years older than such
11 individuals;

12 “(iii) the trust instrument provides
13 that, if one or more individuals who are
14 non-skip persons die on or before a date or
15 event described in clause (i) or (ii), more
16 than 25 percent of the trust corpus either
17 must be distributed to the estate or estates
18 of one or more of such individuals or is
19 subject to a general power of appointment
20 exercisable by one or more of such individ-
21 uals;

22 “(iv) the trust is a trust any portion
23 of which would be included in the gross es-
24 tate of a non-skip person (other than the

1 transferor) if such person died immediately
2 after the transfer;

3 “(v) the trust is a charitable lead an-
4 nuity trust (within the meaning of section
5 2642(e)(3)(A)) or a charitable remainder
6 annuity trust or a charitable remainder
7 unitrust (within the meaning of section
8 664(d)); or

9 “(vi) the trust is a trust with respect
10 to which a deduction was allowed under
11 section 2522 for the amount of an interest
12 in the form of the right to receive annual
13 payments of a fixed percentage of the net
14 fair market value of the trust property (de-
15 termined yearly) and which is required to
16 pay principal to a non-skip person if such
17 person is alive when the yearly payments
18 for which the deduction was allowed termi-
19 nate.

20 For purposes of this subparagraph, the value of
21 transferred property shall not be considered to
22 be includible in the gross estate of a non-skip
23 person or subject to a right of withdrawal by
24 reason of such person holding a right to with-
25 draw so much of such property as does not ex-

1 ceed the amount referred to in section 2503(b)
2 with respect to any transferor, and it shall be
3 assumed that powers of appointment held by
4 non-skip persons will not be exercised.

5 “(4) AUTOMATIC ALLOCATIONS TO CERTAIN
6 GST TRUSTS.—For purposes of this subsection, an
7 indirect skip to which section 2642(f) applies shall
8 be deemed to have been made only at the close of
9 the estate tax inclusion period. The fair market
10 value of such transfer shall be the fair market value
11 of the trust property at the close of the estate tax
12 inclusion period.

13 “(5) APPLICABILITY AND EFFECT.—

14 “(A) IN GENERAL.—An individual—

15 “(i) may elect to have this subsection
16 not apply to—

17 “(I) an indirect skip, or

18 “(II) any or all transfers made
19 by such individual to a particular
20 trust, and

21 “(ii) may elect to treat any trust as a
22 GST trust for purposes of this subsection
23 with respect to any or all transfers made
24 by such individual to such trust.

25 “(B) ELECTIONS.—

1 “(i) ELECTIONS WITH RESPECT TO
2 INDIRECT SKIPS.—An election under sub-
3 paragraph (A)(i)(I) shall be deemed to be
4 timely if filed on a timely filed gift tax re-
5 turn for the calendar year in which the
6 transfer was made or deemed to have been
7 made pursuant to paragraph (4) or on
8 such later date or dates as may be pre-
9 scribed by the Secretary.

10 “(ii) OTHER ELECTIONS.—An election
11 under clause (i)(II) or (ii) of subparagraph
12 (A) may be made on a timely filed gift tax
13 return for the calendar year for which the
14 election is to become effective.

15 “(d) RETROACTIVE ALLOCATIONS.—

16 “(1) IN GENERAL.—If—

17 “(A) a non-skip person has an interest or
18 a future interest in a trust to which any trans-
19 fer has been made,

20 “(B) such person—

21 “(i) is a lineal descendant of a grand-
22 parent of the transferor or of a grand-
23 parent of the transferor’s spouse or former
24 spouse, and

1 “(ii) is assigned to a generation below
2 the generation assignment of the trans-
3 feror, and

4 “(C) such person predeceases the trans-
5 feror,

6 then the transferor may make an allocation of any
7 of such transferor’s unused GST exemption to any
8 previous transfer or transfers to the trust on a
9 chronological basis.

10 “(2) SPECIAL RULES.—If the allocation under
11 paragraph (1) by the transferor is made on a gift
12 tax return filed on or before the date prescribed by
13 section 6075(b) for gifts made within the calendar
14 year within which the non-skip person’s death
15 occurred—

16 “(A) the value of such transfer or trans-
17 fers for purposes of section 2642(a) shall be de-
18 termined as if such allocation had been made
19 on a timely filed gift tax return for each cal-
20 endar year within which each transfer was
21 made,

22 “(B) such allocation shall be effective im-
23 mediately before such death, and

24 “(C) the amount of the transferor’s un-
25 used GST exemption available to be allocated

1 shall be determined immediately before such
2 death.

3 “(3) FUTURE INTEREST.—For purposes of this
4 subsection, a person has a future interest in a trust
5 if the trust may permit income or corpus to be paid
6 to such person on a date or dates in the future.”.

7 (b) CONFORMING AMENDMENT.—Paragraph (2) of
8 section 2632(b) is amended by striking “with respect to
9 a direct skip” and inserting “or subsection (c)(1)”.

10 (c) EFFECTIVE DATES.—

11 (1) DEEMED ALLOCATION.—Section 2632(c) of
12 the Internal Revenue Code of 1986 (as added by
13 subsection (a)), and the amendment made by sub-
14 section (b), shall apply to transfers subject to chap-
15 ter 11 or 12 made after December 31, 1999, and to
16 estate tax inclusion periods ending after December
17 31, 1999.

18 (2) RETROACTIVE ALLOCATIONS.—Section
19 2632(d) of the Internal Revenue Code of 1986 (as
20 added by subsection (a)) shall apply to deaths of
21 non-skip persons occurring after December 31,
22 1999.

1 **SEC. 322. SEVERING OF TRUSTS.**

2 (a) IN GENERAL.—Subsection (a) of section 2642
3 (relating to inclusion ratio) is amended by adding at the
4 end the following new paragraph:

5 “(3) SEVERING OF TRUSTS.—

6 “(A) IN GENERAL.—If a trust is severed in
7 a qualified severance, the trusts resulting from
8 such severance shall be treated as separate
9 trusts thereafter for purposes of this chapter.

10 “(B) QUALIFIED SEVERANCE.—For pur-
11 poses of subparagraph (A)—

12 “(i) IN GENERAL.—The term ‘quali-
13 fied severance’ means the division of a sin-
14 gle trust and the creation (by any means
15 available under the governing instrument
16 or under local law) of two or more trusts
17 if—

18 “(I) the single trust was divided
19 on a fractional basis, and

20 “(II) the terms of the new trusts,
21 in the aggregate, provide for the same
22 succession of interests of beneficiaries
23 as are provided in the original trust.

24 “(ii) TRUSTS WITH INCLUSION RATIO
25 GREATER THAN ZERO.—If a trust has an
26 inclusion ratio of greater than zero and

1 less than 1, a severance is a qualified sev-
2 erance only if the single trust is divided
3 into two trusts, one of which receives a
4 fractional share of the total value of all
5 trust assets equal to the applicable fraction
6 of the single trust immediately before the
7 severance. In such case, the trust receiving
8 such fractional share shall have an inclu-
9 sion ratio of zero and the other trust shall
10 have an inclusion ratio of 1.

11 “(iii) REGULATIONS.—The term
12 ‘qualified severance’ includes any other
13 severance permitted under regulations pre-
14 scribed by the Secretary.

15 “(C) TIMING AND MANNER OF
16 SEVERANCES.—A severance pursuant to this
17 paragraph may be made at any time. The Sec-
18 retary shall prescribe by forms or regulations
19 the manner in which the qualified severance
20 shall be reported to the Secretary.”.

21 (b) EFFECTIVE DATE.—The amendment made by
22 this section shall apply to severances after December 31,
23 1999.

1 **SEC. 323. MODIFICATION OF CERTAIN VALUATION RULES.**

2 (a) GIFTS FOR WHICH GIFT TAX RETURN FILED OR
3 DEEMED ALLOCATION MADE.—Paragraph (1) of section
4 2642(b) (relating to valuation rules, etc.) is amended to
5 read as follows:

6 “(1) GIFTS FOR WHICH GIFT TAX RETURN
7 FILED OR DEEMED ALLOCATION MADE.—If the allo-
8 cation of the GST exemption to any transfers of
9 property is made on a gift tax return filed on or be-
10 fore the date prescribed by section 6075(b) for such
11 transfer or is deemed to be made under section 2632
12 (b)(1) or (c)(1)—

13 “(A) the value of such property for pur-
14 poses of subsection (a) shall be its value as fi-
15 nally determined for purposes of chapter 12
16 (within the meaning of section 2001(f)(2)), or,
17 in the case of an allocation deemed to have been
18 made at the close of an estate tax inclusion pe-
19 riod, its value at the time of the close of the es-
20 tate tax inclusion period, and

21 “(B) such allocation shall be effective on
22 and after the date of such transfer, or, in the
23 case of an allocation deemed to have been made
24 at the close of an estate tax inclusion period, on
25 and after the close of such estate tax inclusion
26 period.”.

1 (b) TRANSFERS AT DEATH.—Subparagraph (A) of
2 section 2642(b)(2) is amended to read as follows:

3 “(A) TRANSFERS AT DEATH.—If property
4 is transferred as a result of the death of the
5 transferor, the value of such property for pur-
6 poses of subsection (a) shall be its value as fi-
7 nally determined for purposes of chapter 11; ex-
8 cept that, if the requirements prescribed by the
9 Secretary respecting allocation of post-death
10 changes in value are not met, the value of such
11 property shall be determined as of the time of
12 the distribution concerned.”.

13 (c) EFFECTIVE DATE.—The amendments made by
14 this section shall apply to transfers subject to chapter 11
15 or 12 of the Internal Revenue Code of 1986 made after
16 December 31, 1999.

17 **SEC. 324. RELIEF PROVISIONS.**

18 (a) IN GENERAL.—Section 2642 is amended by add-
19 ing at the end the following new subsection:

20 “(g) RELIEF PROVISIONS.—

21 “(1) RELIEF FOR LATE ELECTIONS.—

22 “(A) IN GENERAL.—The Secretary shall by
23 regulation prescribe such circumstances and
24 procedures under which extensions of time will
25 be granted to make—

1 “(i) an allocation of GST exemption
2 described in paragraph (1) or (2) of sub-
3 section (b), and

4 “(ii) an election under subsection
5 (b)(3) or (c)(5) of section 2632.

6 Such regulations shall include procedures for
7 requesting comparable relief with respect to
8 transfers made before the date of the enactment
9 of this paragraph.

10 “(B) BASIS FOR DETERMINATIONS.—In
11 determining whether to grant relief under this
12 paragraph, the Secretary shall take into ac-
13 count all relevant circumstances, including evi-
14 dence of intent contained in the trust instru-
15 ment or instrument of transfer and such other
16 factors as the Secretary deems relevant. For
17 purposes of determining whether to grant relief
18 under this paragraph, the time for making the
19 allocation (or election) shall be treated as if not
20 expressly prescribed by statute.

21 “(2) SUBSTANTIAL COMPLIANCE.—An alloca-
22 tion of GST exemption under section 2632 that
23 demonstrates an intent to have the lowest possible
24 inclusion ratio with respect to a transfer or a trust
25 shall be deemed to be an allocation of so much of

1 the transferor's unused GST exemption as produces
2 the lowest possible inclusion ratio. In determining
3 whether there has been substantial compliance, all
4 relevant circumstances shall be taken into account,
5 including evidence of intent contained in the trust
6 instrument or instrument of transfer and such other
7 factors as the Secretary deems relevant.”.

8 (b) EFFECTIVE DATES.—

9 (1) RELIEF FOR LATE ELECTIONS.—Section
10 2642(g)(1) of the Internal Revenue Code of 1986
11 (as added by subsection (a)) shall apply to requests
12 pending on, or filed after, December 31, 1999.

13 (2) SUBSTANTIAL COMPLIANCE.—Section
14 2642(g)(2) of such Code (as so added) shall take ef-
15 fect on the date of the enactment of this Act and
16 shall apply to transfers subject to chapter 11 or 12
17 of the Internal Revenue Code of 1986 made after
18 December 31, 1999.

19 **Subtitle D—Conservation**

20 **Easements**

21 **SEC. 331. EXPANSION OF ESTATE TAX RULE FOR CON-**

22 **SERVATION EASEMENTS.**

23 (a) WHERE LAND IS LOCATED.—

1 (1) IN GENERAL.—Clause (i) of section
2 2031(c)(8)(A) (defining land subject to a conserva-
3 tion easement) is amended—

4 (A) by striking “25 miles” both places it
5 appears and inserting “50 miles”, and

6 (B) striking “10 miles” and inserting “25
7 miles”.

8 (2) EFFECTIVE DATE.—The amendments made
9 by this subsection shall apply to estates of decedents
10 dying after December 31, 1999.

11 (b) CLARIFICATION OF DATE FOR DETERMINING
12 VALUE OF LAND AND EASEMENT.—

13 (1) IN GENERAL.—Section 2031(c)(2) (defining
14 applicable percentage) is amended by adding at the
15 end the following new sentence: “The values taken
16 into account under the preceding sentence shall be
17 such values as of the date of the contribution re-
18 ferred to in paragraph (8)(B).”.

19 (2) EFFECTIVE DATE.—The amendment made
20 by this subsection shall apply to estates of decedents
21 dying after December 31, 1997.

1 **TITLE IV—TAX RELIEF FOR DIS-**
 2 **TRESSED COMMUNITIES AND**
 3 **INDUSTRIES**

4 **Subtitle A—American Community**
 5 **Renewal Act of 2000**

6 **SEC. 401. SHORT TITLE.**

7 This subtitle may be cited as the “American Commu-
 8 nity Renewal Act of 2000”.

9 **SEC. 402. DESIGNATION OF AND TAX INCENTIVES FOR RE-**
 10 **NEWAL COMMUNITIES.**

11 (a) IN GENERAL.—Chapter 1 is amended by adding
 12 at the end the following new subchapter:

13 **“Subchapter X—Renewal Communities**

“Part I. Designation.

“Part II. Renewal community capital gain; renewal community
 business.

“Part III. Family development accounts.

“Part IV. Additional incentives.

14 **“PART I—DESIGNATION**

“Sec. 1400E. Designation of renewal communities.

15 **“SEC. 1400E. DESIGNATION OF RENEWAL COMMUNITIES.**

16 “(a) DESIGNATION.—

17 “(1) DEFINITIONS.—For purposes of this title,
 18 the term ‘renewal community’ means any area—

19 “(A) which is nominated by one or more
 20 local governments and the State or States in
 21 which it is located for designation as a renewal

1 community (hereinafter in this section referred
2 to as a ‘nominated area’); and

3 “(B) which the Secretary of Housing and
4 Urban Development designates as a renewal
5 community, after consultation with—

6 “(i) the Secretaries of Agriculture,
7 Commerce, Labor, and the Treasury; the
8 Director of the Office of Management and
9 Budget; and the Administrator of the
10 Small Business Administration; and

11 “(ii) in the case of an area on an In-
12 dian reservation, the Secretary of the Inte-
13 rior.

14 “(2) NUMBER OF DESIGNATIONS.—

15 “(A) IN GENERAL.—The Secretary of
16 Housing and Urban Development may des-
17 ignate not more than 15 nominated areas as re-
18 newal communities.

19 “(B) MINIMUM DESIGNATION IN RURAL
20 AREAS.—Of the areas designated under para-
21 graph (1), at least 3 must be areas—

22 “(i) which are within a local govern-
23 ment jurisdiction or jurisdictions with a
24 population of less than 50,000,

1 “(ii) which are outside of a metropoli-
2 tan statistical area (within the meaning of
3 section 143(k)(2)(B)), or

4 “(iii) which are determined by the
5 Secretary of Housing and Urban Develop-
6 ment, after consultation with the Secretary
7 of Commerce, to be rural areas.

8 “(3) AREAS DESIGNATED BASED ON DEGREE
9 OF POVERTY, ETC.—

10 “(A) IN GENERAL.—Except as otherwise
11 provided in this section, the nominated areas
12 designated as renewal communities under this
13 subsection shall be those nominated areas with
14 the highest average ranking with respect to the
15 criteria described in subparagraphs (B), (C),
16 and (D) of subsection (c)(3). For purposes of
17 the preceding sentence, an area shall be ranked
18 within each such criterion on the basis of the
19 amount by which the area exceeds such cri-
20 terion, with the area which exceeds such cri-
21 terion by the greatest amount given the highest
22 ranking.

23 “(B) EXCEPTION WHERE INADEQUATE
24 COURSE OF ACTION, ETC.—An area shall not be
25 designated under subparagraph (A) if the Sec-

1 retary of Housing and Urban Development de-
2 termines that the course of action described in
3 subsection (d)(2) with respect to such area is
4 inadequate.

5 “(C) PRIORITY FOR EMPOWERMENT ZONES
6 AND ENTERPRISE COMMUNITIES WITH RESPECT
7 TO FIRST 10 DESIGNATIONS.—With respect to
8 the first 10 designations made under this
9 section—

10 “(i) all shall be chosen from nomi-
11 nated areas which are empowerment zones
12 or enterprise communities (and are other-
13 wise eligible for designation under this sec-
14 tion); and

15 “(ii) two shall be areas described in
16 paragraph (2)(B).

17 “(4) LIMITATION ON DESIGNATIONS.—

18 “(A) PUBLICATION OF REGULATIONS.—
19 The Secretary of Housing and Urban Develop-
20 ment shall prescribe by regulation no later than
21 4 months after the date of the enactment of
22 this section, after consultation with the officials
23 described in paragraph (1)(B)—

24 “(i) the procedures for nominating an
25 area under paragraph (1)(A);

1 “(ii) the parameters relating to the
2 size and population characteristics of a re-
3 newal community; and

4 “(iii) the manner in which nominated
5 areas will be evaluated based on the cri-
6 teria specified in subsection (d).

7 “(B) TIME LIMITATIONS.—The Secretary
8 of Housing and Urban Development may des-
9 ignate nominated areas as renewal communities
10 only during the 36-month period beginning on
11 the first day of the first month following the
12 month in which the regulations described in
13 subparagraph (A) are prescribed.

14 “(C) PROCEDURAL RULES.—The Secretary
15 of Housing and Urban Development shall not
16 make any designation of a nominated area as a
17 renewal community under paragraph (2)
18 unless—

19 “(i) the local governments and the
20 States in which the nominated area is lo-
21 cated have the authority—

22 “(I) to nominate such area for
23 designation as a renewal community;

1 “(II) to make the State and local
2 commitments described in subsection
3 (d); and

4 “(III) to provide assurances sat-
5 isfactory to the Secretary of Housing
6 and Urban Development that such
7 commitments will be fulfilled,

8 “(ii) a nomination regarding such
9 area is submitted in such a manner and in
10 such form, and contains such information,
11 as the Secretary of Housing and Urban
12 Development shall by regulation prescribe;
13 and

14 “(iii) the Secretary of Housing and
15 Urban Development determines that any
16 information furnished is reasonably accu-
17 rate.

18 “(5) NOMINATION PROCESS FOR INDIAN RES-
19 ERVATIONS.—For purposes of this subchapter, in
20 the case of a nominated area on an Indian reserva-
21 tion, the reservation governing body (as determined
22 by the Secretary of the Interior) shall be treated as
23 being both the State and local governments with re-
24 spect to such area.

1 “(b) PERIOD FOR WHICH DESIGNATION IS IN EF-
2 FECT.—

3 “(1) IN GENERAL.—Any designation of an area
4 as a renewal community shall remain in effect dur-
5 ing the period beginning on the date of the designa-
6 tion and ending on the earliest of—

7 “(A) December 31, 2007,

8 “(B) the termination date designated by
9 the State and local governments in their nomi-
10 nation, or

11 “(C) the date the Secretary of Housing
12 and Urban Development revokes such designa-
13 tion.

14 “(2) REVOCATION OF DESIGNATION.—The Sec-
15 retary of Housing and Urban Development may re-
16 voke the designation under this section of an area if
17 such Secretary determines that the local government
18 or the State in which the area is located—

19 “(A) has modified the boundaries of the
20 area, or

21 “(B) is not complying substantially with,
22 or fails to make progress in achieving, the State
23 or local commitments, respectively, described in
24 subsection (d).

25 “(c) AREA AND ELIGIBILITY REQUIREMENTS.—

1 “(1) IN GENERAL.—The Secretary of Housing
2 and Urban Development may designate a nominated
3 area as a renewal community under subsection (a)
4 only if the area meets the requirements of para-
5 graphs (2) and (3) of this subsection.

6 “(2) AREA REQUIREMENTS.—A nominated area
7 meets the requirements of this paragraph if—

8 “(A) the area is within the jurisdiction of
9 one or more local governments;

10 “(B) the boundary of the area is contin-
11 uous; and

12 “(C) the area—

13 “(i) has a population, of at least—

14 “(I) 4,000 if any portion of such
15 area (other than a rural area de-
16 scribed in subsection (a)(2)(B)(i)) is
17 located within a metropolitan statis-
18 tical area (within the meaning of sec-
19 tion 143(k)(2)(B)) which has a popu-
20 lation of 50,000 or greater; or

21 “(II) 1,000 in any other case; or

22 “(ii) is entirely within an Indian res-
23 ervation (as determined by the Secretary of
24 the Interior).

1 “(3) ELIGIBILITY REQUIREMENTS.—A nomi-
2 nated area meets the requirements of this paragraph
3 if the State and the local governments in which it
4 is located certify (and the Secretary of Housing and
5 Urban Development, after such review of supporting
6 data as he deems appropriate, accepts such certifi-
7 cation) that—

8 “(A) the area is one of pervasive poverty,
9 unemployment, and general distress;

10 “(B) the unemployment rate in the area,
11 as determined by the most recent available
12 data, was at least 1½ times the national unem-
13 ployment rate for the period to which such data
14 relate;

15 “(C) the poverty rate for each population
16 census tract within the nominated area is at
17 least 20 percent; and

18 “(D) in the case of an urban area, at least
19 70 percent of the households living in the area
20 have incomes below 80 percent of the median
21 income of households within the jurisdiction of
22 the local government (determined in the same
23 manner as under section 119(b)(2) of the
24 Housing and Community Development Act of
25 1974).

1 “(4) CONSIDERATION OF HIGH INCIDENCE OF
2 CRIME.—The Secretary of Housing and Urban De-
3 velopment shall take into account, in selecting nomi-
4 nated areas for designation as renewal communities
5 under this section, the extent to which such areas
6 have a high incidence of crime.

7 “(5) CONSIDERATION OF COMMUNITIES IDENTI-
8 FIED IN GAO STUDY.—The Secretary of Housing
9 and Urban Development shall take into account, in
10 selecting nominated areas for designation as renewal
11 communities under this section, if the area has cen-
12 sus tracts identified in the May 12, 1998, report of
13 the Government Accounting Office regarding the
14 identification of economically distressed areas.

15 “(d) REQUIRED STATE AND LOCAL COMMIT-
16 MENTS.—

17 “(1) IN GENERAL.—The Secretary of Housing
18 and Urban Development may designate any nomi-
19 nated area as a renewal community under subsection
20 (a) only if—

21 “(A) the local government and the State in
22 which the area is located agree in writing that,
23 during any period during which the area is a
24 renewal community, such governments will fol-
25 low a specified course of action which meets the

1 requirements of paragraph (2) and is designed
2 to reduce the various burdens borne by employ-
3 ers or employees in such area; and

4 “(B) the economic growth promotion re-
5 quirements of paragraph (3) are met.

6 “(2) COURSE OF ACTION.—

7 “(A) IN GENERAL.—A course of action
8 meets the requirements of this paragraph if
9 such course of action is a written document,
10 signed by a State (or local government) and
11 neighborhood organizations, which evidences a
12 partnership between such State or government
13 and community-based organizations and which
14 commits each signatory to specific and measur-
15 able goals, actions, and timetables. Such course
16 of action shall include at least five of the fol-
17 lowing:

18 “(i) A reduction of tax rates or fees
19 applying within the renewal community.

20 “(ii) An increase in the level of effi-
21 ciency of local services within the renewal
22 community.

23 “(iii) Crime reduction strategies, such
24 as crime prevention (including the provi-

1 sion of such services by nongovernmental
2 entities).

3 “(iv) Actions to reduce, remove, sim-
4 plify, or streamline governmental require-
5 ments applying within the renewal commu-
6 nity.

7 “(v) Involvement in the program by
8 private entities, organizations, neighbor-
9 hood organizations, and community
10 groups, particularly those in the renewal
11 community, including a commitment from
12 such private entities to provide jobs and
13 job training for, and technical, financial, or
14 other assistance to, employers, employees,
15 and residents from the renewal community.

16 “(vi) State or local income tax bene-
17 fits for fees paid for services performed by
18 a nongovernmental entity which were for-
19 merly performed by a governmental entity.

20 “(vii) The gift (or sale at below fair
21 market value) of surplus real property
22 (such as land, homes, and commercial or
23 industrial structures) in the renewal com-
24 munity to neighborhood organizations,

1 community development corporations, or
2 private companies.

3 “(B) RECOGNITION OF PAST EFFORTS.—

4 For purposes of this section, in evaluating the
5 course of action agreed to by any State or local
6 government, the Secretary of Housing and
7 Urban Development shall take into account the
8 past efforts of such State or local government
9 in reducing the various burdens borne by em-
10 ployers and employees in the area involved.

11 “(3) ECONOMIC GROWTH PROMOTION REQUIRE-

12 MENTS.—The economic growth promotion require-
13 ments of this paragraph are met with respect to a
14 nominated area if the local government and the
15 State in which such area is located certify in writing
16 that such government and State, respectively, have
17 repealed or otherwise will not enforce within the
18 area, if such area is designated as a renewal
19 community—

20 “(A) licensing requirements for occupa-

21 tions that do not ordinarily require a profes-
22 sional degree;

23 “(B) zoning restrictions on home-based

24 businesses which do not create a public nui-
25 sance;

1 “(C) permit requirements for street ven-
2 dors who do not create a public nuisance;

3 “(D) zoning or other restrictions that im-
4 pede the formation of schools or child care cen-
5 ters; and

6 “(E) franchises or other restrictions on
7 competition for businesses providing public
8 services, including but not limited to taxicabs,
9 jitneys, cable television, or trash hauling,
10 except to the extent that such regulation of busi-
11 nesses and occupations is necessary for and well-tai-
12 lored to the protection of health and safety.

13 “(e) COORDINATION WITH TREATMENT OF EM-
14 POWERMENT ZONES AND ENTERPRISE COMMUNITIES.—
15 For purposes of this title, if there are in effect with respect
16 to the same area both—

17 “(1) a designation as a renewal community; and

18 “(2) a designation as an empowerment zone or
19 enterprise community,

20 both of such designations shall be given full effect with
21 respect to such area.

22 “(f) DEFINITIONS AND SPECIAL RULES.—For pur-
23 poses of this subchapter—

24 “(1) GOVERNMENTS.—If more than one govern-
25 ment seeks to nominate an area as a renewal com-

1 munity, any reference to, or requirement of, this sec-
 2 tion shall apply to all such governments.

3 “(2) STATE.—The term ‘State’ includes Puerto
 4 Rico, the Virgin Islands of the United States, Guam,
 5 American Samoa, the Northern Mariana Islands,
 6 and any other possession of the United States.

7 “(3) LOCAL GOVERNMENT.—The term ‘local
 8 government’ means—

9 “(A) any county, city, town, township, par-
 10 ish, village, or other general purpose political
 11 subdivision of a State;

12 “(B) any combination of political subdivi-
 13 sions described in subparagraph (A) recognized
 14 by the Secretary of Housing and Urban Devel-
 15 opment; and

16 “(C) the District of Columbia.

17 “(4) APPLICATION OF RULES RELATING TO
 18 CENSUS TRACTS AND CENSUS DATA.—The rules of
 19 sections 1392(b)(4) and 1393(a)(9) shall apply.

20 **“PART II—RENEWAL COMMUNITY CAPITAL GAIN;**
 21 **RENEWAL COMMUNITY BUSINESS**

“Sec. 1400F. Renewal community capital gain.

“Sec. 1400G. Renewal community business defined.

22 **“SEC. 1400F. RENEWAL COMMUNITY CAPITAL GAIN.**

23 “(a) GENERAL RULE.—Gross income does not in-
 24 clude any qualified capital gain recognized on the sale or

1 exchange of a qualified community asset held for more
2 than 5 years.

3 “(b) QUALIFIED COMMUNITY ASSET.—For purposes
4 of this section—

5 “(1) IN GENERAL.—The term ‘qualified com-
6 munity asset’ means—

7 “(A) any qualified community stock;

8 “(B) any qualified community partnership
9 interest; and

10 “(C) any qualified community business
11 property.

12 “(2) QUALIFIED COMMUNITY STOCK.—

13 “(A) IN GENERAL.—Except as provided in
14 subparagraph (B), the term ‘qualified commu-
15 nity stock’ means any stock in a domestic cor-
16 poration if—

17 “(i) such stock is acquired by the tax-
18 payer after December 31, 2000, and before
19 January 1, 2008, at its original issue (di-
20 rectly or through an underwriter) from the
21 corporation solely in exchange for cash;

22 “(ii) as of the time such stock was
23 issued, such corporation was a renewal
24 community business (or, in the case of a
25 new corporation, such corporation was

1 being organized for purposes of being a re-
2 newal community business); and

3 “(iii) during substantially all of the
4 taxpayer’s holding period for such stock,
5 such corporation qualified as a renewal
6 community business.

7 “(B) REDEMPTIONS.—A rule similar to
8 the rule of section 1202(c)(3) shall apply for
9 purposes of this paragraph.

10 “(3) QUALIFIED COMMUNITY PARTNERSHIP IN-
11 TEREST.—The term ‘qualified community partner-
12 ship interest’ means any capital or profits interest in
13 a domestic partnership if—

14 “(A) such interest is acquired by the tax-
15 payer after December 31, 2000, and before
16 January 1, 2008;

17 “(B) as of the time such interest was ac-
18 quired, such partnership was a renewal commu-
19 nity business (or, in the case of a new partner-
20 ship, such partnership was being organized for
21 purposes of being a renewal community busi-
22 ness); and

23 “(C) during substantially all of the
24 taxpayer’s holding period for such interest,

1 such partnership qualified as a renewal commu-
2 nity business.

3 A rule similar to the rule of paragraph (2)(B) shall
4 apply for purposes of this paragraph.

5 “(4) QUALIFIED COMMUNITY BUSINESS PROP-
6 PERTY.—

7 “(A) IN GENERAL.—The term ‘qualified
8 community business property’ means tangible
9 property if—

10 “(i) such property was acquired by
11 the taxpayer by purchase (as defined in
12 section 179(d)(2)) after December 31,
13 2000, and before January 1, 2008;

14 “(ii) the original use of such property
15 in the renewal community commences with
16 the taxpayer; and

17 “(iii) during substantially all of the
18 taxpayer’s holding period for such prop-
19 erty, substantially all of the use of such
20 property was in a renewal community busi-
21 ness of the taxpayer.

22 “(B) SPECIAL RULE FOR SUBSTANTIAL IM-
23 PROVEMENTS.—The requirements of clauses (i)
24 and (ii) of subparagraph (A) shall be treated as
25 satisfied with respect to—

1 “(i) property which is substantially
2 improved (within the meaning of section
3 1400B(b)(4)(B)(ii)) by the taxpayer before
4 January 1, 2008; and

5 “(ii) any land on which such property
6 is located.

7 “(c) CERTAIN RULES TO APPLY.—Rules similar to
8 the rules of paragraphs (5), (6), and (7) of subsection (b),
9 and subsections (e), (f), and (g), of section 1400B shall
10 apply for purposes of this section.

11 **“SEC. 1400G. RENEWAL COMMUNITY BUSINESS DEFINED.**

12 “For purposes of this part, the term ‘renewal commu-
13 nity business’ means any entity or proprietorship which
14 would be a qualified business entity or qualified propri-
15 etorship under section 1397B if—

16 “(1) references to renewal communities were
17 substituted for references to empowerment zones in
18 such section; and

19 “(2) ‘80 percent’ were substituted for ‘50 per-
20 cent’ in subsections (b)(2) and (c)(1) of such sec-
21 tion.

22 **“PART III—FAMILY DEVELOPMENT ACCOUNTS**

 “Sec. 1400H. Family development accounts for renewal commu-
 nity EITC recipients.

 “Sec. 1400I. Designation of earned income tax credit payments
 for deposit to family development account.

1 **“SEC. 1400H. FAMILY DEVELOPMENT ACCOUNTS FOR RE-**
2 **NEWAL COMMUNITY EITC RECIPIENTS.**

3 “(a) ALLOWANCE OF DEDUCTION.—

4 “(1) IN GENERAL.—There shall be allowed as a
5 deduction—

6 “(A) in the case of a qualified individual,
7 the amount paid in cash for the taxable year by
8 such individual to any family development ac-
9 count for such individual’s benefit; and

10 “(B) in the case of any person other than
11 a qualified individual, the amount paid in cash
12 for the taxable year by such person to any fam-
13 ily development account for the benefit of a
14 qualified individual but only if the amount so
15 paid is designated for purposes of this section
16 by such individual.

17 “(2) LIMITATION.—

18 “(A) IN GENERAL.—The amount allowable
19 as a deduction to any individual for any taxable
20 year by reason of paragraph (1)(A) shall not
21 exceed the lesser of—

22 “(i) \$2,000, or

23 “(ii) an amount equal to the com-
24 pensation includible in the individual’s
25 gross income for such taxable year.

1 “(B) PERSONS DONATING TO FAMILY DE-
2 VELOPMENT ACCOUNTS OF OTHERS.—The
3 amount which may be designated under para-
4 graph (1)(B) by any qualified individual for any
5 taxable year of such individual shall not exceed
6 \$1,000.

7 “(3) SPECIAL RULES FOR CERTAIN MARRIED
8 INDIVIDUALS.—Rules similar to rules of section
9 219(c) shall apply to the limitation in paragraph
10 (2)(A).

11 “(4) COORDINATION WITH IRAS.—No deduction
12 shall be allowed under this section for any taxable
13 year to any person by reason of a payment to an ac-
14 count for the benefit of a qualified individual if any
15 amount is paid for such taxable year into an indi-
16 vidual retirement account (including a Roth IRA)
17 for the benefit of such individual.

18 “(5) ROLLOVERS.—No deduction shall be al-
19 lowed under this section with respect to any rollover
20 contribution.

21 “(b) TAX TREATMENT OF DISTRIBUTIONS.—

22 “(1) INCLUSION OF AMOUNTS IN GROSS IN-
23 COME.—Except as otherwise provided in this sub-
24 section, any amount paid or distributed out of a
25 family development account shall be included in

1 gross income by the payee or distributee, as the case
2 may be.

3 “(2) EXCLUSION OF QUALIFIED FAMILY DEVELOPMENT DISTRIBUTIONS.—Paragraph (1) shall not
4 apply to any qualified family development distribu-
5 tion.
6 tion.

7 “(c) QUALIFIED FAMILY DEVELOPMENT DISTRIBUTION.—For purposes of this section—
8

9 “(1) IN GENERAL.—The term ‘qualified family
10 development distribution’ means any amount paid or
11 distributed out of a family development account
12 which would otherwise be includible in gross income,
13 to the extent that such payment or distribution is
14 used exclusively to pay qualified family development
15 expenses for the holder of the account or the spouse
16 or dependent (as defined in section 152) of such
17 holder.

18 “(2) QUALIFIED FAMILY DEVELOPMENT EXPENSES.—The term ‘qualified family development
19 expenses’ means any of the following:
20

21 “(A) Qualified higher education expenses.

22 “(B) Qualified first-time homebuyer costs.

23 “(C) Qualified business capitalization
24 costs.

25 “(D) Qualified medical expenses.

1 “(E) Qualified rollovers.

2 “(3) QUALIFIED HIGHER EDUCATION EX-
3 PENSES.—

4 “(A) IN GENERAL.—The term ‘qualified
5 higher education expenses’ has the meaning
6 given such term by section 72(t)(7), determined
7 by treating postsecondary vocational edu-
8 cational schools as eligible educational institu-
9 tions.

10 “(B) POSTSECONDARY VOCATIONAL EDU-
11 CATION SCHOOL.—The term ‘postsecondary vo-
12 cational educational school’ means an area vo-
13 cational education school (as defined in sub-
14 paragraph (C) or (D) of section 521(4) of the
15 Carl D. Perkins Vocational and Applied Tech-
16 nology Education Act (20 U.S.C. 2471(4)))
17 which is in any State (as defined in section
18 521(33) of such Act), as such sections are in
19 effect on the date of the enactment of this sec-
20 tion.

21 “(C) COORDINATION WITH OTHER BENE-
22 FITS.—The amount of qualified higher edu-
23 cation expenses for any taxable year shall be re-
24 duced as provided in section 25A(g)(2).

1 “(4) QUALIFIED FIRST-TIME HOMEBUYER
2 COSTS.—The term ‘qualified first-time homebuyer
3 costs’ means qualified acquisition costs (as defined
4 in section 72(t)(8) without regard to subparagraph
5 (B) thereof) with respect to a principal residence
6 (within the meaning of section 121) for a qualified
7 first-time homebuyer (as defined in section
8 72(t)(8)).

9 “(5) QUALIFIED BUSINESS CAPITALIZATION
10 COSTS.—

11 “(A) IN GENERAL.—The term ‘qualified
12 business capitalization costs’ means qualified
13 expenditures for the capitalization of a qualified
14 business pursuant to a qualified plan.

15 “(B) QUALIFIED EXPENDITURES.—The
16 term ‘qualified expenditures’ means expendi-
17 tures included in a qualified plan, including
18 capital, plant, equipment, working capital, and
19 inventory expenses.

20 “(C) QUALIFIED BUSINESS.—The term
21 ‘qualified business’ means any trade or business
22 other than any trade or business—

23 “(i) which consists of the operation of
24 any facility described in section
25 144(c)(6)(B), or

1 “(ii) which contravenes any law.

2 “(D) QUALIFIED PLAN.—The term ‘quali-
3 fied plan’ means a business plan which meets
4 such requirements as the Secretary may specify.

5 “(6) QUALIFIED MEDICAL EXPENSES.—The
6 term ‘qualified medical expenses’ means any amount
7 paid during the taxable year, not compensated for by
8 insurance or otherwise, for medical care (as defined
9 in section 213(d)) of the taxpayer, his spouse, or his
10 dependent (as defined in section 152).

11 “(7) QUALIFIED ROLLOVERS.—The term ‘quali-
12 fied rollover’ means any amount paid from a family
13 development account of a taxpayer into another such
14 account established for the benefit of—

15 “(A) such taxpayer, or

16 “(B) any qualified individual who is—

17 “(i) the spouse of such taxpayer, or

18 “(ii) any dependent (as defined in sec-
19 tion 152) of the taxpayer.

20 Rules similar to the rules of section 408(d)(3) shall
21 apply for purposes of this paragraph.

22 “(d) TAX TREATMENT OF ACCOUNTS.—

23 “(1) IN GENERAL.—Any family development ac-
24 count is exempt from taxation under this subtitle
25 unless such account has ceased to be a family devel-

1 opment account by reason of paragraph (2). Not-
2 withstanding the preceding sentence, any such ac-
3 count is subject to the taxes imposed by section 511
4 (relating to imposition of tax on unrelated business
5 income of charitable, etc., organizations). Notwith-
6 standing any other provision of this title (including
7 chapters 11 and 12), the basis of any person in such
8 an account is zero.

9 “(2) LOSS OF EXEMPTION IN CASE OF PROHIB-
10 ITED TRANSACTIONS.—For purposes of this section,
11 rules similar to the rules of section 408(e) shall
12 apply.

13 “(3) OTHER RULES TO APPLY.—Rules similar
14 to the rules of paragraphs (4), (5), and (6) of sec-
15 tion 408(d) shall apply for purposes of this section.

16 “(e) FAMILY DEVELOPMENT ACCOUNT.—For pur-
17 poses of this title, the term ‘family development account’
18 means a trust created or organized in the United States
19 for the exclusive benefit of a qualified individual or his
20 beneficiaries, but only if the written governing instrument
21 creating the trust meets the following requirements:

22 “(1) Except in the case of a qualified rollover
23 (as defined in subsection (c)(7))—

24 “(A) no contribution will be accepted un-
25 less it is in cash; and

1 “(B) contributions will not be accepted for
2 the taxable year in excess of \$3,000.

3 “(2) The requirements of paragraphs (2)
4 through (6) of section 408(a) are met.

5 “(f) QUALIFIED INDIVIDUAL.—For purposes of this
6 section, the term ‘qualified individual’ means, for any tax-
7 able year, an individual—

8 “(1) who is a bona fide resident of a renewal
9 community throughout the taxable year; and

10 “(2) to whom a credit was allowed under sec-
11 tion 32 for the preceding taxable year.

12 “(g) OTHER DEFINITIONS AND SPECIAL RULES.—

13 “(1) COMPENSATION.—The term ‘compensa-
14 tion’ has the meaning given such term by section
15 219(f)(1).

16 “(2) MARRIED INDIVIDUALS.—The maximum
17 deduction under subsection (a) shall be computed
18 separately for each individual, and this section shall
19 be applied without regard to any community prop-
20 erty laws.

21 “(3) TIME WHEN CONTRIBUTIONS DEEMED
22 MADE.—For purposes of this section, a taxpayer
23 shall be deemed to have made a contribution to a
24 family development account on the last day of the
25 preceding taxable year if the contribution is made on

1 account of such taxable year and is made not later
2 than the time prescribed by law for filing the return
3 for such taxable year (not including extensions
4 thereof).

5 “(4) EMPLOYER PAYMENTS; CUSTODIAL AC-
6 COUNTS.—Rules similar to the rules of sections
7 219(f)(5) and 408(h) shall apply for purposes of
8 this section.

9 “(5) REPORTS.—The trustee of a family devel-
10 opment account shall make such reports regarding
11 such account to the Secretary and to the individual
12 for whom the account is maintained with respect to
13 contributions (and the years to which they relate),
14 distributions, and such other matters as the Sec-
15 retary may require under regulations. The reports
16 required by this paragraph—

17 “(A) shall be filed at such time and in
18 such manner as the Secretary prescribes in
19 such regulations; and

20 “(B) shall be furnished to individuals—

21 “(i) not later than January 31 of the
22 calendar year following the calendar year
23 to which such reports relate; and

24 “(ii) in such manner as the Secretary
25 prescribes in such regulations.

1 “(6) INVESTMENT IN COLLECTIBLES TREATED
2 AS DISTRIBUTIONS.—Rules similar to the rules of
3 section 408(m) shall apply for purposes of this sec-
4 tion.

5 “(h) PENALTY FOR DISTRIBUTIONS NOT USED FOR
6 QUALIFIED FAMILY DEVELOPMENT EXPENSES.—

7 “(1) IN GENERAL.—If any amount is distrib-
8 uted from a family development account and is not
9 used exclusively to pay qualified family development
10 expenses for the holder of the account or the spouse
11 or dependent (as defined in section 152) of such
12 holder, the tax imposed by this chapter for the tax-
13 able year of such distribution shall be increased by
14 10 percent of the portion of such amount which is
15 includible in gross income.

16 “(2) EXCEPTION FOR CERTAIN DISTRIBUTI-
17 TIONS.—Paragraph (1) shall not apply to distribu-
18 tions which are—

19 “(A) made on or after the date on which
20 the account holder attains age 59½,

21 “(B) made to a beneficiary (or the estate
22 of the account holder) on or after the death of
23 the account holder, or

1 “(2) at any other time (after the time of filing
2 the return of the tax imposed by this chapter for
3 such taxable year) specified in regulations prescribed
4 by the Secretary.

5 Such designation shall be made in such manner as the
6 Secretary prescribes by regulations.

7 “(c) PORTION ATTRIBUTABLE TO EARNED INCOME
8 TAX CREDIT.—For purposes of subsection (a), an over-
9 payment for any taxable year shall be treated as attrib-
10 utable to the earned income tax credit to the extent that
11 such overpayment does not exceed the credit allowed to
12 the taxpayer under section 32 for such taxable year.

13 “(d) OVERPAYMENTS TREATED AS REFUNDED.—
14 For purposes of this title, any portion of an overpayment
15 of tax designated under subsection (a) shall be treated as
16 being refunded to the taxpayer as of the last date pre-
17 scribed for filing the return of tax imposed by this chapter
18 (determined without regard to extensions) or, if later, the
19 date the return is filed.

20 “(e) TERMINATION.—This section shall not apply to
21 any taxable year beginning after December 31, 2007.

22 **“PART IV—ADDITIONAL INCENTIVES**

 “Sec. 1400K. Commercial revitalization deduction.

 “Sec. 1400L. Increase in expensing under section 179.

1 **“SEC. 1400K. COMMERCIAL REVITALIZATION DEDUCTION.**

2 “(a) GENERAL RULE.—At the election of the tax-
3 payer, either—

4 “(1) one-half of any qualified revitalization ex-
5 penditures chargeable to capital account with respect
6 to any qualified revitalization building shall be allow-
7 able as a deduction for the taxable year in which the
8 building is placed in service, or

9 “(2) a deduction for all such expenditures shall
10 be allowable ratably over the 120-month period be-
11 ginning with the month in which the building is
12 placed in service.

13 The deduction provided by this section with respect to
14 such expenditure shall be in lieu of any depreciation de-
15 duction otherwise allowable on account of such expendi-
16 ture.

17 “(b) QUALIFIED REVITALIZATION BUILDINGS AND
18 EXPENDITURES.—For purposes of this section—

19 “(1) QUALIFIED REVITALIZATION BUILDING.—
20 The term ‘qualified revitalization building’ means
21 any building (and its structural components) if—

22 “(A) such building is located in a renewal
23 community and is placed in service after De-
24 cember 31, 2000;

1 “(B) a commercial revitalization deduction
2 amount is allocated to the building under sub-
3 section (d); and

4 “(C) depreciation (or amortization in lieu
5 of depreciation) is allowable with respect to the
6 building (without regard to this section).

7 “(2) QUALIFIED REVITALIZATION EXPENDI-
8 TURE.—

9 “(A) IN GENERAL.—The term ‘qualified
10 revitalization expenditure’ means any amount
11 properly chargeable to capital account—

12 “(i) for property for which deprecia-
13 tion is allowable under section 168 (with-
14 out regard to this section) and which is—

15 “(I) nonresidential real property;

16 or

17 “(II) an addition or improvement
18 to property described in subclause (I);

19 “(ii) in connection with the construc-
20 tion of any qualified revitalization building
21 which was not previously placed in service
22 or in connection with the substantial reha-
23 bilitation (within the meaning of section
24 47(c)(1)(C)) of a building which was

1 placed in service before the beginning of
2 such rehabilitation; and

3 “(iii) for land (including land which is
4 functionally related to such property and
5 subordinate thereto).

6 “(B) DOLLAR LIMITATION.—The aggre-
7 gate amount which may be treated as qualified
8 revitalization expenditures with respect to any
9 qualified revitalization building for any taxable
10 year shall not exceed the excess of—

11 “(i) \$10,000,000, reduced by

12 “(ii) any such expenditures with re-
13 spect to the building taken into account by
14 the taxpayer or any predecessor in deter-
15 mining the amount of the deduction under
16 this section for all preceding taxable years.

17 “(C) CERTAIN EXPENDITURES NOT IN-
18 CLUDED.—The term ‘qualified revitalization ex-
19 penditure’ does not include—

20 “(i) ACQUISITION COSTS.—The costs
21 of acquiring any building or interest there-
22 in and any land in connection with such
23 building to the extent that such costs ex-
24 ceed 30 percent of the qualified revitaliza-

1 tion expenditures determined without re-
2 gard to this clause.

3 “(ii) CREDITS.—Any expenditure
4 which the taxpayer may take into account
5 in computing any credit allowable under
6 this title unless the taxpayer elects to take
7 the expenditure into account only for pur-
8 poses of this section.

9 “(c) WHEN EXPENDITURES TAKEN INTO AC-
10 COUNT.—Qualified revitalization expenditures with re-
11 spect to any qualified revitalization building shall be taken
12 into account for the taxable year in which the qualified
13 revitalization building is placed in service. For purposes
14 of the preceding sentence, a substantial rehabilitation of
15 a building shall be treated as a separate building.

16 “(d) LIMITATION ON AGGREGATE DEDUCTIONS AL-
17 LOWABLE WITH RESPECT TO BUILDINGS LOCATED IN A
18 STATE.—

19 “(1) IN GENERAL.—The amount of the deduc-
20 tion determined under this section for any taxable
21 year with respect to any building shall not exceed
22 the commercial revitalization deduction amount (in
23 the case of an amount determined under subsection
24 (a)(2), the present value of such amount as deter-
25 mined under the rules of section 42(b)(2)(C) by sub-

1 stituting ‘100 percent’ for ‘72 percent’ in clause (ii)
2 thereof) allocated to such building under this sub-
3 section by the commercial revitalization agency.
4 Such allocation shall be made at the same time and
5 in the same manner as under paragraphs (1) and
6 (7) of section 42(h).

7 “(2) COMMERCIAL REVITALIZATION DEDUCTION
8 AMOUNT FOR AGENCIES.—

9 “(A) IN GENERAL.—The aggregate com-
10 mercial revitalization deduction amount which a
11 commercial revitalization agency may allocate
12 for any calendar year is the amount of the
13 State commercial revitalization deduction ceil-
14 ing determined under this paragraph for such
15 calendar year for such agency.

16 “(B) STATE COMMERCIAL REVITALIZATION
17 DEDUCTION CEILING.—The State commercial
18 revitalization deduction ceiling applicable to any
19 State—

20 “(i) for each calendar year after 2000
21 and before 2008 is \$6,000,000 for each re-
22 newal community in the State; and

23 “(ii) zero for each calendar year
24 thereafter.

1 “(C) COMMERCIAL REVITALIZATION AGEN-
2 CY.—For purposes of this section, the term
3 ‘commercial revitalization agency’ means any
4 agency authorized by a State to carry out this
5 section.

6 “(e) RESPONSIBILITIES OF COMMERCIAL REVITAL-
7 IZATION AGENCIES.—

8 “(1) PLANS FOR ALLOCATION.—Notwith-
9 standing any other provision of this section, the
10 commercial revitalization deduction amount with re-
11 spect to any building shall be zero unless—

12 “(A) such amount was allocated pursuant
13 to a qualified allocation plan of the commercial
14 revitalization agency which is approved (in ac-
15 cordance with rules similar to the rules of sec-
16 tion 147(f)(2) (other than subparagraph (B)(ii)
17 thereof)) by the governmental unit of which
18 such agency is a part; and

19 “(B) such agency notifies the chief execu-
20 tive officer (or its equivalent) of the local juris-
21 diction within which the building is located of
22 such allocation and provides such individual a
23 reasonable opportunity to comment on the allo-
24 cation.

1 “(2) QUALIFIED ALLOCATION PLAN.—For pur-
2 poses of this subsection, the term ‘qualified alloca-
3 tion plan’ means any plan—

4 “(A) which sets forth selection criteria to
5 be used to determine priorities of the commer-
6 cial revitalization agency which are appropriate
7 to local conditions;

8 “(B) which considers—

9 “(i) the degree to which a project con-
10 tributes to the implementation of a stra-
11 tegic plan that is devised for a renewal
12 community through a citizen participation
13 process;

14 “(ii) the amount of any increase in
15 permanent, full-time employment by reason
16 of any project; and

17 “(iii) the active involvement of resi-
18 dents and nonprofit groups within the re-
19 newal community; and

20 “(C) which provides a procedure that the
21 agency (or its agent) will follow in monitoring
22 compliance with this section.

23 “(f) REGULATIONS.—For purposes of this section,
24 the Secretary shall, by regulations, provide for the applica-

1 tion of rules similar to the rules of section 49 and sub-
2 sections (a) and (b) of section 50.

3 “(g) TERMINATION.—This section shall not apply to
4 any building placed in service after December 31, 2007.

5 **“SEC. 1400L. INCREASE IN EXPENSING UNDER SECTION 179.**

6 “(a) GENERAL RULE.—In the case of a renewal com-
7 munity business (as defined in section 1400G), for pur-
8 poses of section 179—

9 “(1) the limitation under section 179(b)(1)
10 shall be increased by the lesser of—

11 “(A) \$35,000; or

12 “(B) the cost of section 179 property
13 which is qualified renewal property placed in
14 service during the taxable year; and

15 “(2) the amount taken into account under sec-
16 tion 179(b)(2) with respect to any section 179 prop-
17 erty which is qualified renewal property shall be 50
18 percent of the cost thereof.

19 “(b) RECAPTURE.—Rules similar to the rules under
20 section 179(d)(10) shall apply with respect to any quali-
21 fied renewal property which ceases to be used in a renewal
22 community by a renewal community business.

23 “(c) QUALIFIED RENEWAL PROPERTY.—For pur-
24 poses of this section—

1 “(1) IN GENERAL.—The term ‘qualified renewal
2 property’ means any property to which section 168
3 applies (or would apply but for section 179) if—

4 “(A) such property was acquired by the
5 taxpayer by purchase (as defined in section
6 179(d)(2)) after December 31, 2000, and be-
7 fore January 1, 2008; and

8 “(B) such property would be qualified zone
9 property (as defined in section 1397C) if ref-
10 erences to renewal communities were sub-
11 stituted for references to empowerment zones in
12 section 1397C.

13 “(2) CERTAIN RULES TO APPLY.—The rules of
14 subsections (a)(2) and (b) of section 1397C shall
15 apply for purposes of this section.”.

16 **SEC. 403. EXTENSION OF EXPENSING OF ENVIRONMENTAL**
17 **REMEDIAION COSTS TO RENEWAL COMMU-**
18 **NITIES.**

19 (a) EXTENSION.—Paragraph (2) of section 198(c)
20 (defining targeted area) is amended by redesignating sub-
21 paragraph (C) as subparagraph (D) and by inserting after
22 subparagraph (B) the following new subparagraph:

23 “(C) RENEWAL COMMUNITIES IN-
24 CLUDED.—Except as provided in subparagraph
25 (B), such term shall include a renewal commu-

1 “(II) 30 percent of the qualified
2 second-year wages for such year;

3 “(ii) subsection (b)(3) shall be applied
4 by substituting ‘\$10,000’ for ‘\$6,000’;

5 “(iii) paragraph (4)(B) shall be ap-
6 plied by substituting for the date contained
7 therein the last day for which the designa-
8 tion under section 1400E of the renewal
9 community referred to in subparagraph
10 (B)(i) is in effect; and

11 “(iv) rules similar to the rules of sec-
12 tion 51A(b)(5)(C) shall apply.

13 “(B) QUALIFIED FIRST- AND SECOND-
14 YEAR WAGES.—For purposes of subparagraph
15 (A)—

16 “(i) IN GENERAL.—The term ‘quali-
17 fied wages’ means, with respect to each 1-
18 year period referred to in clause (ii) or
19 (iii), as the case may be, the wages paid or
20 incurred by the employer during the tax-
21 able year to any individual but only if—

22 “(I) the employer is engaged in a
23 trade or business in a renewal com-
24 munity throughout such 1-year period;

1 “(II) the principal place of abode
2 of such individual is in such renewal
3 community throughout such 1-year
4 period; and

5 “(III) substantially all of the
6 services which such individual per-
7 forms for the employer during such 1-
8 year period are performed in such re-
9 newal community.

10 “(ii) QUALIFIED FIRST-YEAR
11 WAGES.—The term ‘qualified first-year
12 wages’ means, with respect to any indi-
13 vidual, qualified wages attributable to serv-
14 ice rendered during the 1-year period be-
15 ginning with the day the individual begins
16 work for the employer.

17 “(iii) QUALIFIED SECOND-YEAR
18 WAGES.—The term ‘qualified second-year
19 wages’ means, with respect to any indi-
20 vidual, qualified wages attributable to serv-
21 ice rendered during the 1-year period be-
22 ginning on the day after the last day of the
23 1-year period with respect to such indi-
24 vidual determined under clause (ii).”.

1 (b) CONGRUENT TREATMENT OF RENEWAL COMMU-
2 NITIES AND ENTERPRISE ZONES FOR PURPOSES OF
3 YOUTH RESIDENCE REQUIREMENTS.—

4 (1) HIGH-RISK YOUTH.—Subparagraphs (A)(ii)
5 and (B) of section 51(d)(5) are each amended by
6 striking “empowerment zone or enterprise commu-
7 nity” and inserting “empowerment zone, enterprise
8 community, or renewal community”.

9 (2) QUALIFIED SUMMER YOUTH EMPLOYEE.—
10 Clause (iv) of section 51(d)(7)(A) is amended by
11 striking “empowerment zone or enterprise commu-
12 nity” and inserting “empowerment zone, enterprise
13 community, or renewal community”.

14 (3) HEADINGS.—Paragraphs (5)(B) and (7)(C)
15 of section 51(d) are each amended by inserting “OR
16 COMMUNITY” in the heading after “ZONE”.

17 (4) EFFECTIVE DATE.—The amendments made
18 by this subsection shall apply to individuals who
19 begin work for the employer after December 31,
20 2000.

21 **SEC. 405. CONFORMING AND CLERICAL AMENDMENTS.**

22 (a) DEDUCTION FOR CONTRIBUTIONS TO FAMILY
23 DEVELOPMENT ACCOUNTS ALLOWABLE WHETHER OR
24 NOT TAXPAYER ITEMIZES.—Subsection (a) of section 62
25 (relating to adjusted gross income defined) is amended by

1 inserting after paragraph (19) the following new para-
2 graph:

3 “(20) FAMILY DEVELOPMENT ACCOUNTS.—The
4 deduction allowed by section 1400H(a)(1).”.

5 (b) TAX ON EXCESS CONTRIBUTIONS.—

6 (1) TAX IMPOSED.—Subsection (a) of section
7 4973 is amended by striking “or” at the end of
8 paragraph (3), adding “or” at the end of paragraph
9 (4), and inserting after paragraph (4) the following
10 new paragraph:

11 “(5) a family development account (within the
12 meaning of section 1400H(e)),”.

13 (2) EXCESS CONTRIBUTIONS.—Section 4973 is
14 amended by adding at the end the following new
15 subsection:

16 “(g) FAMILY DEVELOPMENT ACCOUNTS.—For pur-
17 poses of this section, in the case of family development
18 accounts, the term ‘excess contributions’ means the sum
19 of—

20 “(1) the excess (if any) of—

21 “(A) the amount contributed for the tax-
22 able year to the accounts (other than a quali-
23 fied rollover, as defined in section
24 1400H(c)(7)), over

1 “(B) the amount allowable as a deduction
2 under section 1400H for such contributions;
3 and

4 “(2) the amount determined under this sub-
5 section for the preceding taxable year reduced by the
6 sum of—

7 “(A) the distributions out of the accounts
8 for the taxable year which were included in the
9 gross income of the payee under section
10 1400H(b)(1);

11 “(B) the distributions out of the accounts
12 for the taxable year to which rules similar to
13 the rules of section 408(d)(5) apply by reason
14 of section 1400H(d)(3); and

15 “(C) the excess (if any) of the maximum
16 amount allowable as a deduction under section
17 1400H for the taxable year over the amount
18 contributed to the account for the taxable year.

19 For purposes of this subsection, any contribution which
20 is distributed from the family development account in a
21 distribution to which rules similar to the rules of section
22 408(d)(4) apply by reason of section 1400H(d)(3) shall
23 be treated as an amount not contributed.”.

24 (c) TAX ON PROHIBITED TRANSACTIONS.—Section
25 4975 is amended—

1 (1) by adding at the end of subsection (c) the
2 following new paragraph:

3 “(6) SPECIAL RULE FOR FAMILY DEVELOP-
4 MENT ACCOUNTS.—An individual for whose benefit a
5 family development account is established and any
6 contributor to such account shall be exempt from the
7 tax imposed by this section with respect to any
8 transaction concerning such account (which would
9 otherwise be taxable under this section) if, with re-
10 spect to such transaction, the account ceases to be
11 a family development account by reason of the appli-
12 cation of section 1400H(d)(2) to such account.”;
13 and

14 (2) in subsection (e)(1), by striking “or” at the
15 end of subparagraph (E), by redesignating subpara-
16 graph (F) as subparagraph (G), and by inserting
17 after subparagraph (E) the following new subpara-
18 graph:

19 “(F) a family development account de-
20 scribed in section 1400H(e), or”.

21 (d) INFORMATION RELATING TO CERTAIN TRUSTS
22 AND ANNUITY PLANS.—Subsection (c) of section 6047 is
23 amended—

24 (1) by inserting “or section 1400H” after “sec-
25 tion 219”; and

1 (2) by inserting “, of any family development
2 account described in section 1400H(e),”, after “sec-
3 tion 408(a)”.

4 (e) INSPECTION OF APPLICATIONS FOR TAX EXEMP-
5 TION.—Clause (i) of section 6104(a)(1)(B) is amended by
6 inserting “a family development account described in sec-
7 tion 1400H(e),” after “section 408(a),”.

8 (f) FAILURE TO PROVIDE REPORTS ON FAMILY DE-
9 VELOPMENT ACCOUNTS.—Paragraph (2) of section
10 6693(a) is amended by striking “and” at the end of sub-
11 paragraph (C), by striking the period and inserting “,
12 and” at the end of subparagraph (D), and by adding at
13 the end the following new subparagraph:

14 “(E) section 1400H(g)(6) (relating to fam-
15 ily development accounts).”.

16 (g) CONFORMING AMENDMENTS REGARDING COM-
17 MERCIAL REVITALIZATION DEDUCTION.—

18 (1) Section 172 is amended by redesignating
19 subsection (j) as subsection (k) and by inserting
20 after subsection (i) the following new subsection:

21 “(j) NO CARRYBACK OF SECTION 1400K DEDUCTION
22 BEFORE DATE OF THE ENACTMENT.—No portion of the
23 net operating loss for any taxable year which is attrib-
24 utable to any commercial revitalization deduction deter-
25 mined under section 1400K may be carried back to a tax-

1 able year ending before the date of the enactment of sec-
2 tion 1400K.”.

3 (2) Subparagraph (B) of section 48(a)(2) is
4 amended by inserting “or commercial revitalization”
5 after “rehabilitation” each place it appears in the
6 text and heading.

7 (3) Subparagraph (C) of section 469(i)(3) is
8 amended—

9 (A) by inserting “or section 1400K” after
10 “section 42”; and

11 (B) by inserting “AND COMMERCIAL REVI-
12 TALIZATION DEDUCTION” after “CREDIT” in
13 the heading.

14 (h) CLERICAL AMENDMENTS.—The table of sub-
15 chapters for chapter 1 is amended by adding at the end
16 the following new item:

“Subchapter X. Renewal Communities.”.

17 **Subtitle B—Timber Incentives**

18 **SEC. 411. TEMPORARY SUSPENSION OF MAXIMUM AMOUNT** 19 **OF AMORTIZABLE REFORESTATION EXPENDI-** 20 **TURES.**

21 (a) INCREASE IN DOLLAR LIMITATION.—Paragraph
22 (1) of section 194(b) (relating to amortization of reforest-
23 ation expenditures) is amended by striking “\$10,000
24 (\$5,000” and inserting “\$25,000 (\$12,500”.

1 (b) TEMPORARY SUSPENSION OF INCREASED DOL-
2 LAR LIMITATION.—Subsection (b) of section 194(b) (re-
3 lating to amortization of reforestation expenditures) is
4 amended by adding at the end the following new para-
5 graph:

6 “(5) SUSPENSION OF DOLLAR LIMITATION.—
7 Paragraph (1) shall not apply to taxable years be-
8 ginning after December 31, 2000, and before Janu-
9 ary 1, 2004.

10 (c) CONFORMING AMENDMENT.—Paragraph (1) of
11 section 48(b) is amended by striking “section 194(b)(1)”
12 and inserting “section 194(b)(1) and without regard to
13 section 194(b)(5)”.

14 (d) EFFECTIVE DATE.—The amendments made by
15 this section shall apply to taxable years beginning after
16 December 31, 2000.

17 **TITLE V—REAL ESTATE**
18 **PROVISIONS**

19 **Subtitle A—Improvements in Low-**
20 **Income Housing Credit**

21 **SEC. 501. MODIFICATION OF STATE CEILING ON LOW-IN-**
22 **COME HOUSING CREDIT.**

23 (a) IN GENERAL.—Clauses (i) and (ii) of section
24 42(h)(3)(C) (relating to State housing credit ceiling) are
25 amended to read as follows:

1 “(i) the unused State housing credit
 2 ceiling (if any) of such State for the pre-
 3 ceding calendar year,

4 “(ii) the greater of—

5 “(I) the applicable amount under
 6 subparagraph (H) multiplied by the
 7 State population, or

8 “(II) \$2,000,000.”.

9 (b) APPLICABLE AMOUNT.—Paragraph (3) of section
 10 42(h) (relating to housing credit dollar amount for agen-
 11 cies) is amended by adding at the end the following new
 12 subparagraph:

13 “(H) APPLICABLE AMOUNT OF STATE
 14 CEILING.—For purposes of subparagraph
 15 (C)(ii), the applicable amount shall be deter-
 16 mined under the following table:

For calendar year:	The applicable amount is:
2001	\$1.35
2002	1.45
2003	1.55
2004 and thereafter	1.65.”.

17 (c) ADJUSTMENT OF STATE CEILING FOR INCREASES
 18 IN COST-OF-LIVING.—Paragraph (3) of section 42(h) (re-
 19 lating to housing credit dollar amount for agencies), as
 20 amended by subsection (e), is amended by adding at the
 21 end the following new subparagraph:

22 “(I) COST-OF-LIVING ADJUSTMENT.—

1 “(i) IN GENERAL.—In the case of a
2 calendar year after 2004, the \$2,000,000
3 in subparagraph (C) and the \$1.65 amount
4 in subparagraph (H) shall each be in-
5 creased by an amount equal to—

6 “(I) such dollar amount, multi-
7 plied by

8 “(II) the cost-of-living adjust-
9 ment determined under section
10 1(f)(3) for such calendar year by sub-
11 stituting ‘calendar year 2003’ for ‘cal-
12 endar year 1992’ in subparagraph (B)
13 thereof.

14 “(ii) ROUNDING.—

15 “(I) In the case of the amount in
16 subparagraph (C), any increase under
17 clause (i) which is not a multiple of
18 \$5,000 shall be rounded to the next
19 lowest multiple of \$5,000.

20 “(II) In the case of the amount
21 in subparagraph (H), any increase
22 under clause (i) which is not a mul-
23 tiple of 5 cents shall be rounded to
24 the next lowest multiple of 5 cents.”.

25 (d) CONFORMING AMENDMENTS.—

1 (1) Section 42(h)(3)(C), as amended by sub-
2 section (a), is amended—

3 (A) by striking “clause (ii)” in the matter
4 following clause (iv) and inserting “clause (i)”,
5 and

6 (B) by striking “clauses (i)” in the matter
7 following clause (iv) and inserting “clauses
8 (ii)”.

9 (2) Section 42(h)(3)(D)(ii) is amended—

10 (A) by striking “subparagraph (C)(ii)” and
11 inserting “subparagraph (C)(i)”, and

12 (B) by striking “clauses (i)” in subclause
13 (II) and inserting “clauses (ii)”.

14 (e) EFFECTIVE DATE.—The amendments made by
15 this section shall apply to calendar years after 2000.

16 **SEC. 502. MODIFICATION OF CRITERIA FOR ALLOCATING**
17 **HOUSING CREDITS AMONG PROJECTS.**

18 (a) SELECTION CRITERIA.—Subparagraph (C) of
19 section 42(m)(1) (relating to certain selection criteria
20 must be used) is amended—

21 (1) by inserting “, including whether the project
22 includes the use of existing housing as part of a
23 community revitalization plan” before the comma at
24 the end of clause (iii), and

1 (2) by striking clauses (v), (vi), and (vii) and
2 inserting the following new clauses:

3 “(v) tenant populations with special
4 housing needs,

5 “(vi) public housing waiting lists,

6 “(vii) tenant populations of individ-
7 uals with children, and

8 “(viii) projects intended for eventual
9 tenant ownership.”.

10 (b) PREFERENCE FOR COMMUNITY REVITALIZATION

11 PROJECTS LOCATED IN QUALIFIED CENSUS TRACTS.—

12 Clause (ii) of section 42(m)(1)(B) is amended by striking
13 “and” at the end of subclause (I), by adding “and” at
14 the end of subclause (II), and by inserting after subclause
15 (II) the following new subclause:

16 “(III) projects which are located
17 in qualified census tracts (as defined
18 in subsection (d)(5)(C)) and the devel-
19 opment of which contributes to a con-
20 certed community revitalization
21 plan,”.

22 **SEC. 503. ADDITIONAL RESPONSIBILITIES OF HOUSING**
23 **CREDIT AGENCIES.**

24 (a) MARKET STUDY; PUBLIC DISCLOSURE OF RA-
25 TIONALE FOR NOT FOLLOWING CREDIT ALLOCATION

1 PRIORITIES.—Subparagraph (A) of section 42(m)(1) (re-
2 lating to responsibilities of housing credit agencies) is
3 amended by striking “and” at the end of clause (i), by
4 striking the period at the end of clause (ii) and inserting
5 a comma, and by adding at the end the following new
6 clauses:

7 “(iii) a comprehensive market study
8 of the housing needs of low-income individ-
9 uals in the area to be served by the project
10 is conducted before the credit allocation is
11 made and at the developer’s expense by a
12 disinterested party who is approved by
13 such agency, and

14 “(iv) a written explanation is available
15 to the general public for any allocation of
16 a housing credit dollar amount which is
17 not made in accordance with established
18 priorities and selection criteria of the hous-
19 ing credit agency.”.

20 (b) SITE VISITS.—Clause (iii) of section 42(m)(1)(B)
21 (relating to qualified allocation plan) is amended by insert-
22 ing before the period “and in monitoring for noncompli-
23 ance with habitability standards through regular site vis-
24 its”.

1 **SEC. 504. MODIFICATIONS TO RULES RELATING TO BASIS**
2 **OF BUILDING WHICH IS ELIGIBLE FOR CRED-**
3 **IT.**

4 (a) ADJUSTED BASIS TO INCLUDE PORTION OF CER-
5 TAIN BUILDINGS USED BY LOW-INCOME INDIVIDUALS
6 WHO ARE NOT TENANTS AND BY PROJECT EMPLOY-
7 EES.—Paragraph (4) of section 42(d) (relating to special
8 rules relating to determination of adjusted basis) is
9 amended—

10 (1) by striking “subparagraph (B)” in subpara-
11 graph (A) and inserting “subparagraphs (B) and
12 (C)”,

13 (2) by redesignating subparagraph (C) as sub-
14 paragraph (D), and

15 (3) by inserting after subparagraph (B) the fol-
16 lowing new subparagraph:

17 “(C) INCLUSION OF BASIS OF PROPERTY
18 USED TO PROVIDE SERVICES FOR CERTAIN
19 NONTENANTS.—

20 “(i) IN GENERAL.—The adjusted
21 basis of any building located in a qualified
22 census tract (as defined in paragraph
23 (5)(C)) shall be determined by taking into
24 account the adjusted basis of property (of
25 a character subject to the allowance for de-
26 preciation and not otherwise taken into ac-

1 count) used throughout the taxable year in
2 providing any community service facility.

3 “(ii) LIMITATION.—The increase in
4 the adjusted basis of any building which is
5 taken into account by reason of clause (i)
6 shall not exceed 10 percent of the eligible
7 basis of the qualified low-income housing
8 project of which it is a part. For purposes
9 of the preceding sentence, all community
10 service facilities which are part of the same
11 qualified low-income housing project shall
12 be treated as one facility.

13 “(iii) COMMUNITY SERVICE FACIL-
14 ITY.—For purposes of this subparagraph,
15 the term ‘community service facility’
16 means any facility designed to serve pri-
17 marily individuals whose income is 60 per-
18 cent or less of area median income (within
19 the meaning of subsection (g)(1)(B)).”.

20 (b) CERTAIN NATIVE AMERICAN HOUSING ASSIST-
21 ANCE DISREGARDED IN DETERMINING WHETHER BUILD-
22 ING IS FEDERALLY SUBSIDIZED FOR PURPOSES OF THE
23 LOW-INCOME HOUSING CREDIT.—Subparagraph (E) of
24 section 42(i)(2) (relating to determination of whether
25 building is federally subsidized) is amended—

1 (1) in clause (i), by inserting “or the Native
2 American Housing Assistance and Self-Determina-
3 tion Act of 1996 (25 U.S.C. 4101 et seq.) (as in ef-
4 fect on October 1, 1997)” after “this subpara-
5 graph)”, and

6 (2) in the subparagraph heading, by inserting
7 “OR NATIVE AMERICAN HOUSING ASSISTANCE” after
8 “HOME ASSISTANCE”.

9 **SEC. 505. OTHER MODIFICATIONS.**

10 (a) ALLOCATION OF CREDIT LIMIT TO CERTAIN
11 BUILDINGS.—

12 (1) The first sentence of section 42(h)(1)(E)(ii)
13 is amended by striking “(as of” the first place it ap-
14 pears and inserting “(as of the later of the date
15 which is 6 months after the date that the allocation
16 was made or”.

17 (2) The last sentence of section 42(h)(3)(C) is
18 amended by striking “project which” and inserting
19 “project which fails to meet the 10 percent test
20 under paragraph (1)(E)(ii) on a date after the close
21 of the calendar year in which the allocation was
22 made or which”.

23 (b) DETERMINATION OF WHETHER BUILDINGS ARE
24 LOCATED IN HIGH COST AREAS.—The first sentence of
25 section 42(d)(5)(C)(ii)(I) is amended—

1 (1) by inserting “either” before “in which 50
2 percent”, and

3 (2) by inserting before the period “or which has
4 a poverty rate of at least 25 percent”.

5 **SEC. 506. CARRYFORWARD RULES.**

6 (a) IN GENERAL.—Clause (ii) of section 42(h)(3)(D)
7 (relating to unused housing credit carryovers allocated
8 among certain States) is amended by striking “the excess”
9 and all that follows and inserting “the excess (if any) of—

10 “(I) the unused State housing
11 credit ceiling for the year preceding
12 such year, over

13 “(II) the aggregate housing cred-
14 it dollar amount allocated for such
15 year.”.

16 (b) CONFORMING AMENDMENT.—The second sen-
17 tence of section 42(h)(3)(C) (relating to State housing
18 credit ceiling) is amended by striking “clauses (i) and
19 (iii)” and inserting “clauses (i) through (iv)”.

20 **SEC. 507. EFFECTIVE DATE.**

21 Except as otherwise provided in this subtitle, the
22 amendments made by this subtitle shall apply to—

23 (1) housing credit dollar amounts allocated
24 after December 31, 2000, and

1 (2) buildings placed in service after such date
 2 to the extent paragraph (1) of section 42(h) of the
 3 Internal Revenue Code of 1986 does not apply to
 4 any building by reason of paragraph (4) thereof, but
 5 only with respect to bonds issued after such date.

6 **Subtitle B—Private Activity Bond**
 7 **Volume Cap**

8 **SEC. 511. ACCELERATION OF PHASE-IN OF INCREASE IN**
 9 **VOLUME CAP ON PRIVATE ACTIVITY BONDS.**

10 (a) IN GENERAL.—The table contained in section
 11 146(d)(2) (relating to per capita limit; aggregate limit) is
 12 amended to read as follows:

“Calendar Year	Per Capita Limit	Aggregate Limit
2001	\$55.00	\$165,000,000
2002	60.00	180,000,000
2003	65.00	195,000,000
2004, 2005, and 2006	70.00	210,000,000
2007 and thereafter	75.00	225,000,000.”.

13 (b) EFFECTIVE DATE.—The amendment made by
 14 this section shall apply to calendar years beginning after
 15 2000.

16 **Subtitle C—Exclusion From Gross**
 17 **Income for Certain Forgiven**
 18 **Mortgage Obligations**

19 **SEC. 512. EXCLUSION FROM GROSS INCOME FOR CERTAIN**
 20 **FORGIVEN MORTGAGE OBLIGATIONS.**

21 (a) IN GENERAL.—Paragraph (1) of section 108(a)
 22 (relating to exclusion from gross income) is amended by

1 striking “or” at the end of both subparagraphs (A) and
 2 (C), by striking the period at the end of subparagraph (D)
 3 and inserting “, or”, and by inserting after subparagraph
 4 (D) the following new subparagraph:

5 “(E) in the case of an individual, the in-
 6 debtedness discharged is qualified residential in-
 7 debtedness.”.

8 (b) QUALIFIED RESIDENTIAL INDEBTEDNESS
 9 SHORTFALL.—Section 108 (relating to discharge of in-
 10 debtedness) is amended by adding at the end the following
 11 new subsection:

12 “(h) QUALIFIED RESIDENTIAL INDEBTEDNESS.—

13 “(1) LIMITATIONS.—The amount excluded
 14 under subparagraph (E) of subsection (a)(1) with
 15 respect to any qualified residential indebtedness
 16 shall not exceed the excess (if any) of—

17 “(A) the outstanding principal amount of
 18 such indebtedness (immediately before the dis-
 19 charge), over

20 “(B) the sum of—

21 “(i) the amount realized from the sale
 22 of the real property securing such indebt-
 23 edness reduced by the cost of such sale,
 24 and

1 “(ii) the outstanding principal amount
2 of any other indebtedness secured by such
3 property.

4 “(2) QUALIFIED RESIDENTIAL INDEBTED-
5 NESS.—

6 “(A) IN GENERAL.—The term ‘qualified
7 residential indebtedness’ means indebtedness
8 which—

9 “(i) was incurred or assumed by the
10 taxpayer in connection with real property
11 used as the principal residence (within the
12 meaning of section 121) of the taxpayer
13 and is secured by such real property,

14 “(ii) is incurred or assumed to ac-
15 quire, construct, reconstruct, or substan-
16 tially improve such real property, and

17 “(iii) with respect to which such tax-
18 payer makes an election to have this para-
19 graph apply.

20 “(B) REFINANCED INDEBTEDNESS.—Such
21 term shall include indebtedness resulting from
22 the refinancing of indebtedness under subpara-
23 graph (A)(ii), but only to the extent the amount
24 of the indebtedness resulting from such refi-

1 financing does not exceed the amount of the refi-
2 nanced indebtedness.

3 “(C) EXCEPTIONS.—Such term shall not
4 include qualified farm indebtedness or qualified
5 real property business indebtedness.”.

6 (c) CONFORMING AMENDMENTS.—

7 (1) Paragraph (2) of section 108(a) is
8 amended—

9 (A) in subparagraph (A) by striking “and
10 (D)” and inserting “(D), and (E)”, and

11 (B) by amending subparagraph (B) to read
12 as follows:

13 “(B) INSOLVENCY EXCLUSION TAKES
14 PRECEDENCE OVER QUALIFIED FARM EXCLU-
15 SION; QUALIFIED REAL PROPERTY BUSINESS
16 EXCLUSION; AND QUALIFIED RESIDENTIAL
17 SHORTFALL EXCLUSION.—Subparagraphs (C),
18 (D), and (E) of paragraph (1) shall not apply
19 to a discharge to the extent the taxpayer is in-
20 solvent.”.

21 (2) Paragraph (1) of section 108(b) is amended
22 by striking “or (C)” and inserting “(C), or (E)”.

23 (3) Subsection (c) of section 121 of such Code
24 is amended by adding at the end the following new
25 paragraph:

1 “(4) SPECIAL RULE RELATING TO DISCHARGE
2 OF INDEBTEDNESS.—The amount of gain which
3 (but for this paragraph) would be excluded from
4 gross income under subsection (a) with respect to a
5 principal residence shall be reduced by the amount
6 excluded from gross income under section
7 108(a)(1)(E) with respect to such residence.”.

8 (d) EFFECTIVE DATE.—The amendments made by
9 this section shall apply to discharges after December 31,
10 2000.

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