

110TH CONGRESS  
1ST SESSION

# H. R. 3996

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## AN ACT

To amend the Internal Revenue Code of 1986 to extend certain expiring provisions, 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,*

1 **SECTION 1. SHORT TITLE, ETC.**

2 (a) **SHORT TITLE.**—This Act may be cited as the  
3 “Temporary Tax Relief Act of 2007”.

4 (b) **REFERENCE.**—Except as otherwise expressly pro-  
5 vided, whenever in this Act an amendment or repeal is  
6 expressed in terms of an amendment to, or repeal of, a  
7 section or other provision, the reference shall be consid-  
8 ered to be made to a section or other provision of the In-  
9 ternal Revenue Code of 1986.

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

Sec. 1. Short title, etc.

**TITLE I—AMT RELIEF**

Sec. 101. Extension of alternative minimum tax relief for nonrefundable personal credits.

Sec. 102. Extension of increased alternative minimum tax exemption amount.

Sec. 103. Increase of AMT refundable credit amount for individuals with long-term unused credits for prior year minimum tax liability, etc.

**TITLE II—ADDITIONAL INDIVIDUAL TAX RELIEF**

Sec. 201. Refundable child credit.

Sec. 202. Additional standard deduction for real property taxes for non-itemizers.

**TITLE III—ONE-YEAR EXTENDERS**

**Subtitle A—Extenders Primarily Affecting Individuals**

Sec. 301. Deduction for State and local sales taxes.

Sec. 302. Deduction of qualified tuition and related expenses.

Sec. 303. Treatment of certain dividends of regulated investment companies.

Sec. 304. Parity in the application of certain limits to mental health benefits.

Sec. 305. Qualified conservation contributions.

Sec. 306. Tax-free distributions from individual retirement plans for charitable purposes.

Sec. 307. Deduction for certain expenses of elementary and secondary school teachers.

Sec. 308. Election to include combat pay as earned income for purposes of earned income tax credit.

Sec. 309. Modification of mortgage revenue bonds for veterans.

- Sec. 310. Distributions from retirement plans to individuals called to active duty.
- Sec. 311. Stock in RIC for purposes of determining estates of nonresidents not citizens.
- Sec. 312. Qualified investment entities.
- Sec. 313. State legislators' travel expenses away from home.

#### Subtitle B—Extenders Primarily Affecting Businesses

- Sec. 321. Research credit.
- Sec. 322. Indian employment credit.
- Sec. 323. New markets tax credit.
- Sec. 324. Railroad track maintenance.
- Sec. 325. Fifteen-year straight-line cost recovery for qualified leasehold improvements and qualified restaurant property.
- Sec. 326. Seven-year cost recovery period for motorsports racing track facility.
- Sec. 327. Accelerated depreciation for business property on Indian reservation.
- Sec. 328. Expensing of environmental remediation costs.
- Sec. 329. Deduction allowable with respect to income attributable to domestic production activities in Puerto Rico.
- Sec. 330. Modification of tax treatment of certain payments to controlling exempt organizations.
- Sec. 331. Extension and modification of credit to holders of qualified zone academy bonds.
- Sec. 332. Tax incentives for investment in the District of Columbia.
- Sec. 333. Extension of economic development credit for American Samoa.
- Sec. 334. Enhanced charitable deduction for contributions of food inventory.
- Sec. 335. Enhanced charitable deduction for contributions of book inventory to public schools.
- Sec. 336. Enhanced deduction for qualified computer contributions.
- Sec. 337. Basis adjustment to stock of S corporations making charitable contributions of property.
- Sec. 338. Extension of work opportunity tax credit for Hurricane Katrina employees.

#### Subtitle C—Other Extenders

- Sec. 341. Disclosure for combined employment tax reporting.
- Sec. 342. Disclosure of return information to apprise appropriate officials of terrorist activities.
- Sec. 343. Disclosure upon request of information relating to terrorist activities.
- Sec. 344. Disclosure of return information to carry out income contingent repayment of student loans.
- Sec. 345. Authority for undercover operations.
- Sec. 346. Increase in limit on cover over of rum excise tax to Puerto Rico and the Virgin Islands.
- Sec. 347. Disclosure of return information for certain veterans programs.

#### TITLE IV—MORTGAGE FORGIVENESS DEBT RELIEF

- Sec. 401. Discharges of indebtedness on principal residence excluded from gross income.
- Sec. 402. Long-term extension of deduction for mortgage insurance premiums.
- Sec. 403. Alternative tests for qualifying as cooperative housing corporation.
- Sec. 404. Gain from sale of principal residence allocated to nonqualified use not excluded from income.

## TITLE V—ADMINISTRATIVE PROVISIONS

- Sec. 501. Repeal of authority to enter into private debt collection contracts.  
 Sec. 502. Delay of application of withholding requirement on certain governmental payments for goods and services.  
 Sec. 503. Clarification of entitlement of Virgin Islands residents to protections of limitations on assessment and collection of tax.  
 Sec. 504. Revision of tax rules on expatriation.  
 Sec. 505. Repeal of suspension of certain penalties and interest.  
 Sec. 506. Unused merchandise drawback.

## TITLE VI—REVENUE PROVISIONS

## Subtitle A—Nonqualified Deferred Compensation From Certain Tax Indifferent Parties

- Sec. 601. Nonqualified deferred compensation from certain tax indifferent parties.

## Subtitle B—Provisions Related to Certain Investment Partnerships

- Sec. 611. Income of partners for performing investment management services treated as ordinary income received for performance of services.  
 Sec. 612. Indebtedness incurred by a partnership in acquiring securities and commodities not treated as acquisition indebtedness for organizations which are partners with limited liability.  
 Sec. 613. Application to partnership interests and tax sharing agreements of rule treating certain gain on sales between related persons as ordinary income.

## Subtitle C—Other Provisions

- Sec. 621. Delay in application of worldwide allocation of interest.  
 Sec. 622. Broker reporting of customer's basis in securities transactions.  
 Sec. 623. Modification of penalty for failure to file partnership returns.  
 Sec. 624. Penalty for failure to file S corporation returns.  
 Sec. 625. Time for payment of corporate estimated taxes.

1                   **TITLE I—AMT RELIEF**  
 2   **SEC. 101. EXTENSION OF ALTERNATIVE MINIMUM TAX RE-**  
 3                   **LIEF FOR NONREFUNDABLE PERSONAL**  
 4                   **CREDITS.**

5           (a) IN GENERAL.—Paragraph (2) of section 26(a)  
 6 (relating to special rule for taxable years 2000 through  
 7 2006) is amended—

1           (1) by striking “or 2006” and inserting “2006,  
2           or 2007”, and

3           (2) by striking “2006” in the heading thereof  
4           and inserting “2007”.

5           (b) **EFFECTIVE DATE.**—The amendments made by  
6 this section shall apply to taxable years beginning after  
7 December 31, 2006.

8 **SEC. 102. EXTENSION OF INCREASED ALTERNATIVE MIN-**  
9 **IMUM TAX EXEMPTION AMOUNT.**

10          (a) **IN GENERAL.**—Paragraph (1) of section 55(d)  
11 (relating to exemption amount) is amended—

12           (1) by striking “(\$62,550 in the case of taxable  
13           years beginning in 2006)” in subparagraph (A) and  
14           inserting “(\$66,250 in the case of taxable years be-  
15           ginning in 2007)”, and

16           (2) by striking “(\$42,500 in the case of taxable  
17           years beginning in 2006)” in subparagraph (B) and  
18           inserting “(\$44,350 in the case of taxable years be-  
19           ginning in 2007)”.

20          (b) **EFFECTIVE DATE.**—The amendments made by  
21 this section shall apply to taxable years beginning after  
22 December 31, 2006.

1 **SEC. 103. INCREASE OF AMT REFUNDABLE CREDIT**  
2 **AMOUNT FOR INDIVIDUALS WITH LONG-**  
3 **TERM UNUSED CREDITS FOR PRIOR YEAR**  
4 **MINIMUM TAX LIABILITY, ETC.**

5 (a) IN GENERAL.—Paragraph (2) of section 53(e) of  
6 the Internal Revenue Code of 1986 is amended to read  
7 as follows:

8 “(2) AMT REFUNDABLE CREDIT AMOUNT.—  
9 For purposes of paragraph (1), the term ‘AMT re-  
10 fundable credit amount’ means, with respect to any  
11 taxable year, the amount (not in excess of the long-  
12 term unused minimum tax credit for such taxable  
13 year) equal to the greater of—

14 “(A) 50 percent of the long-term unused  
15 minimum tax credit for such taxable year, or

16 “(B) the amount (if any) of the AMT re-  
17 fundable credit amount determined under this  
18 paragraph for the taxpayer’s preceding taxable  
19 year.”.

20 (b) TREATMENT OF CERTAIN UNDERPAYMENTS, IN-  
21 TEREST, AND PENALTIES ATTRIBUTABLE TO THE TREAT-  
22 MENT OF INCENTIVE STOCK OPTIONS.—Section 53 of  
23 such Code is amended by adding at the end the following  
24 new subsection:

1       “(f) TREATMENT OF CERTAIN UNDERPAYMENTS, IN-  
2 TEREST, AND PENALTIES ATTRIBUTABLE TO THE TREAT-  
3 MENT OF INCENTIVE STOCK OPTIONS.—

4           “(1) ABATEMENT.—Any underpayment of tax  
5 outstanding on the date of the enactment of this  
6 subsection which is attributable to the application of  
7 section 56(b)(3) for any taxable year ending before  
8 January 1, 2007 (and any interest or penalty with  
9 respect to such underpayment which is outstanding  
10 on such date of enactment), is hereby abated. No  
11 credit shall be allowed under this section with re-  
12 spect to any amount abated under this paragraph.

13           “(2) INCREASE IN CREDIT FOR CERTAIN INTER-  
14 EST AND PENALTIES ALREADY PAID.—Any interest  
15 or penalty paid before the date of the enactment of  
16 this subsection which would (but for such payment)  
17 have been abated under paragraph (1) shall be treat-  
18 ed for purposes of this section as an amount of ad-  
19 justed net minimum tax imposed for the taxable  
20 year of the underpayment to which such interest or  
21 penalty relates.”.

22       “(c) EFFECTIVE DATE.—

23           “(1) IN GENERAL.—Except as provided in para-  
24 graph (2), the amendment made by this section shall

1 apply to taxable years beginning after December 31,  
2 2006.

3 (2) ABATEMENT.—Section 53(f)(1) of the In-  
4 ternal Revenue Code of 1986, as added by sub-  
5 section (b), shall take effect on the date of the en-  
6 actment of this Act.

## 7 **TITLE II—ADDITIONAL** 8 **INDIVIDUAL TAX RELIEF**

### 9 **SEC. 201. REFUNDABLE CHILD CREDIT.**

10 (a) MODIFICATION OF THRESHOLD AMOUNT.—  
11 Clause (i) of section 24(d)(1)(B) is amended by inserting  
12 “(\$8,500 in the case of taxable years beginning in 2008)”  
13 after “\$10,000”.

14 (b) EFFECTIVE DATE.—The amendment made by  
15 subsection (a) shall apply to taxable years beginning after  
16 December 31, 2007.

### 17 **SEC. 202. ADDITIONAL STANDARD DEDUCTION FOR REAL** 18 **PROPERTY TAXES FOR NONITEMIZERS.**

19 (a) IN GENERAL.—Section 63(c)(1) (defining stand-  
20 ard deduction) is amended by striking “and” at the end  
21 of subparagraph (A), by striking the period at the end  
22 of subparagraph (B) and inserting “, and”, and by adding  
23 at the end the following new subparagraph:

24 “(C) in the case of any taxable year begin-  
25 ning in 2008, the real property tax deduction.”.



1 (b) DEFINITION.—Section 63(c) is amended by add-  
2 ing at the end the following new paragraph:

3 “(8) REAL PROPERTY TAX DEDUCTION.—For  
4 purposes of paragraph (1), the real property tax de-  
5 duction is so much of the amount of State and local  
6 real property taxes (within the meaning of section  
7 164) paid or accrued by the taxpayer during the tax-  
8 able year which do not exceed \$350 (\$700 in the  
9 case of a joint return).”.

10 (c) EFFECTIVE DATE.—The amendments made by  
11 this section shall apply to taxable years beginning after  
12 December 31, 2007.

13 **TITLE III—ONE-YEAR**  
14 **EXTENDERS**

15 **Subtitle A—Extenders Primarily**  
16 **Affecting Individuals**

17 **SEC. 301. DEDUCTION FOR STATE AND LOCAL SALES**  
18 **TAXES.**

19 (a) IN GENERAL.—Subparagraph (I) of section  
20 164(b)(5) is amended by striking “January 1, 2008” and  
21 inserting “January 1, 2009”.

22 (b) EFFECTIVE DATE.—The amendment made by  
23 this section shall apply to taxable years beginning after  
24 December 31, 2007.

1 **SEC. 302. DEDUCTION OF QUALIFIED TUITION AND RE-**  
2 **LATED EXPENSES.**

3 (a) IN GENERAL.—Subsection (e) of section 222 (re-  
4 lating to termination) is amended by striking “December  
5 31, 2007” and inserting “December 31, 2008”.

6 (b) EFFECTIVE DATE.—The amendment made by  
7 this section shall apply to taxable years beginning after  
8 December 31, 2007.

9 **SEC. 303. TREATMENT OF CERTAIN DIVIDENDS OF REGU-**  
10 **LATED INVESTMENT COMPANIES.**

11 (a) INTEREST-RELATED DIVIDENDS.—Subpara-  
12 graph (C) of section 871(k)(1) (defining interest-related  
13 dividend) is amended by striking “December 31, 2007”  
14 and inserting “December 31, 2008”.

15 (b) SHORT-TERM CAPITAL GAIN DIVIDENDS.—Sub-  
16 paragraph (C) of section 871(k)(2) (defining short-term  
17 capital gain dividend) is amended by striking “December  
18 31, 2007” and inserting “December 31, 2008”.

19 (c) EFFECTIVE DATE.—The amendments made by  
20 this section shall apply to dividends with respect to taxable  
21 years of regulated investment companies beginning after  
22 December 31, 2007.

23 **SEC. 304. PARITY IN THE APPLICATION OF CERTAIN LIMITS**  
24 **TO MENTAL HEALTH BENEFITS.**

25 (a) IN GENERAL.—Paragraph (3) of section 9812(f)  
26 (relating to application of section) is amended by striking

1 “December 31, 2007” and inserting “December 31,  
2 2008”.

3 (b) EFFECTIVE DATE.—The amendment made by  
4 this section shall apply to benefits for services furnished  
5 after December 31, 2007.

6 **SEC. 305. QUALIFIED CONSERVATION CONTRIBUTIONS.**

7 (a) IN GENERAL.—Clause (vi) of section  
8 170(b)(1)(E) (relating to termination) is amended by  
9 striking “December 31, 2007” and inserting “December  
10 31, 2008”.

11 (b) EFFECTIVE DATE.—The amendment made by  
12 this section shall apply to contributions made in taxable  
13 years beginning after December 31, 2007.

14 **SEC. 306. TAX-FREE DISTRIBUTIONS FROM INDIVIDUAL RE-**  
15 **TIREMENT PLANS FOR CHARITABLE PUR-**  
16 **POSES.**

17 (a) IN GENERAL.—Subparagraph (F) of section  
18 408(d)(8) (relating to termination) is amended by striking  
19 “December 31, 2007” and inserting “December 31,  
20 2008”.

21 (b) EFFECTIVE DATE.—The amendment made by  
22 this section shall apply to distributions made in taxable  
23 years beginning after December 31, 2007.

1 **SEC. 307. DEDUCTION FOR CERTAIN EXPENSES OF ELE-**  
2 **MENTARY AND SECONDARY SCHOOL TEACH-**  
3 **ERS.**

4 (a) IN GENERAL.—Subparagraph (D) of section  
5 62(a)(2) (relating to certain expenses of elementary and  
6 secondary school teachers) is amended by striking “or  
7 2007” and inserting “2007, or 2008”.

8 (b) EFFECTIVE DATE.—The amendment made by  
9 subsection (a) shall apply to taxable years beginning after  
10 December 31, 2007.

11 **SEC. 308. ELECTION TO INCLUDE COMBAT PAY AS EARNED**  
12 **INCOME FOR PURPOSES OF EARNED INCOME**  
13 **TAX CREDIT.**

14 (a) IN GENERAL.—Subclause (II) of section  
15 32(c)(2)(B)(vi) (defining earned income) is amended by  
16 striking “January 1, 2008” and inserting “January 1,  
17 2009”.

18 (b) EFFECTIVE DATE.—The amendment made by  
19 this section shall apply to taxable years ending after De-  
20 cember 31, 2007.

21 **SEC. 309. MODIFICATION OF MORTGAGE REVENUE BONDS**  
22 **FOR VETERANS.**

23 (a) QUALIFIED MORTGAGE BONDS USED TO FI-  
24 NANCE RESIDENCES FOR VETERANS WITHOUT REGARD  
25 TO FIRST-TIME HOMEBUYER REQUIREMENT.—Subpara-  
26 graph (D) of section 143(d)(2) (relating to exceptions) is

1 amended by striking “January 1, 2008” and inserting  
2 “January 1, 2009”.

3 (b) EFFECTIVE DATE.—The amendment made by  
4 this section shall apply to bonds issued after December  
5 31, 2007.

6 **SEC. 310. DISTRIBUTIONS FROM RETIREMENT PLANS TO**  
7 **INDIVIDUALS CALLED TO ACTIVE DUTY.**

8 (a) IN GENERAL.—Clause (iv) of section 72(t)(2)(G)  
9 is amended by striking “December 31, 2007” and insert-  
10 ing “January 1, 2009”.

11 (b) EFFECTIVE DATE.—The amendment made by  
12 this section shall apply to individuals ordered or called to  
13 active duty on or after December 31, 2007.

14 **SEC. 311. STOCK IN RIC FOR PURPOSES OF DETERMINING**  
15 **ESTATES OF NONRESIDENTS NOT CITIZENS.**

16 (a) IN GENERAL.—Paragraph (3) of section 2105(d)  
17 (relating to stock in a RIC) is amended by striking “De-  
18 cember 31, 2007” and inserting “December 31, 2008”.

19 (b) EFFECTIVE DATE.—The amendment made by  
20 this section shall apply to decedents dying after December  
21 31, 2007.

22 **SEC. 312. QUALIFIED INVESTMENT ENTITIES.**

23 (a) IN GENERAL.—Clause (ii) of section  
24 897(h)(4)(A) (relating to termination) is amended by

1 striking “December 31, 2007” and inserting “December  
2 31, 2008”.

3 (b) EFFECTIVE DATE.—The amendment made by  
4 subsection (a) shall take effect on January 1, 2008.

5 **SEC. 313. STATE LEGISLATORS’ TRAVEL EXPENSES AWAY**  
6 **FROM HOME.**

7 (a) IN GENERAL.—Paragraph (2) of section 162(h)  
8 (relating to legislative days) is amended by adding at the  
9 end the following flush sentence: “In the case of taxable  
10 years beginning in 2008, a legislature shall be treated for  
11 purposes of this paragraph as in session on any day in  
12 which it is formally called into session without regard to  
13 whether legislation was considered on such day.”.

14 (b) EFFECTIVE DATE.—The amendment made by  
15 subsection (a) shall apply to taxable years beginning after  
16 December 31, 2007.

17 **Subtitle B—Extenders Primarily**  
18 **Affecting Businesses**

19 **SEC. 321. RESEARCH CREDIT.**

20 (a) IN GENERAL.—Subparagraph (B) of section  
21 41(h)(1) (relating to termination) is amended by striking  
22 “December 31, 2007” and inserting “December 31,  
23 2008”.

24 (b) CONFORMING AMENDMENT.—Subparagraph (D)  
25 of section 45C(b)(1) (relating to qualified clinical testing

1 expenses) is amended by striking “December 31, 2007”  
2 and inserting “December 31, 2008”.

3 (c) EFFECTIVE DATE.—The amendments made by  
4 this section shall apply to amounts paid or incurred after  
5 December 31, 2007.

6 **SEC. 322. INDIAN EMPLOYMENT CREDIT.**

7 (a) IN GENERAL.—Subsection (f) of section 45A (re-  
8 lating to termination) is amended by striking “December  
9 31, 2007” and inserting “December 31, 2008”.

10 (b) EFFECTIVE DATE.—The amendment made by  
11 this section shall apply to taxable years beginning after  
12 December 31, 2007.

13 **SEC. 323. NEW MARKETS TAX CREDIT.**

14 Subparagraph (D) of section 45D(f)(1) (relating to  
15 national limitation on amount of investments designated)  
16 is amended by striking “and 2008” and inserting “2008,  
17 and 2009”.

18 **SEC. 324. RAILROAD TRACK MAINTENANCE.**

19 (a) IN GENERAL.—Subsection (f) of section 45G (re-  
20 lating to application of section) is amended by striking  
21 “January 1, 2008” and inserting “January 1, 2009”.

22 (b) EFFECTIVE DATE.—The amendment made by  
23 this section shall apply to expenditures paid or incurred  
24 during taxable years beginning after December 31, 2007.

1 **SEC. 325. FIFTEEN-YEAR STRAIGHT-LINE COST RECOVERY**  
2 **FOR QUALIFIED LEASEHOLD IMPROVEMENTS**  
3 **AND QUALIFIED RESTAURANT PROPERTY.**

4 (a) IN GENERAL.—Clauses (iv) and (v) of section  
5 168(e)(3)(E) (relating to 15-year property) are each  
6 amended by striking “January 1, 2008” and inserting  
7 “January 1, 2009”.

8 (b) EFFECTIVE DATE.—The amendments made by  
9 this section shall apply to property placed in service after  
10 December 31, 2007.

11 **SEC. 326. SEVEN-YEAR COST RECOVERY PERIOD FOR MO-**  
12 **TORSPOUNTS RACING TRACK FACILITY.**

13 (a) IN GENERAL.—Subparagraph (D) of section  
14 168(i)(15) (relating to termination) is amended by strik-  
15 ing “December 31, 2007” and inserting “December 31,  
16 2008”.

17 (b) EFFECTIVE DATE.—The amendment made by  
18 this section shall apply to property placed in service after  
19 December 31, 2007.

20 **SEC. 327. ACCELERATED DEPRECIATION FOR BUSINESS**  
21 **PROPERTY ON INDIAN RESERVATION.**

22 (a) IN GENERAL.—Paragraph (8) of section 168(j)  
23 (relating to termination) is amended by striking “Decem-  
24 ber 31, 2007” and inserting “December 31, 2008”.



1 (b) EFFECTIVE DATE.—The amendment made by  
2 this section shall apply to property placed in service after  
3 December 31, 2007.

4 **SEC. 328. EXPENSING OF ENVIRONMENTAL REMEDIATION**  
5 **COSTS.**

6 (a) IN GENERAL.—Subsection (h) of section 198 (re-  
7 lating to termination) is amended by striking “December  
8 31, 2007” and inserting “December 31, 2008”.

9 (b) EFFECTIVE DATE.—The amendment made by  
10 this section shall apply to expenditures paid or incurred  
11 after December 31, 2007.

12 **SEC. 329. DEDUCTION ALLOWABLE WITH RESPECT TO IN-**  
13 **COME ATTRIBUTABLE TO DOMESTIC PRO-**  
14 **DUCTION ACTIVITIES IN PUERTO RICO.**

15 (a) IN GENERAL.—Subparagraph (C) of section  
16 199(d)(8) (relating to termination) is amended—

17 (1) by striking “first 2 taxable years” and in-  
18 serting “first 3 taxable years”, and

19 (2) by striking “January 1, 2008” and insert-  
20 ing “January 1, 2009”.

21 (b) EFFECTIVE DATE.—The amendments made by  
22 this section shall apply to taxable years beginning after  
23 December 31, 2007.

1 **SEC. 330. MODIFICATION OF TAX TREATMENT OF CERTAIN**  
2 **PAYMENTS TO CONTROLLING EXEMPT ORGA-**  
3 **NIZATIONS.**

4 (a) IN GENERAL.—Clause (iv) of section  
5 512(b)(13)(E) (relating to termination) is amended by  
6 striking “December 31, 2007” and inserting “December  
7 31, 2008”.

8 (b) EFFECTIVE DATE.—The amendment made by  
9 this section shall apply to payments received or accrued  
10 after December 31, 2007.

11 **SEC. 331. EXTENSION AND MODIFICATION OF CREDIT TO**  
12 **HOLDERS OF QUALIFIED ZONE ACADEMY**  
13 **BONDS.**

14 (a) IN GENERAL.—Subsection (e) of section 1397E  
15 (relating to limitation on amount of bonds designated) is  
16 amended by striking “1998, 1999, 2000, 2001, 2002,  
17 2003, 2004, 2005, 2006, and 2007” and inserting “each  
18 of calendar years 1998 through 2008”.

19 (b) MODIFICATION OF ARBITRAGE RULES.—

20 (1) IN GENERAL.—Subsection (g) of section  
21 1397E (relating to special rules relating to arbi-  
22 trage) is amended to read as follows:

23 “(g) SPECIAL RULES RELATING TO ARBITRAGE.—

24 “(1) IN GENERAL.—An issue shall be treated as  
25 meeting the requirements of this subsection if the

1 issuer satisfies the requirements of section 148 with  
2 respect to the proceeds of the issue.

3 “(2) SPECIAL RULE FOR INVESTMENTS DURING  
4 EXPENDITURE PERIOD.—An issue shall not be treat-  
5 ed as failing to meet the requirements of paragraph  
6 (1) by reason of any investment of available project  
7 proceeds during the 5-year period described in sub-  
8 section (f)(1)(A) (including any extension of such  
9 period under subsection (f)(2)).

10 “(3) SPECIAL RULE FOR RESERVE FUNDS.—An  
11 issue shall not be treated as failing to meet the re-  
12 quirements of paragraph (1) by reason of any fund  
13 which is expected to be used to repay such issue if—

14 “(A) such fund is funded at a rate not  
15 more rapid than equal annual installments,

16 “(B) such fund is funded in a manner that  
17 such fund will not exceed the amount necessary  
18 to repay the issue if invested at the maximum  
19 rate permitted under subparagraph (C), and

20 “(C) the yield on such fund is not greater  
21 than the discount rate determined under sub-  
22 section (d)(3) with respect to the issue.”.

23 (2) APPLICATION OF AVAILABLE PROJECT PRO-  
24 CEEDS TO OTHER REQUIREMENTS.—Subsections  
25 (d)(1)(A), (d)(2)(A), (f)(1)(A), (f)(1)(B), (f)(1)(C),

1 and (f)(3) of section 1397E are each amended by  
2 striking “proceeds” and inserting “available project  
3 proceeds”.

4 (3) AVAILABLE PROJECT PROCEEDS DE-  
5 FINED.—Subsection (i) of section 1397E (relating to  
6 definitions) is amended by adding at the end the fol-  
7 lowing new paragraph:

8 “(4) AVAILABLE PROJECT PROCEEDS.—The  
9 term ‘available project proceeds’ means—

10 “(A) the excess of—

11 “(i) the proceeds from the sale of an  
12 issue, over

13 “(ii) the issuance costs financed by  
14 the issue (to the extent that such costs do  
15 not exceed 2 percent of such proceeds),  
16 and

17 “(B) the proceeds from any investment of  
18 the excess described in subparagraph (A).”.

19 (c) EFFECTIVE DATE.—

20 (1) EXTENSION.—The amendment made by  
21 subsection (a) shall apply to obligations issued after  
22 December 31, 2007.

23 (2) MODIFICATION OF ARBITRAGE RULES.—  
24 The amendments made by subsection (b) shall apply

1 to obligations issued after the date of the enactment  
2 of this Act.

3 **SEC. 332. TAX INCENTIVES FOR INVESTMENT IN THE DIS-**  
4 **TRICT OF COLUMBIA.**

5 (a) DESIGNATION OF ZONE.—

6 (1) IN GENERAL.—Subsection (f) of section  
7 1400 is amended by striking “2007” both places it  
8 appears and inserting “2008”.

9 (2) EFFECTIVE DATE.—The amendments made  
10 by this subsection shall apply to periods beginning  
11 after December 31, 2007.

12 (b) TAX-EXEMPT ECONOMIC DEVELOPMENT  
13 BONDS.—

14 (1) IN GENERAL.—Subsection (b) of section  
15 1400A is amended by striking “2007” and inserting  
16 “2008”.

17 (2) EFFECTIVE DATE.—The amendment made  
18 by this subsection shall apply to bonds issued after  
19 December 31, 2007.

20 (c) ZERO PERCENT CAPITAL GAINS RATE.—

21 (1) IN GENERAL.—Subsection (b) of section  
22 1400B is amended by striking “2008” each place it  
23 appears and inserting “2009”.

24 (2) CONFORMING AMENDMENTS.—

25 (A) Section 1400B(e)(2) is amended—

1 (i) by striking “2012” and inserting  
2 “2013”, and

3 (ii) by striking “2012” in the heading  
4 thereof and inserting “2013”.

5 (B) Section 1400B(g)(2) is amended by  
6 striking “2012” and inserting “2013”.

7 (C) Section 1400F(d) is amended by strik-  
8 ing “2012” and inserting “2013”.

9 (3) EFFECTIVE DATES.—

10 (A) EXTENSION.—The amendments made  
11 by paragraph (1) shall apply to acquisitions  
12 after December 31, 2007.

13 (B) CONFORMING AMENDMENTS.—The  
14 amendments made by paragraph (2) shall take  
15 effect on the date of the enactment of this Act.

16 (d) FIRST-TIME HOMEBUYER CREDIT.—

17 (1) IN GENERAL.—Subsection (i) of section  
18 1400C is amended by striking “2008” and inserting  
19 “2009”.

20 (2) EFFECTIVE DATE.—The amendment made  
21 by this subsection shall apply to property purchased  
22 after December 31, 2007.

1 **SEC. 333. EXTENSION OF ECONOMIC DEVELOPMENT CRED-**  
2 **IT FOR AMERICAN SAMOA.**

3 (a) IN GENERAL.—Subsection (d) of section 119 of  
4 division A of the Tax Relief and Health Care Act of 2006  
5 is amended—

6 (1) by striking “first two taxable years” and in-  
7 serting “first 3 taxable years”, and

8 (2) by striking “January 1, 2008” and insert-  
9 ing “January 1, 2009”.

10 (b) EFFECTIVE DATE.—The amendment made by  
11 this section shall apply to taxable years beginning after  
12 December 31, 2007.

13 **SEC. 334. ENHANCED CHARITABLE DEDUCTION FOR CON-**  
14 **TRIBUTIONS OF FOOD INVENTORY.**

15 (a) IN GENERAL.—Clause (iv) of section  
16 170(e)(3)(C) (relating to termination) is amended by  
17 striking “December 31, 2007” and inserting “December  
18 31, 2008”.

19 (b) EFFECTIVE DATE.—The amendment made by  
20 this section shall apply to contributions made after De-  
21 cember 31, 2007.

22 **SEC. 335. ENHANCED CHARITABLE DEDUCTION FOR CON-**  
23 **TRIBUTIONS OF BOOK INVENTORY TO PUB-**  
24 **LIC SCHOOLS.**

25 (a) IN GENERAL.—Clause (iv) of section  
26 170(e)(3)(D) (relating to termination) is amended by

1 striking “December 31, 2007” and inserting “December  
2 31, 2008”.

3 (b) EFFECTIVE DATE.—The amendment made by  
4 this section shall apply to contributions made after De-  
5 cember 31, 2007.

6 **SEC. 336. ENHANCED DEDUCTION FOR QUALIFIED COM-**  
7 **PUTER CONTRIBUTIONS.**

8 (a) IN GENERAL.—Subparagraph (G) of section  
9 170(e)(6) (relating to termination) is amended by striking  
10 “December 31, 2007” and inserting “December 31,  
11 2008”.

12 (b) EFFECTIVE DATE.—The amendment made by  
13 this section shall apply to contributions made during tax-  
14 able years beginning after December 31, 2007.

15 **SEC. 337. BASIS ADJUSTMENT TO STOCK OF S CORPORA-**  
16 **TIONS MAKING CHARITABLE CONTRIBU-**  
17 **TIONS OF PROPERTY.**

18 (a) IN GENERAL.—The last sentence of section  
19 1367(a)(2) (relating to decreases in basis) is amended by  
20 striking “December 31, 2007” and inserting “December  
21 31, 2008”.

22 (b) TECHNICAL AMENDMENT RELATED TO SECTION  
23 1203 OF THE PENSION PROTECTION ACT OF 2006.—Sub-  
24 section (d) of section 1366 is amended by adding at the  
25 end the following new paragraph:



1           “(4) APPLICATION OF LIMITATION ON CHARITABLE CONTRIBUTIONS.—In the case of any charitable contribution of property to which the second sentence of section 1367(a)(2) applies, paragraph (1) shall not apply to the extent of the excess (if any) of—

2                           “(A) the shareholder’s pro rata share of such contribution, over

3                           “(B) the shareholder’s pro rata share of the adjusted basis of such property.”.

4           (c) EFFECTIVE DATE.—

5                   (1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to contributions made in taxable years beginning after December 31, 2007.

6                   (2) TECHNICAL AMENDMENT.—The amendment made by subsection (b) shall take effect as if included in the provision of the Pension Protection Act of 2006 to which it relates.

7           **SEC. 338. EXTENSION OF WORK OPPORTUNITY TAX CREDIT FOR HURRICANE KATRINA EMPLOYEES.**

8                   (a) IN GENERAL.—Paragraph (1) of section 201(b) of the Katrina Emergency Tax Relief Act of 2005 is amended by striking “2-year” and inserting “3-year”.

1 (b) EFFECTIVE DATE.—The amendment made by  
2 subsection (a) shall apply to individuals hired after August  
3 27, 2007.

## 4 **Subtitle C—Other Extenders**

### 5 **SEC. 341. DISCLOSURE FOR COMBINED EMPLOYMENT TAX** 6 **REPORTING.**

7 (a) IN GENERAL.—Subparagraph (B) of section  
8 6103(d)(5) (relating to termination) is amended by strik-  
9 ing “December 31, 2007” and inserting “December 31,  
10 2008”.

11 (b) EFFECTIVE DATE.—The amendment made by  
12 this section shall apply to disclosures after December 31,  
13 2007.

### 14 **SEC. 342. DISCLOSURE OF RETURN INFORMATION TO AP-** 15 **PROPRIATE APPROPRIATE OFFICIALS OF TER-** 16 **RORIST ACTIVITIES.**

17 (a) IN GENERAL.—Clause (iv) of section  
18 6103(i)(3)(C) (relating to termination) is amended by  
19 striking “December 31, 2007” and inserting “December  
20 31, 2008”.

21 (b) EFFECTIVE DATE.—The amendment made by  
22 this section shall apply to disclosures after December 31,  
23 2007.

1 **SEC. 343. DISCLOSURE UPON REQUEST OF INFORMATION**  
2 **RELATING TO TERRORIST ACTIVITIES.**

3 (a) IN GENERAL.—Subparagraph (E) of section  
4 6103(i)(7) (relating to termination) is amended by strik-  
5 ing “December 31, 2007” and inserting “December 31,  
6 2008”.

7 (b) EFFECTIVE DATE.—The amendment made by  
8 this section shall apply to disclosures after December 31,  
9 2007.

10 **SEC. 344. DISCLOSURE OF RETURN INFORMATION TO**  
11 **CARRY OUT INCOME CONTINGENT REPAY-**  
12 **MENT OF STUDENT LOANS.**

13 (a) IN GENERAL.—Subparagraph (D) of section  
14 6103(l)(13) (relating to termination) is amended by strik-  
15 ing “December 31, 2007” and inserting “December 31,  
16 2008”.

17 (b) EFFECTIVE DATE.—The amendment made by  
18 this section shall apply to requests made after December  
19 31, 2007.

20 **SEC. 345. AUTHORITY FOR UNDERCOVER OPERATIONS.**

21 (a) IN GENERAL.—Paragraph (6) of section 7608(c)  
22 (relating to application of section) is amended by striking  
23 “January 1, 2008” each place it appears and inserting  
24 “January 1, 2009”.

25 (b) EFFECTIVE DATE.—The amendment made by  
26 this section shall take effect on January 1, 2008.

1 **SEC. 346. INCREASE IN LIMIT ON COVER OVER OF RUM EX-**  
2 **CISE TAX TO PUERTO RICO AND THE VIRGIN**  
3 **ISLANDS.**

4 (a) IN GENERAL.—Paragraph (1) of section 7652(f)  
5 is amended by striking “January 1, 2008” and inserting  
6 “January 1, 2009”.

7 (b) EFFECTIVE DATE.—The amendment made by  
8 this section shall apply to distilled spirits brought into the  
9 United States after December 31, 2007.

10 **SEC. 347. DISCLOSURE OF RETURN INFORMATION FOR**  
11 **CERTAIN VETERANS PROGRAMS.**

12 (a) IN GENERAL.—The last sentence of paragraph  
13 (7) of section 6103(l) is amended by striking “September  
14 30, 2008” and inserting “December 31, 2008”.

15 (b) EFFECTIVE DATE.—The amendment made by  
16 subsection (a) shall apply to requests made after Sep-  
17 tember 30, 2008.

18 **TITLE IV—MORTGAGE**  
19 **FORGIVENESS DEBT RELIEF**

20 **SEC. 401. DISCHARGES OF INDEBTEDNESS ON PRINCIPAL**  
21 **RESIDENCE EXCLUDED FROM GROSS IN-**  
22 **COME.**

23 (a) IN GENERAL.—Paragraph (1) of section 108(a)  
24 is amended by striking “or” at the end of subparagraph  
25 (C), by striking the period at the end of subparagraph (D)

1 and inserting “, or”, and by inserting after subparagraph  
2 (D) the following new subparagraph:

3 “(E) the indebtedness discharged is quali-  
4 fied principal residence indebtedness.”.

5 (b) SPECIAL RULES RELATING TO QUALIFIED PRIN-  
6 CIPAL RESIDENCE INDEBTEDNESS.—Section 108 is  
7 amended by adding at the end the following new sub-  
8 section:

9 “(h) SPECIAL RULES RELATING TO QUALIFIED  
10 PRINCIPAL RESIDENCE INDEBTEDNESS.—

11 “(1) BASIS REDUCTION.—The amount excluded  
12 from gross income by reason of subsection (a)(1)(E)  
13 shall be applied to reduce (but not below zero) the  
14 basis of the principal residence of the taxpayer.

15 “(2) QUALIFIED PRINCIPAL RESIDENCE IN-  
16 DEBTEDNESS.—For purposes of this section, the  
17 term ‘qualified principal residence indebtedness’  
18 means acquisition indebtedness (within the meaning  
19 of section 163(h)(3)(B), applied by substituting  
20 ‘\$2,000,000 (\$1,000,000’ for ‘\$1,000,000  
21 (\$500,000’ in clause (ii) thereof) with respect to the  
22 principal residence of the taxpayer.

23 “(3) EXCEPTION FOR CERTAIN DISCHARGES  
24 NOT RELATED TO TAXPAYER’S FINANCIAL CONDI-  
25 TION.—Subsection (a)(1)(E) shall not apply to the

1 discharge of a loan if the discharge is on account of  
2 services performed for the lender or any other factor  
3 not directly related to a decline in the value of the  
4 residence or to the financial condition of the tax-  
5 payer.

6 “(4) ORDERING RULE.—If any loan is dis-  
7 charged, in whole or in part, and only a portion of  
8 such loan is qualified principal residence indebted-  
9 ness, subsection (a)(1)(E) shall apply only to so  
10 much of the amount discharged as exceeds the  
11 amount of the loan (as determined immediately be-  
12 fore such discharge) which is not qualified principal  
13 residence indebtedness.

14 “(5) PRINCIPAL RESIDENCE.—For purposes of  
15 this subsection, the term ‘principal residence’ has  
16 the same meaning as when used in section 121.”.

17 (c) COORDINATION.—

18 (1) Subparagraph (A) of section 108(a)(2) is  
19 amended by striking “and (D)” and inserting “(D),  
20 and (E)”.

21 (2) Paragraph (2) of section 108(a) is amended  
22 by adding at the end the following new subpara-  
23 graph:

24 “(C) PRINCIPAL RESIDENCE EXCLUSION  
25 TAKES PRECEDENCE OVER INSOLVENCY EXCLU-

1           SION UNLESS ELECTED OTHERWISE.—Para-  
2           graph (1)(B) shall not apply to a discharge to  
3           which paragraph (1)(E) applies unless the tax-  
4           payer elects to apply paragraph (1)(B) in lieu  
5           of paragraph (1)(E).”.

6           (d) EFFECTIVE DATE.—The amendments made by  
7           this section shall apply to discharges of indebtedness on  
8           or after January 1, 2007.

9   **SEC. 402. LONG-TERM EXTENSION OF DEDUCTION FOR**  
10                           **MORTGAGE INSURANCE PREMIUMS.**

11           (a) IN GENERAL.—Subparagraph (E) of section  
12   163(h)(3) (relating to mortgage insurance premiums  
13   treated as interest) is amended by striking clauses (iii)  
14   and (iv) and inserting the following new clause:

15                           “(iii) APPLICATION.—Clause (i) shall  
16                           not apply with respect to any mortgage in-  
17                           surance contract issued before January 1,  
18                           2007, or after December 31, 2014.”.

19           (b) EFFECTIVE DATE.—The amendment made by  
20   subsection (a) shall apply to contracts issued after Decem-  
21   ber 31, 2006.

1 **SEC. 403. ALTERNATIVE TESTS FOR QUALIFYING AS COOP-**  
2 **ERATIVE HOUSING CORPORATION.**

3 (a) IN GENERAL.—Subparagraph (D) of section  
4 216(b)(1) (defining cooperative housing corporation) is  
5 amended to read as follows:

6 “(D) meeting 1 or more of the following  
7 requirements for the taxable year in which the  
8 taxes and interest described in subsection (a)  
9 are paid or incurred:

10 “(i) 80 percent or more of the cor-  
11 poration’s gross income for such taxable  
12 year is derived from tenant-stockholders.

13 “(ii) At all times during such taxable  
14 year, 80 percent or more of the total  
15 square footage of the corporation’s prop-  
16 erty is used or available for use by the ten-  
17 ant-stockholders for residential purposes or  
18 purposes ancillary to such residential use.

19 “(iii) 90 percent or more of the ex-  
20 penditures of the corporation paid or in-  
21 curred during such taxable year are paid  
22 or incurred for the acquisition, construc-  
23 tion, management, maintenance, or care of  
24 the corporation’s property for the benefit  
25 of the tenant-stockholders.”.



1 (b) EFFECTIVE DATE.—The amendment made by  
2 this section shall apply to taxable years ending after the  
3 date of the enactment of this Act.

4 **SEC. 404. GAIN FROM SALE OF PRINCIPAL RESIDENCE AL-**  
5 **LOCATED TO NONQUALIFIED USE NOT EX-**  
6 **CLUDED FROM INCOME.**

7 (a) IN GENERAL.—Subsection (b) of section 121 (re-  
8 lating to limitations) is amended by adding at the end the  
9 following new paragraph:

10 “(4) EXCLUSION OF GAIN ALLOCATED TO NON-  
11 QUALIFIED USE.—

12 “(A) IN GENERAL.—Subsection (a) shall  
13 not apply to so much of the gain from the sale  
14 or exchange of property as is allocated to peri-  
15 ods of nonqualified use.

16 “(B) GAIN ALLOCATED TO PERIODS OF  
17 NONQUALIFIED USE.—For purposes of subpara-  
18 graph (A), gain shall be allocated to periods of  
19 nonqualified use based on the ratio which—

20 “(i) the aggregate periods of non-  
21 qualified use during the period such prop-  
22 erty was owned by the taxpayer, bears to

23 “(ii) the period such property was  
24 owned by the taxpayer.

1           “(C) PERIOD OF NONQUALIFIED USE.—

2           For purposes of this paragraph—

3                   “(i) IN GENERAL.—The term ‘period  
4                   of nonqualified use’ means any period  
5                   (other than the portion of any period pre-  
6                   ceding January 1, 2008) during which the  
7                   property is not used as the principal resi-  
8                   dence of the taxpayer or the taxpayer’s  
9                   spouse or former spouse.

10                   “(ii) EXCEPTIONS.—The term ‘period  
11                   of nonqualified use’ does not include—

12                           “(I) any portion of the 5-year pe-  
13                           riod described in subsection (a) which  
14                           is after the last date that such prop-  
15                           erty is used as the principal residence  
16                           of the taxpayer or the taxpayer’s  
17                           spouse,

18                           “(II) any period (not to exceed  
19                           an aggregate period of 10 years) dur-  
20                           ing which the taxpayer or the tax-  
21                           payer’s spouse is serving on qualified  
22                           official extended duty (as defined in  
23                           subsection (d)(9)(C)) described in  
24                           clause (i), (ii), or (iii) of subsection  
25                           (d)(9)(A), and

1                   “(III) any other period of tem-  
2                   porary absence (not to exceed an ag-  
3                   gregate period of 2 years) due to  
4                   change of employment, health condi-  
5                   tions, or such other unforeseen cir-  
6                   cumstances as may be specified by the  
7                   Secretary.

8                   “(D) COORDINATION WITH RECOGNITION  
9                   OF GAIN ATTRIBUTABLE TO DEPRECIATION.—  
10                  For purposes of this paragraph—

11                   “(i) subparagraph (A) shall be applied  
12                   after the application of subsection (d)(6),  
13                   and

14                   “(ii) subparagraph (B) shall be ap-  
15                   plied without regard to any gain to which  
16                   subsection (d)(6) applies.”.

17                  (b) EFFECTIVE DATE.—The amendment made by  
18 this section shall apply to sales and exchanges after De-  
19 cember 31, 2007.

20                   **TITLE V—ADMINISTRATIVE**  
21                   **PROVISIONS**

22                  **SEC. 501. REPEAL OF AUTHORITY TO ENTER INTO PRIVATE**  
23                   **DEBT COLLECTION CONTRACTS.**

24                  (a) IN GENERAL.—Subchapter A of chapter 64 is  
25 amended by striking section 6306.

1 (b) CONFORMING AMENDMENTS.—

2 (1) Subchapter B of chapter 76 is amended by  
3 striking section 7433A.

4 (2) Section 7811 is amended by striking sub-  
5 section (g).

6 (3) Section 1203 of the Internal Revenue Serv-  
7 ice Restructuring Act of 1998 is amended by strik-  
8 ing subsection (e).

9 (4) The table of sections for subchapter A of  
10 chapter 64 is amended by striking the item relating  
11 to section 6306.

12 (5) The table of sections for subchapter B of  
13 chapter 76 is amended by striking the item relating  
14 to section 7433A.

15 (c) EFFECTIVE DATE.—

16 (1) IN GENERAL.—Except as otherwise pro-  
17 vided in this subsection, the amendments made by  
18 this section shall take effect on the date of the en-  
19 actment of this Act.

20 (2) EXCEPTION FOR EXISTING CONTRACTS,  
21 ETC.—The amendments made by this section shall  
22 not apply to any contract which was entered into be-  
23 fore July 18, 2007, and is not renewed or extended  
24 on or after such date.

1           (3) UNAUTHORIZED CONTRACTS AND EXTEN-  
2           SIONS TREATED AS VOID.—Any qualified tax collec-  
3           tion contract (as defined in section 6306 of the In-  
4           ternal Revenue Code of 1986, as in effect before its  
5           repeal) which is entered into on or after July 18,  
6           2007, and any extension or renewal on or after such  
7           date of any qualified tax collection contract (as so  
8           defined) shall be void.

9   **SEC. 502. DELAY OF APPLICATION OF WITHHOLDING RE-**  
10                   **QUIREMENT ON CERTAIN GOVERNMENTAL**  
11                   **PAYMENTS FOR GOODS AND SERVICES.**

12           (a) IN GENERAL.—Subsection (b) of section 511 of  
13           the Tax Increase Prevention and Reconciliation Act of  
14           2005 is amended by striking “December 31, 2010” and  
15           inserting “December 31, 2011”.

16           (b) REPORT TO CONGRESS.—Not later than 6  
17           months after the date of the enactment of this Act, the  
18           Secretary of the Treasury shall submit to the Committee  
19           on Ways and Means of the House of Representatives and  
20           the Committee on Finance of the Senate a report with  
21           respect to the withholding requirements of section 3402(t)  
22           of the Internal Revenue Code of 1986, including a detailed  
23           analysis of—

1           (1) the problems, if any, which are anticipated  
2           in administering and complying with such require-  
3           ments,

4           (2) the burdens, if any, that such requirements  
5           will place on governments and businesses (taking  
6           into account such mechanisms as may be necessary  
7           to administer such requirements), and

8           (3) the application of such requirements to  
9           small expenditures for services and goods by govern-  
10          ments.

11 **SEC. 503. CLARIFICATION OF ENTITLEMENT OF VIRGIN IS-**  
12                   **LANDS RESIDENTS TO PROTECTIONS OF LIM-**  
13                   **ITATIONS ON ASSESSMENT AND COLLECTION**  
14                   **OF TAX.**

15          (a) IN GENERAL.—Subsection (c) of section 932 (re-  
16          lating to treatment of Virgin Islands residents) is amended  
17          by adding at the end the following new paragraph:

18               “(5) TREATMENT OF INCOME TAX RETURN  
19               FILED WITH VIRGIN ISLANDS.—An income tax re-  
20               turn filed with the Virgin Islands by an individual  
21               claiming to be described in paragraph (1) for the  
22               taxable year shall be treated for purposes of subtitle  
23               F in the same manner as if such return were an in-  
24               come tax return filed with the United States for  
25               such taxable year. The preceding sentence shall not

1 apply where such return is false or fraudulent with  
2 the intent to evade tax or otherwise is a willful at-  
3 tempt in any manner to defeat or evade tax.”.

4 (b) EFFECTIVE DATE.—The amendment made by  
5 this section shall apply to taxable years beginning after  
6 1986.

7 **SEC. 504. REVISION OF TAX RULES ON EXPATRIATION.**

8 (a) IN GENERAL.—Subpart A of part II of sub-  
9 chapter N of chapter 1 is amended by inserting after sec-  
10 tion 877 the following new section:

11 **“SEC. 877A. TAX RESPONSIBILITIES OF EXPATRIATION.**

12 “(a) GENERAL RULES.—For purposes of this sub-  
13 title—

14 “(1) MARK TO MARKET.—All property of a cov-  
15 ered expatriate shall be treated as sold on the day  
16 before the expatriation date for its fair market  
17 value.

18 “(2) RECOGNITION OF GAIN OR LOSS.—In the  
19 case of any sale under paragraph (1)—

20 “(A) notwithstanding any other provision  
21 of this title, any gain arising from such sale  
22 shall be taken into account for the taxable year  
23 of the sale, and

24 “(B) any loss arising from such sale shall  
25 be taken into account for the taxable year of

1 the sale to the extent otherwise provided by this  
2 title, except that section 1091 shall not apply to  
3 any such loss.

4 Proper adjustment shall be made in the amount of  
5 any gain or loss subsequently realized for gain or  
6 loss taken into account under the preceding sen-  
7 tence, determined without regard to paragraph (3).

8 “(3) EXCLUSION FOR CERTAIN GAIN.—

9 “(A) IN GENERAL.—The amount which  
10 would (but for this paragraph) be includible in  
11 the gross income of any individual by reason of  
12 paragraph (1) shall be reduced (but not below  
13 zero) by \$600,000.

14 “(B) ADJUSTMENT FOR INFLATION.—

15 “(i) IN GENERAL.—In the case of any  
16 taxable year beginning in a calendar year  
17 after 2008, the dollar amount in subpara-  
18 graph (A) shall be increased by an amount  
19 equal to—

20 “(I) such dollar amount, multi-  
21 plied by

22 “(II) the cost-of-living adjust-  
23 ment determined under section 1(f)(3)  
24 for the calendar year in which the tax-  
25 able year begins, by substituting ‘cal-



1                   endar year 2007’ for ‘calendar year  
2                   1992’ in subparagraph (B) thereof.

3                   “(ii) ROUNDING.—If any amount as  
4                   adjusted under clause (i) is not a multiple  
5                   of \$1,000, such amount shall be rounded  
6                   to the nearest multiple of \$1,000.

7                   “(b) ELECTION TO DEFER TAX.—

8                   “(1) IN GENERAL.—If the taxpayer elects the  
9                   application of this subsection with respect to any  
10                  property treated as sold by reason of subsection (a),  
11                  the time for payment of the additional tax attrib-  
12                  utable to such property shall be extended until the  
13                  due date of the return for the taxable year in which  
14                  such property is disposed of (or, in the case of prop-  
15                  erty disposed of in a transaction in which gain is not  
16                  recognized in whole or in part, until such other date  
17                  as the Secretary may prescribe).

18                  “(2) DETERMINATION OF TAX WITH RESPECT  
19                  TO PROPERTY.—For purposes of paragraph (1), the  
20                  additional tax attributable to any property is an  
21                  amount which bears the same ratio to the additional  
22                  tax imposed by this chapter for the taxable year  
23                  solely by reason of subsection (a) as the gain taken  
24                  into account under subsection (a) with respect to  
25                  such property bears to the total gain taken into ac-

1 count under subsection (a) with respect to all prop-  
2 erty to which subsection (a) applies.

3 “(3) TERMINATION OF EXTENSION.—The due  
4 date for payment of tax may not be extended under  
5 this subsection later than the due date for the re-  
6 turn of tax imposed by this chapter for the taxable  
7 year which includes the date of death of the expa-  
8 triate (or, if earlier, the time that the security pro-  
9 vided with respect to the property fails to meet the  
10 requirements of paragraph (4), unless the taxpayer  
11 corrects such failure within the time specified by the  
12 Secretary).

13 “(4) SECURITY.—

14 “(A) IN GENERAL.—No election may be  
15 made under paragraph (1) with respect to any  
16 property unless adequate security is provided  
17 with respect to such property.

18 “(B) ADEQUATE SECURITY.—For purposes  
19 of subparagraph (A), security with respect to  
20 any property shall be treated as adequate secu-  
21 rity if—

22 “(i) it is a bond which is furnished to,  
23 and accepted by, the Secretary, which is  
24 conditioned on the payment of tax (and in-

1           terest thereon), and which meets the re-  
2           quirements of section 6325, or

3                   “(ii) it is another form of security for  
4           such payment (including letters of credit)  
5           that meets such requirements as the Sec-  
6           retary may prescribe.

7           “(5) WAIVER OF CERTAIN RIGHTS.—No elec-  
8           tion may be made under paragraph (1) unless the  
9           taxpayer makes an irrevocable waiver of any right  
10          under any treaty of the United States which would  
11          preclude assessment or collection of any tax imposed  
12          by reason of this section.

13          “(6) ELECTIONS.—An election under paragraph  
14          (1) shall only apply to property described in the elec-  
15          tion and, once made, is irrevocable.

16          “(7) INTEREST.—For purposes of section 6601,  
17          the last date for the payment of tax shall be deter-  
18          mined without regard to the election under this sub-  
19          section.

20          “(c) EXCEPTION FOR CERTAIN PROPERTY.—Sub-  
21          section (a) shall not apply to—

22                   “(1) any deferred compensation item (as de-  
23                  fined in subsection (d)(4)),

24                   “(2) any specified tax deferred account (as de-  
25                  fined in subsection (e)(2)), and

1           “(3) any interest in a nongrantor trust (as de-  
2           fined in subsection (f)(3)).

3           “(d) TREATMENT OF DEFERRED COMPENSATION  
4 ITEMS.—

5           “(1) WITHHOLDING ON ELIGIBLE DEFERRED  
6 COMPENSATION ITEMS.—

7           “(A) IN GENERAL.—In the case of any eli-  
8           gible deferred compensation item, the payor  
9           shall deduct and withhold from any taxable  
10          payment to a covered expatriate with respect to  
11          such item a tax equal to 30 percent thereof.

12          “(B) TAXABLE PAYMENT.—For purposes  
13          of subparagraph (A), the term ‘taxable pay-  
14          ment’ means with respect to a covered expa-  
15          triate any payment to the extent it would be in-  
16          cludible in the gross income of the covered ex-  
17          patriate if such expatriate continued to be sub-  
18          ject to tax as a citizen or resident of the United  
19          States. A deferred compensation item shall be  
20          taken into account as a payment under the pre-  
21          ceding sentence when such item would be so in-  
22          cludible.

23          “(2) OTHER DEFERRED COMPENSATION  
24 ITEMS.—In the case of any deferred compensation

1 item which is not an eligible deferred compensation  
2 item—

3 “(A)(i) with respect to any deferred com-  
4 pensation item to which clause (ii) does not  
5 apply, an amount equal to the present value of  
6 the covered expatriate’s accrued benefit shall be  
7 treated as having been received by such indi-  
8 vidual on the day before the expatriation date  
9 as a distribution under the plan, and

10 “(ii) with respect to any deferred com-  
11 pensation item referred to in paragraph (4)(D),  
12 the rights of the covered expatriate to such item  
13 shall be treated as becoming transferable and  
14 not subject to a substantial risk of forfeiture on  
15 the day before the expatriation date,

16 “(B) no early distribution tax shall apply  
17 by reason of such treatment, and

18 “(C) appropriate adjustments shall be  
19 made to subsequent distributions from the plan  
20 to reflect such treatment.

21 “(3) ELIGIBLE DEFERRED COMPENSATION  
22 ITEMS.—For purposes of this subsection, the term  
23 ‘eligible deferred compensation item’ means any de-  
24 ferred compensation item with respect to which—

25 “(A) the payor of such item is—

1 “(i) a United States person, or

2 “(ii) a person who is not a United  
3 States person but who elects to be treated  
4 as a United States person for purposes of  
5 paragraph (1) and meets such require-  
6 ments as the Secretary may provide to en-  
7 sure that the payor will meet the require-  
8 ments of paragraph (1), and

9 “(B) the covered expatriate—

10 “(i) notifies the payor of his status as  
11 a covered expatriate, and

12 “(ii) makes an irrevocable waiver of  
13 any right to claim any reduction under any  
14 treaty with the United States in with-  
15 holding on such item.

16 “(4) DEFERRED COMPENSATION ITEM.—For  
17 purposes of this subsection, the term ‘deferred com-  
18 pensation item’ means—

19 “(A) any interest in a plan or arrangement  
20 described in section 219(g)(5),

21 “(B) any interest in a foreign pension plan  
22 or similar retirement arrangement or program,

23 “(C) any item of deferred compensation,  
24 and

1           “(D) any property, or right to property,  
2           which the individual is entitled to receive in  
3           connection with the performance of services to  
4           the extent not previously taken into account  
5           under section 83 or in accordance with section  
6           83.

7           “(5) EXCEPTION.—Paragraphs (1) and (2)  
8           shall not apply to any deferred compensation item  
9           which is attributable to services performed outside  
10          the United States while the covered expatriate was  
11          not a citizen or resident of the United States.

12          “(6) SPECIAL RULES.—

13                 “(A) APPLICATION OF WITHHOLDING  
14                 RULES.—Rules similar to the rules of sub-  
15                 chapter B of chapter 3 shall apply for purposes  
16                 of this subsection.

17                 “(B) APPLICATION OF TAX.—Any item  
18                 subject to the withholding tax imposed under  
19                 paragraph (1) shall be subject to tax under sec-  
20                 tion 871.

21                 “(C) COORDINATION WITH OTHER WITH-  
22                 HOLDING REQUIREMENTS.—Any item subject to  
23                 withholding under paragraph (1) shall not be  
24                 subject to withholding under section 1441 or  
25                 chapter 24.

1       “(e) TREATMENT OF SPECIFIED TAX DEFERRED AC-  
2 COUNTS.—

3           “(1) ACCOUNT TREATED AS DISTRIBUTED.—In  
4 the case of any interest in a specified tax deferred  
5 account held by a covered expatriate on the day be-  
6 fore the expatriation date—

7           “(A) the covered expatriate shall be treat-  
8 ed as receiving a distribution of his entire inter-  
9 est in such account on the day before the expa-  
10 triation date,

11           “(B) no early distribution tax shall apply  
12 by reason of such treatment, and

13           “(C) appropriate adjustments shall be  
14 made to subsequent distributions from the ac-  
15 count to reflect such treatment.

16           “(2) SPECIFIED TAX DEFERRED ACCOUNT.—  
17 For purposes of paragraph (1), the term ‘specified  
18 tax deferred account’ means an individual retirement  
19 plan (as defined in section 7701(a)(37)) other than  
20 any arrangement described in subsection (k) or (p)  
21 of section 408, a qualified tuition program (as de-  
22 fined in section 529), a Coverdell education savings  
23 account (as defined in section 530), a health savings  
24 account (as defined in section 223), and an Archer  
25 MSA (as defined in section 220).



1 “(f) SPECIAL RULES FOR NONGRANTOR TRUSTS.—

2 “(1) IN GENERAL.—In the case of a distribu-  
3 tion (directly or indirectly) of any property from a  
4 nongrantor trust to a covered expatriate—

5 “(A) the trustee shall deduct and withhold  
6 from such distribution an amount equal to 30  
7 percent of the taxable portion of the distribu-  
8 tion, and

9 “(B) if the fair market value of such prop-  
10 erty exceeds its adjusted basis in the hands of  
11 the trust, gain shall be recognized to the trust  
12 as if such property were sold to the expatriate  
13 at its fair market value.

14 “(2) TAXABLE PORTION.—For purposes of this  
15 subsection, the term ‘taxable portion’ means, with  
16 respect to any distribution, that portion of the dis-  
17 tribution which would be includible in the gross in-  
18 come of the covered expatriate if such expatriate  
19 continued to be subject to tax as a citizen or resi-  
20 dent of the United States.

21 “(3) NONGRANTOR TRUST.—For purposes of  
22 this subsection, the term ‘nongrantor trust’ means  
23 the portion of any trust that the individual is not  
24 considered the owner of under subpart E of part I  
25 of subchapter J. The determination under the pre-

1 ceding sentence shall be made immediately before  
2 the expatriation date.

3 “(4) SPECIAL RULES RELATING TO WITH-  
4 HOLDING.—For purposes of this subsection—

5 “(A) rules similar to the rules of sub-  
6 section (d)(6) shall apply, and

7 “(B) the covered expatriate shall be treat-  
8 ed as having waived any right to claim any re-  
9 duction under any treaty with the United  
10 States in withholding on any distribution to  
11 which paragraph (1)(A) applies.

12 “(5) APPLICATION.—This subsection shall  
13 apply to a nongrantor trust only if the covered expa-  
14 triate was a beneficiary of the trust on the day be-  
15 fore the expatriation date.

16 “(g) DEFINITIONS AND SPECIAL RULES RELATING  
17 TO EXPATRIATION.—For purposes of this section—

18 “(1) COVERED EXPATRIATE.—

19 “(A) IN GENERAL.—The term ‘covered ex-  
20 patriate’ means an expatriate who meets the re-  
21 quirements of subparagraph (A), (B), or (C) of  
22 section 877(a)(2).

23 “(B) EXCEPTIONS.—An individual shall  
24 not be treated as meeting the requirements of

1           subparagraph (A) or (B) of section 877(a)(2)  
2           if—

3                   “(i) the individual—

4                           “(I) became at birth a citizen of  
5                           the United States and a citizen of an-  
6                           other country and, as of the expatria-  
7                           tion date, continues to be a citizen of,  
8                           and is taxed as a resident of, such  
9                           other country, and

10                           “(II) has been a resident of the  
11                           United States (as defined in section  
12                           7701(b)(1)(A)(ii)) for not more than  
13                           10 taxable years during the 15-tax-  
14                           able year period ending with the tax-  
15                           able year during which the expatria-  
16                           tion date occurs, or

17                           “(ii)(I) the individual’s relinquishment  
18                           of United States citizenship occurs before  
19                           such individual attains age 18½, and

20                           “(II) the individual has been a resi-  
21                           dent of the United States (as so defined)  
22                           for not more than 10 taxable years before  
23                           the date of relinquishment.

24                           “(C) COVERED EXPATRIATES ALSO SUB-  
25                           JECT TO TAX AS CITIZENS OR RESIDENTS.—In

1 the case of any covered expatriate who is sub-  
2 ject to tax as a citizen or resident of the United  
3 States for any period beginning after the expa-  
4 triation date, such individual shall not be treat-  
5 ed as a covered expatriate during such period  
6 for purposes of subsections (d)(1) and (f) and  
7 section 2801.

8 “(2) EXPATRIATE.—The term ‘expatriate’  
9 means—

10 “(A) any United States citizen who relin-  
11 quishes his citizenship, and

12 “(B) any long-term resident of the United  
13 States who ceases to be a lawful permanent  
14 resident of the United States (within the mean-  
15 ing of section 7701(b)(6)).

16 “(3) EXPATRIATION DATE.—The term ‘expa-  
17 triation date’ means—

18 “(A) the date an individual relinquishes  
19 United States citizenship, or

20 “(B) in the case of a long-term resident of  
21 the United States, the date on which the indi-  
22 vidual ceases to be a lawful permanent resident  
23 of the United States (within the meaning of  
24 section 7701(b)(6)).

1           “(4) RELINQUISHMENT OF CITIZENSHIP.—A  
2 citizen shall be treated as relinquishing his United  
3 States citizenship on the earliest of—

4           “(A) the date the individual renounces his  
5 United States nationality before a diplomatic or  
6 consular officer of the United States pursuant  
7 to paragraph (5) of section 349(a) of the Immi-  
8 gration and Nationality Act (8 U.S.C.  
9 1481(a)(5)),

10           “(B) the date the individual furnishes to  
11 the United States Department of State a signed  
12 statement of voluntary relinquishment of  
13 United States nationality confirming the per-  
14 formance of an act of expatriation specified in  
15 paragraph (1), (2), (3), or (4) of section 349(a)  
16 of the Immigration and Nationality Act (8  
17 U.S.C. 1481(a)(1)–(4)),

18           “(C) the date the United States Depart-  
19 ment of State issues to the individual a certifi-  
20 cate of loss of nationality, or

21           “(D) the date a court of the United States  
22 cancels a naturalized citizen’s certificate of nat-  
23 uralization.

24           Subparagraph (A) or (B) shall not apply to any indi-  
25 vidual unless the renunciation or voluntary relin-

1       quishment is subsequently approved by the issuance  
2       to the individual of a certificate of loss of nationality  
3       by the United States Department of State.

4               “(5) LONG-TERM RESIDENT.—The term ‘long-  
5       term resident’ has the meaning given to such term  
6       by section 877(e)(2).

7               “(6) EARLY DISTRIBUTION TAX.—The term  
8       ‘early distribution tax’ means any increase in tax im-  
9       posed under section 72(t), 220(e)(4), 223(f)(4),  
10       409A(a)(1)(B), 529(c)(6), or 530(d)(4).

11       “(h) OTHER RULES.—

12               “(1) TERMINATION OF DEFERRALS, ETC.—In  
13       the case of any covered expatriate, notwithstanding  
14       any other provision of this title—

15                       “(A) any time period for acquiring prop-  
16                       erty which would result in the reduction in the  
17                       amount of gain recognized with respect to prop-  
18                       erty disposed of by the taxpayer shall terminate  
19                       on the day before the expatriation date, and

20                       “(B) any extension of time for payment of  
21                       tax shall cease to apply on the day before the  
22                       expatriation date and the unpaid portion of  
23                       such tax shall be due and payable at the time  
24                       and in the manner prescribed by the Secretary.

1           “(2) STEP-UP IN BASIS.—Solely for purposes of  
2           determining any tax imposed by reason of subsection  
3           (a), property which was held by an individual on the  
4           date the individual first became a resident of the  
5           United States (within the meaning of section  
6           7701(b)) shall be treated as having a basis on such  
7           date of not less than the fair market value of such  
8           property on such date. The preceding sentence shall  
9           not apply if the individual elects not to have such  
10          sentence apply. Such an election, once made, shall  
11          be irrevocable.

12           “(3) COORDINATION WITH SECTION 684.—If the  
13          expatriation of any individual would result in the  
14          recognition of gain under section 684, this section  
15          shall be applied after the application of section 684.

16          “(i) REGULATIONS.—The Secretary shall prescribe  
17          such regulations as may be necessary or appropriate to  
18          carry out the purposes of this section.”.

19          (b) TAX ON GIFTS AND BEQUESTS RECEIVED BY  
20          UNITED STATES CITIZENS AND RESIDENTS FROM EXPA-  
21          TRIATES.—

22           (1) IN GENERAL.—Subtitle B (relating to estate  
23          and gift taxes) is amended by inserting after chapter  
24          14 the following new chapter:

1       **“CHAPTER 15—GIFTS AND BEQUESTS**  
2                               **FROM EXPATRIATES**

“Sec. 2801. Imposition of tax.

3       **“SEC. 2801. IMPOSITION OF TAX.**

4               “(a) IN GENERAL.—If, during any calendar year, any  
5 United States citizen or resident receives any covered gift  
6 or bequest, there is hereby imposed a tax equal to the  
7 product of—

8                       “(1) the highest rate of tax specified in the  
9 table contained in section 2001(c) as in effect on the  
10 date of such receipt (or, if greater, the highest rate  
11 of tax specified in the table applicable under section  
12 2502(a) as in effect on the date), and

13                      “(2) the value of such covered gift or bequest.

14               “(b) TAX TO BE PAID BY RECIPIENT.—The tax im-  
15 posed by subsection (a) on any covered gift or bequest  
16 shall be paid by the person receiving such gift or bequest.

17               “(c) EXCEPTION FOR CERTAIN GIFTS.—Subsection  
18 (a) shall apply only to the extent that the value of covered  
19 gifts and bequests received by any person during the cal-  
20 endar year exceeds \$10,000.

21               “(d) TAX REDUCED BY FOREIGN GIFT OR ESTATE  
22 TAX.—The tax imposed by subsection (a) on any covered  
23 gift or bequest shall be reduced by the amount of any gift



1 or estate tax paid to a foreign country with respect to such  
2 covered gift or bequest.

3 “(e) COVERED GIFT OR BEQUEST.—

4 “(1) IN GENERAL.—For purposes of this chap-  
5 ter, the term ‘covered gift or bequest’ means—

6 “(A) any property acquired by gift directly  
7 or indirectly from an individual who, at the  
8 time of such acquisition, is a covered expatriate,  
9 and

10 “(B) any property acquired directly or in-  
11 directly by reason of the death of an individual  
12 who, immediately before such death, was a cov-  
13 ered expatriate.

14 “(2) EXCEPTIONS FOR TRANSFERS OTHERWISE  
15 SUBJECT TO ESTATE OR GIFT TAX.—Such term shall  
16 not include—

17 “(A) any property shown on a timely filed  
18 return of tax imposed by chapter 12 which is a  
19 taxable gift by the covered expatriate, and

20 “(B) any property included in the gross es-  
21 tate of the covered expatriate for purposes of  
22 chapter 11 and shown on a timely filed return  
23 of tax imposed by chapter 11 of the estate of  
24 the covered expatriate.

25 “(3) TRANSFERS IN TRUST.—

1           “(A) DOMESTIC TRUSTS.—In the case of a  
2 covered gift or bequest made to a domestic  
3 trust—

4           “(i) subsection (a) shall apply in the  
5 same manner as if such trust were a  
6 United States citizen, and

7           “(ii) the tax imposed by subsection (a)  
8 on such gift or bequest shall be paid by  
9 such trust.

10          “(B) FOREIGN TRUSTS.—

11          “(i) IN GENERAL.—In the case of a  
12 covered gift or bequest made to a foreign  
13 trust, subsection (a) shall apply to any dis-  
14 tribution attributable to such gift or be-  
15 quest from such trust (whether from in-  
16 come or corpus) to a United States citizen  
17 or resident in the same manner as if such  
18 distribution were a covered gift or bequest.

19          “(ii) DEDUCTION FOR TAX PAID BY  
20 RECIPIENT.—There shall be allowed as a  
21 deduction under section 164 the amount of  
22 tax imposed by this section which is paid  
23 or accrued by a United States citizen or  
24 resident by reason of a distribution from a  
25 foreign trust, but only to the extent such

1 tax is imposed on the portion of such dis-  
 2 tribution which is included in the gross in-  
 3 come of such citizen or resident.

4 “(iii) ELECTION TO BE TREATED AS  
 5 DOMESTIC TRUST.—Solely for purposes of  
 6 this section, a foreign trust may elect to be  
 7 treated as a domestic trust. Such an elec-  
 8 tion may be revoked with the consent of  
 9 the Secretary.

10 “(f) COVERED EXPATRIATE.—For purposes of this  
 11 section, the term ‘covered expatriate’ has the meaning  
 12 given to such term by section 877A(g)(1).”.

13 (2) CLERICAL AMENDMENT.—The table of  
 14 chapters for subtitle B is amended by inserting after  
 15 the item relating to chapter 14 the following new  
 16 item:

“CHAPTER 15. GIFTS AND BEQUESTS FROM EXPATRIATES.”.

17 (c) DEFINITION OF TERMINATION OF UNITED  
 18 STATES CITIZENSHIP.—

19 (1) IN GENERAL.—Section 7701(a) is amended  
 20 by adding at the end the following new paragraph:

21 “(50) TERMINATION OF UNITED STATES CITI-  
 22 ZENSHIP.—

23 “(A) IN GENERAL.—An individual shall  
 24 not cease to be treated as a United States citi-  
 25 zen before the date on which the individual’s

1 citizenship is treated as relinquished under sec-  
2 tion 877A(g)(4).

3 “(B) DUAL CITIZENS.—Under regulations  
4 prescribed by the Secretary, subparagraph (A)  
5 shall not apply to an individual who became at  
6 birth a citizen of the United States and a cit-  
7 izen of another country.”.

8 (2) CONFORMING AMENDMENTS.—

9 (A) Paragraph (1) of section 877(e) is  
10 amended to read as follows:

11 “(1) IN GENERAL.—Any long-term resident of  
12 the United States who ceases to be a lawful perma-  
13 nent resident of the United States (within the mean-  
14 ing of section 7701(b)(6)) shall be treated for pur-  
15 poses of this section and sections 2107, 2501, and  
16 6039G in the same manner as if such resident were  
17 a citizen of the United States who lost United States  
18 citizenship on the date of such cessation or com-  
19 mencement.”.

20 (B) Paragraph (6) of section 7701(b) is  
21 amended by adding at the end the following  
22 flush sentence:

23 “An individual shall cease to be treated as a lawful  
24 permanent resident of the United States if such in-  
25 dividual commences to be treated as a resident of a

1 foreign country under the provisions of a tax treaty  
2 between the United States and the foreign country,  
3 does not waive the benefits of such treaty applicable  
4 to residents of the foreign country, and notifies the  
5 Secretary of the commencement of such treatment.”.

6 (C) Section 7701 is amended by striking  
7 subsection (n) and by redesignating subsections  
8 (o) and (p) as subsections (n) and (o), respec-  
9 tively.

10 (d) INFORMATION RETURNS.—Section 6039G is  
11 amended—

12 (1) by inserting “or 877A” after “section  
13 877(b)” in subsection (a), and

14 (2) by inserting “or 877A” after “section  
15 877(a)” in subsection (d).

16 (e) CLERICAL AMENDMENT.—The table of sections  
17 for subpart A of part II of subchapter N of chapter 1  
18 is amended by inserting after the item relating to section  
19 877 the following new item:

“Sec. 877A. Tax responsibilities of expatriation.”.

20 (f) EFFECTIVE DATE.—

21 (1) IN GENERAL.—Except as provided in this  
22 subsection, the amendments made by this section  
23 shall apply to expatriates (as defined in section  
24 877A(g) of the Internal Revenue Code of 1986, as  
25 added by this section) whose expatriation date (as so

1 defined) is on or after the date of the enactment of  
2 this Act.

3 (2) GIFTS AND BEQUESTS.—Chapter 15 of the  
4 Internal Revenue Code of 1986 (as added by sub-  
5 section (b)) shall apply to covered gifts and bequests  
6 (as defined in section 2801 of such Code, as so  
7 added) received on or after the date of the enact-  
8 ment of this Act, regardless of when the transferor  
9 expatriated.

10 **SEC. 505. REPEAL OF SUSPENSION OF CERTAIN PENALTIES**  
11 **AND INTEREST.**

12 (a) IN GENERAL.—Section 6404 is amended by strik-  
13 ing subsection (g) and by redesignating subsection (h) as  
14 subsection (g).

15 (b) EFFECTIVE DATE.—The amendment made by  
16 subsection (a) shall apply to notices provided by the Sec-  
17 retary of the Treasury, or his delegate, after the date  
18 which is 6 months after the date of the enactment of the  
19 Small Business and Work Opportunity Tax Act of 2007.

20 **SEC. 506. UNUSED MERCHANDISE DRAWBACK.**

21 (a) IN GENERAL.—Section 313(j)(2) of the Tariff  
22 Act of 1930 (19 U.S.C. 1313(j)(2)) is amended by adding  
23 at the end the following: “For purposes of subparagraph  
24 (A) of this paragraph, wine of the same color having a  
25 price variation not to exceed 50 percent between the im-

1 ported wine and the exported wine shall be deemed to be  
2 commercially interchangeable.”.

3 (b) **EFFECTIVE DATE.**—The amendment made by  
4 subsection (a) shall apply with respect to claims filed for  
5 drawback under section 313(j)(2) of the Tariff Act of  
6 1930 on or after the date of the enactment of this Act.

## 7 **TITLE VI—REVENUE**

### 8 **PROVISIONS**

#### 9 **Subtitle A—Nonqualified Deferred** 10 **Compensation From Certain** 11 **Tax Indifferent Parties**

##### 12 **SEC. 601. NONQUALIFIED DEFERRED COMPENSATION** 13 **FROM CERTAIN TAX INDIFFERENT PARTIES.**

14 (a) **IN GENERAL.**—Subpart B of part II of sub-  
15 chapter E of chapter 1 (relating to taxable year for which  
16 items of gross income included) is amended by inserting  
17 after section 457 the following new section:

##### 18 **“SEC. 457A. NONQUALIFIED DEFERRED COMPENSATION** 19 **FROM CERTAIN TAX INDIFFERENT PARTIES.**

20 “(a) **IN GENERAL.**—Any compensation which is de-  
21 ferred under a nonqualified deferred compensation plan of  
22 a nonqualified entity shall be taken into account for pur-  
23 poses of this chapter when there is no substantial risk of  
24 forfeiture of the rights to such compensation.

1       “(b) NONQUALIFIED ENTITY.—For purposes of this  
2 section, the term ‘nonqualified entity’ means—

3           “(1) any foreign corporation unless substan-  
4 tially all of such income is—

5               “(A) effectively connected with the conduct  
6 of a trade or business in the United States, or

7               “(B) subject to a comprehensive foreign in-  
8 come tax, and

9           “(2) any partnership unless substantially all of  
10 such income is allocated to persons other than—

11               “(A) foreign persons with respect to whom  
12 such income is not subject to a comprehensive  
13 foreign income tax, and

14               “(B) organizations which are exempt from  
15 tax under this title.

16       “(c) ASCERTAINABILITY OF AMOUNTS OF COM-  
17 PENSATION.—

18           “(1) IN GENERAL.—If the amount of any com-  
19 pensation is not ascertainable at the time that such  
20 compensation is otherwise to be taken into account  
21 under subsection (a)—

22               “(A) such amount shall be so taken into  
23 account when ascertainable, and

24               “(B) the tax imposed under this chapter  
25 for the taxable year in which such compensation



1 is taken into account under subparagraph (A)  
2 shall be increased by the sum of—

3 “(i) the amount of interest determined  
4 under paragraph (2), and

5 “(ii) an amount equal to 20 percent of  
6 the amount of such compensation.

7 “(2) INTEREST.—For purposes of paragraph  
8 (1)(B)(i), the interest determined under this para-  
9 graph for any taxable year is the amount of interest  
10 at the underpayment rate under section 6621 plus  
11 1 percentage point on the underpayments that would  
12 have occurred had the deferred compensation been  
13 includible in gross income for the taxable year in  
14 which first deferred or, if later, the first taxable year  
15 in which such deferred compensation is not subject  
16 to a substantial risk of forfeiture.

17 “(d) OTHER DEFINITIONS AND SPECIAL RULES.—  
18 For purposes of this section—

19 “(1) SUBSTANTIAL RISK OF FORFEITURE.—The  
20 rights of a person to compensation shall be treated  
21 as subject to a substantial risk of forfeiture only if  
22 such person’s rights to such compensation are condi-  
23 tioned upon the future performance of substantial  
24 services by any individual.

1           “(2) COMPREHENSIVE FOREIGN INCOME TAX.—

2           The term ‘comprehensive foreign income tax’ means,  
3           with respect to any foreign person, the income tax  
4           of a foreign country if—

5                   “(A) such person is eligible for the benefits  
6                   of a comprehensive income tax treaty between  
7                   such foreign country and the United States, or

8                   “(B) such person demonstrates to the sat-  
9                   isfaction of the Secretary that such foreign  
10                  country has a comprehensive income tax.

11          Such term shall not include any tax unless such tax  
12          includes rules for the deductibility of deferred com-  
13          pensation which are similar to the rules of this title.

14           “(3) NONQUALIFIED DEFERRED COMPENSA-  
15          TION PLAN.—The term ‘nonqualified deferred com-  
16          pensation plan’ has the meaning given such term  
17          under section 409A(d), except that such term shall  
18          include any plan that provides a right to compensa-  
19          tion based on the appreciation in value of a specified  
20          number of equity units of the service recipient.

21           “(4) APPLICATION OF RULES.—Rules similar to  
22          the rules of paragraphs (5) and (6) of section  
23          409A(d) shall apply.

24           “(e) REGULATIONS.—The Secretary shall prescribe  
25          such regulations as may be necessary or appropriate to

1 carry out the purposes of this section, including regula-  
2 tions disregarding a substantial risk of forfeiture in cases  
3 where necessary to carry out the purposes of this sec-  
4 tion.”.

5 (b) CONFORMING AMENDMENT.—Section 26(b)(2) is  
6 amended by striking “and” at the end of subparagraph  
7 (S), by striking the period at the end of subparagraph (T)  
8 and inserting “, and”, and by adding at the end the fol-  
9 lowing new subparagraph:

10 “(U) section 457A(c)(1)(B) (relating to as-  
11 certainability of amounts of compensation).”.

12 (c) CLERICAL AMENDMENT.—The table of sections  
13 of subpart B of part II of subchapter E of chapter 1 is  
14 amended by inserting after the item relating to section  
15 457 the following new item:

“Sec. 457A. Nonqualified deferred compensation from certain tax indifferent  
parties.”.

16 (d) EFFECTIVE DATE.—

17 (1) IN GENERAL.—Except as otherwise pro-  
18 vided in this subsection, the amendments made by  
19 this section shall apply to amounts deferred which  
20 are attributable to services performed after Decem-  
21 ber 31, 2007.

22 (2) APPLICATION TO EXISTING DEFERRALS.—  
23 In the case of any amount deferred to which the  
24 amendments made by this section do not apply solely

1 by reason of the fact that the amount is attributable  
2 to services performed before January 1, 2008, to the  
3 extent such amount is not includible in gross income  
4 in a taxable year beginning before 2017, such  
5 amounts shall be includible in gross income in the  
6 later of—

7 (A) the last taxable year beginning before  
8 2017, or

9 (B) the taxable year in which there is no  
10 substantial risk of forfeiture of the rights to  
11 such compensation (determined in the same  
12 manner as determined for purposes of section  
13 457A of the Internal Revenue Code of 1986, as  
14 added by this section).

15 (3) ACCELERATED PAYMENTS.—No later than  
16 60 days after the date of the enactment of this Act,  
17 the Secretary shall issue guidance providing a lim-  
18 ited period of time during which a nonqualified de-  
19 ferred compensation arrangement attributable to  
20 services performed on or before December 31, 2007,  
21 may, without violating the requirements of section  
22 409A(a) of the Internal Revenue Code of 1986, be  
23 amended to conform the date of distribution to the  
24 date the amounts are required to be included in in-  
25 come.

1     **Subtitle B—Provisions Related to**  
2     **Certain Investment Partnerships**

3     **SEC. 611. INCOME OF PARTNERS FOR PERFORMING IN-**  
4                   **VESTMENT MANAGEMENT SERVICES TREAT-**  
5                   **ED AS ORDINARY INCOME RECEIVED FOR**  
6                   **PERFORMANCE OF SERVICES.**

7           (a) IN GENERAL.—Part I of subchapter K of chapter  
8 1 is amended by adding at the end the following new sec-  
9 tion:

10    **“SEC. 710. SPECIAL RULES FOR PARTNERS PROVIDING IN-**  
11                   **VESTMENT MANAGEMENT SERVICES TO**  
12                   **PARTNERSHIP.**

13           “(a) TREATMENT OF DISTRIBUTIVE SHARE OF  
14 PARTNERSHIP ITEMS.—For purposes of this title, in the  
15 case of an investment services partnership interest—

16                   “(1) IN GENERAL.—Notwithstanding section  
17 702(b)—

18                           “(A) any net income with respect to such  
19 interest for any partnership taxable year shall  
20 be treated as ordinary income for the perform-  
21 ance of services, and

22                           “(B) any net loss with respect to such in-  
23 terest for such year, to the extent not dis-  
24 allowed under paragraph (2) for such year,  
25 shall be treated as an ordinary loss.

1           “(2) TREATMENT OF LOSSES.—

2                   “(A) LIMITATION.—Any net loss with re-  
3           spect to such interest shall be allowed for any  
4           partnership taxable year only to the extent that  
5           such loss does not exceed the excess (if any)  
6           of—

7                           “(i) the aggregate net income with re-  
8                           spect to such interest for all prior partner-  
9                           ship taxable years, over

10                           “(ii) the aggregate net loss with re-  
11                           spect to such interest not disallowed under  
12                           this subparagraph for all prior partnership  
13                           taxable years.

14                   “(B) CARRYFORWARD.—Any net loss for  
15           any partnership taxable year which is not al-  
16           lowed by reason of subparagraph (A) shall be  
17           treated as an item of loss with respect to such  
18           partnership interest for the succeeding partner-  
19           ship taxable year.

20                   “(C) BASIS ADJUSTMENT.—No adjustment  
21           to the basis of a partnership interest shall be  
22           made on account of any net loss which is not  
23           allowed by reason of subparagraph (A).

24                   “(D) EXCEPTION FOR BASIS ATTRIB-  
25           UTABLE TO PURCHASE OF A PARTNERSHIP IN-

1           TEREST.—In the case of an investment services  
2           partnership interest acquired by purchase, para-  
3           graph (1)(B) shall not apply to so much of any  
4           net loss with respect to such interest for any  
5           taxable year as does not exceed the excess of—

6                   “(i) the basis of such interest imme-  
7                   diately after such purchase, over

8                   “(ii) the aggregate net loss with re-  
9                   spect to such interest to which paragraph  
10                  (1)(B) did not apply by reason of this sub-  
11                  paragraph for all prior taxable years.

12           Any net loss to which paragraph (1)(B) does  
13           not apply by reason of this subparagraph shall  
14           not be taken into account under subparagraph  
15           (A).

16                  “(E) PRIOR PARTNERSHIP YEARS.—Any  
17                  reference in this paragraph to prior partnership  
18                  taxable years shall only include prior partner-  
19                  ship taxable years to which this section applies.

20                  “(3) NET INCOME AND LOSS.—For purposes of  
21           this section—

22                   “(A) NET INCOME.—The term ‘net in-  
23                   come’ means, with respect to any investment  
24                   services partnership interest, for any partner-  
25                   ship taxable year, the excess (if any) of—

1           “(i) all items of income and gain  
2           taken into account by the holder of such  
3           interest under section 702 with respect to  
4           such interest for such year, over

5           “(ii) all items of deduction and loss so  
6           taken into account.

7           “(B) NET LOSS.—The term ‘net loss’  
8           means with respect to such interest for such  
9           year, the excess (if any) of the amount de-  
10          scribed in subparagraph (A)(ii) over the amount  
11          described in subparagraph (A)(i).

12          “(b) DISPOSITIONS OF PARTNERSHIP INTERESTS.—

13           “(1) GAIN.—Any gain on the disposition of an  
14           investment services partnership interest shall be  
15           treated as ordinary income for the performance of  
16           services.

17           “(2) LOSS.—Any loss on the disposition of an  
18           investment services partnership interest shall be  
19           treated as an ordinary loss to the extent of the ex-  
20           cess (if any) of—

21           “(A) the aggregate net income with respect  
22           to such interest for all partnership taxable  
23           years, over



1           “(B) the aggregate net loss with respect to  
2           such interest allowed under subsection (a)(2)  
3           for all partnership taxable years.

4           “(3) DISPOSITION OF PORTION OF INTEREST.—  
5           In the case of any disposition of an investment serv-  
6           ices partnership interest, the amount of net loss  
7           which otherwise would have (but for subsection  
8           (a)(2)(C)) applied to reduce the basis of such inter-  
9           est shall be disregarded for purposes of this section  
10          for all succeeding partnership taxable years.

11          “(4) DISTRIBUTIONS OF PARTNERSHIP PROP-  
12          ERTY.—In the case of any distribution of appre-  
13          ciated property by a partnership with respect to any  
14          investment services partnership interest, gain shall  
15          be recognized by the partnership in the same man-  
16          ner as if the partnership sold such property at fair  
17          market value at the time of the distribution. For  
18          purposes of this paragraph, the term ‘appreciated  
19          property’ means any property with respect to which  
20          gain would be determined if sold as described in the  
21          preceding sentence.

22          “(5) APPLICATION OF SECTION 751.—In apply-  
23          ing section 751(a), an investment services partner-  
24          ship interest shall be treated as an inventory item.

1       “(c) INVESTMENT SERVICES PARTNERSHIP INTER-  
2 EST.—For purposes of this section—

3           “(1) IN GENERAL.—The term ‘investment serv-  
4 ices partnership interest’ means any interest in a  
5 partnership which is held by any person if such per-  
6 son provides (directly or indirectly) a substantial  
7 quantity of any of the following services with respect  
8 to the assets of the partnership in the conduct of the  
9 trade or business of providing such services:

10           “(A) Advising as to the advisability of in-  
11 vesting in, purchasing, or selling any specified  
12 asset.

13           “(B) Managing, acquiring, or disposing of  
14 any specified asset.

15           “(C) Arranging financing with respect to  
16 acquiring specified assets.

17           “(D) Any activity in support of any service  
18 described in subparagraphs (A) through (C).

19 For purposes of this paragraph, the term ‘specified  
20 asset’ means securities (as defined in section  
21 475(c)(2) without regard to the last sentence there-  
22 of), real estate, commodities (as defined in section  
23 475(e)(2)), or options or derivative contracts with  
24 respect to securities (as so defined), real estate, or  
25 commodities (as so defined).

1           “(2) EXCEPTION FOR CERTAIN CAPITAL INTER-  
2       ESTS.—

3           “(A) IN GENERAL.—If—

4                   “(i) a portion of an investment serv-  
5                   ices partnership interest is acquired on ac-  
6                   count of a contribution of invested capital,  
7                   and

8                   “(ii) the partnership makes a reason-  
9                   able allocation of partnership items be-  
10                  tween the portion of the distributive share  
11                  that is with respect to invested capital and  
12                  the portion of such distributive share that  
13                  is not with respect to invested capital,

14       then subsection (a) shall not apply to the por-  
15       tion of the distributive share that is with re-  
16       spect to invested capital. An allocation will not  
17       be treated as reasonable for purposes of this  
18       subparagraph if such allocation would result in  
19       the partnership allocating a greater portion of  
20       income to invested capital than any other part-  
21       ner not providing services would have been allo-  
22       cated with respect to the same amount of in-  
23       vested capital.

24           “(B) SPECIAL RULE FOR DISPOSITIONS.—

25       In any case to which subparagraph (A) applies,

1 subsection (b) shall not apply to any gain or  
2 loss allocable to invested capital. The portion of  
3 any gain or loss attributable to invested capital  
4 is the proportion of such gain or loss which is  
5 based on the distributive share of gain or loss  
6 that would have been allocable to invested cap-  
7 ital under subparagraph (A) if the partnership  
8 sold all of its assets immediately before the dis-  
9 position.

10 “(C) INVESTED CAPITAL.—For purposes  
11 of this paragraph, the term ‘invested capital’  
12 means, the fair market value at the time of con-  
13 tribution of any money or other property con-  
14 tributed to the partnership.

15 “(D) TREATMENT OF CERTAIN LOANS.—

16 “(i) PROCEEDS OF PARTNERSHIP  
17 LOANS NOT TREATED AS INVESTED CAP-  
18 ITAL OF SERVICE PROVIDING PARTNERS.—  
19 For purposes of this paragraph, an invest-  
20 ment services partnership interest shall not  
21 be treated as acquired on account of a con-  
22 tribution of invested capital to the extent  
23 that such capital is attributable to the pro-  
24 ceeds of any loan or other advance made or

1           guaranteed, directly or indirectly, by any  
2           partner or the partnership.

3           “(ii) LOANS FROM NONSERVICE PRO-  
4           VIDING PARTNERS TO THE PARTNERSHIP  
5           TREATED AS INVESTED CAPITAL.—For  
6           purposes of this paragraph, any loan or  
7           other advance to the partnership made or  
8           guaranteed, directly or indirectly, by a  
9           partner not providing services to the part-  
10          nership shall be treated as invested capital  
11          of such partner and amounts of income  
12          and loss treated as allocable to invested  
13          capital shall be adjusted accordingly.

14          “(d) OTHER INCOME AND GAIN IN CONNECTION  
15 WITH INVESTMENT MANAGEMENT SERVICES.—

16           “(1) IN GENERAL.—If—

17           “(A) a person performs (directly or indi-  
18           rectly) investment management services for any  
19           entity,

20           “(B) such person holds a disqualified in-  
21           terest with respect to such entity, and

22           “(C) the value of such interest (or pay-  
23           ments thereunder) is substantially related to  
24           the amount of income or gain (whether or not  
25           realized) from the assets with respect to which

1           the investment management services are per-  
2           formed,  
3           any income or gain with respect to such interest  
4           shall be treated as ordinary income for the perform-  
5           ance of services. Rules similar to the rules of sub-  
6           section (c)(2) shall apply where such interest was ac-  
7           quired on account of invested capital in such entity.

8           “(2) DEFINITIONS.—For purposes of this sub-  
9           section—

10           “(A) DISQUALIFIED INTEREST.—The term  
11           ‘disqualified interest’ means, with respect to  
12           any entity—

13           “(i) any interest in such entity other  
14           than indebtedness,

15           “(ii) convertible or contingent debt of  
16           such entity,

17           “(iii) any option or other right to ac-  
18           quire property described in clause (i) or  
19           (ii), and

20           “(iv) any derivative instrument en-  
21           tered into (directly or indirectly) with such  
22           entity or any investor in such entity.

23           Such term shall not include a partnership inter-  
24           est and shall not include stock in a taxable cor-  
25           poration.

1                   “(B) TAXABLE CORPORATION.—The term  
2                   ‘taxable corporation’ means—

3                   “(i) a domestic C corporation, or

4                   “(ii) a foreign corporation subject to a  
5                   comprehensive foreign income tax (as de-  
6                   fined in section 457A(d)(4)).

7                   “(C) INVESTMENT MANAGEMENT SERV-  
8                   ICES.—The term ‘investment management serv-  
9                   ices’ means a substantial quantity of any of the  
10                  services described in subsection (c)(1) which are  
11                  provided in the conduct of the trade or business  
12                  of providing such services.

13                  “(e) REGULATIONS.—The Secretary shall prescribe  
14                  such regulations as are necessary or appropriate to carry  
15                  out the purposes of this section, including regulations to—

16                  “(1) prevent the avoidance of the purposes of  
17                  this section, and

18                  “(2) coordinate this section with the other pro-  
19                  visions of this subchapter.

20                  “(f) CROSS REFERENCE.—For 40 percent no fault  
21                  penalty on certain underpayments due to the avoidance  
22                  of this section, see section 6662.”.

23                  (b) APPLICATION TO REAL ESTATE INVESTMENT  
24                  TRUSTS.—Subsection (c) of section 856 is amended by  
25                  adding at the end the following new paragraph:

1           “(8) EXCEPTION FROM RECHARACTERIZATION  
2 OF INCOME FROM INVESTMENT SERVICES PARTNER-  
3 SHIP INTERESTS.—

4           “(A) IN GENERAL.—Paragraphs (2), (3),  
5 and (4) shall be applied without regard to sec-  
6 tion 710 (relating to special rules for partners  
7 providing investment management services to  
8 partnership).

9           “(B) SPECIAL RULE FOR PARTNERSHIPS  
10 OWNED BY REITS.—Section 7704 shall be ap-  
11 plied without regard to section 710 in the case  
12 of a partnership which meets each of the fol-  
13 lowing requirements:

14           “(i) Such partnership is treated as  
15 publicly traded under section 7704 solely  
16 by reason of interests in such partnership  
17 being convertible into interests in a real es-  
18 tate investment trust which is publicly  
19 traded.

20           “(ii) 50 percent or more of the capital  
21 and profits interests of such partnership  
22 are owned, directly or indirectly, at all  
23 times during the taxable year by such real  
24 estate investment trust (determined with  
25 the application of section 267(e)).



1                   “(iii) Such partnership meets the re-  
2                   quirements of paragraphs (2), (3), and (4)  
3                   (applied without regard to section 710).”.

4           (c) IMPOSITION OF PENALTY ON UNDERPAY-  
5 MENTS.—

6           (1) IN GENERAL.—Subsection (b) of section  
7           6662 is amended by inserting after paragraph (5)  
8           the following new paragraph:

9           “(6) The application of subsection (d) of section  
10          710 or the regulations prescribed under section  
11          710(e) to prevent the avoidance of the purposes of  
12          section 710.”.

13          (2) AMOUNT OF PENALTY.—

14               (A) IN GENERAL.—Section 6662 is amend-  
15               ed by adding at the end the following new sub-  
16               section:

17          “(i) INCREASE IN PENALTY IN CASE OF PROPERTY  
18 TRANSFERRED FOR INVESTMENT MANAGEMENT SERV-  
19 ICES.—In the case of any portion of an underpayment to  
20 which this section applies by reason of subsection (b)(6),  
21 subsection (a) shall be applied with respect to such portion  
22 by substituting ‘40 percent’ for ‘20 percent’.”.

23               (B) CONFORMING AMENDMENTS.—Sub-  
24               paragraph (B) of section 6662A(e)(2) is  
25               amended—

1 (i) by striking “section 6662(h)” and  
2 inserting “subsection (h) or (i) of section  
3 6662”, and

4 (ii) by striking “GROSS VALUATION  
5 MISSTATEMENT PENALTY” in the heading  
6 and inserting “CERTAIN INCREASED UN-  
7 DERPAYMENT PENALTIES”.

8 (3) REASONABLE CAUSE EXCEPTION NOT AP-  
9 PPLICABLE.—Subsection (c) of section 6664 is  
10 amended—

11 (A) by redesignating paragraphs (2) and  
12 (3) as paragraphs (3) and (4), respectively,

13 (B) by striking “paragraph (2)” in para-  
14 graph (4), as so redesignated, and inserting  
15 “paragraph (3)”, and

16 (C) by inserting after paragraph (1) the  
17 following new paragraph:

18 “(2) EXCEPTION.—Paragraph (1) shall not  
19 apply to any portion of an underpayment to which  
20 this section applies by reason of subsection (b)(6).”.

21 (d) CONFORMING AMENDMENTS.—

22 (1) Subsection (d) of section 731 is amended by  
23 inserting “section 710(b)(4) (relating to distribu-  
24 tions of partnership property),” before “section  
25 736”.

1           (2) Section 741 is amended by inserting “or  
2           section 710 (relating to special rules for partners  
3           providing investment management services to part-  
4           nership)” before the period at the end.

5           (3) Paragraph (13) of section 1402(a) is  
6           amended—

7                   (A) by striking “other than guaranteed”  
8                   and inserting “other than—

9                           “(A) guaranteed”,

10                   (B) by striking the semi-colon at the end  
11                   and inserting “, and”, and

12                   (C) by adding at the end the following new  
13                   subparagraph:

14                           “(B) any income treated as ordinary in-  
15                   come under section 710 received by an indi-  
16                   vidual who provides investment management  
17                   services (as defined in section 710(d)(2));”.

18           (4) Paragraph (12) of section 211(a) of the So-  
19           cial Security Act is amended—

20                   (A) by striking “other than guaranteed”  
21                   and inserting “other than—

22                           “(A) guaranteed”,

23                   (B) by striking the semi-colon at the end  
24                   and inserting “, and”, and

1 (C) by adding at the end the following new  
2 subparagraph:

3 “(B) any income treated as ordinary in-  
4 come under section 710 of the Internal Revenue  
5 Code of 1986 received by an individual who  
6 provides investment management services (as  
7 defined in section 710(d)(2) of such Code);”.

8 (5) The table of sections for part I of sub-  
9 chapter K of chapter 1 is amended by adding at the  
10 end the following new item:

“Sec. 710. Special rules for partners providing investment management services  
to partnership.”.

11 (e) EFFECTIVE DATE.—

12 (1) IN GENERAL.—Except as otherwise pro-  
13 vided in this subsection, the amendments made by  
14 this section shall apply to taxable years ending after  
15 November 1, 2007.

16 (2) PARTNERSHIP TAXABLE YEARS WHICH IN-  
17 CLUDE EFFECTIVE DATE.—In applying section  
18 710(a) of the Internal Revenue Code of 1986 (as  
19 added by this section) in the case of any partnership  
20 taxable year which includes November 1, 2007, the  
21 amount of the net income referred to in such section  
22 shall be treated as being the lesser of the net income  
23 for the entire partnership taxable year or the net in-  
24 come determined by only taking into account items

1       attributable to the portion of the partnership taxable  
2       year which is after such date.

3           (3) DISPOSITIONS OF PARTNERSHIP INTER-  
4       ESTS.—Section 710(b) of the Internal Revenue Code  
5       of 1986 (as added by this section) shall apply to dis-  
6       positions and distributions after November 1, 2007.

7           (4) OTHER INCOME AND GAIN IN CONNECTION  
8       WITH INVESTMENT MANAGEMENT SERVICES.—Sec-  
9       tion 710(d) of such Code (as added by this section)  
10      shall take effect on November 1, 2007.

11          (5) PUBLICLY TRADED PARTNERSHIPS.—For  
12      purposes of applying section 7704, the amendments  
13      made by this section shall apply to taxable years be-  
14      ginning after December 31, 2009.

15   **SEC. 612. INDEBTEDNESS INCURRED BY A PARTNERSHIP IN**  
16                   **ACQUIRING SECURITIES AND COMMODITIES**  
17                   **NOT TREATED AS ACQUISITION INDEBTED-**  
18                   **NESS FOR ORGANIZATIONS WHICH ARE**  
19                   **PARTNERS WITH LIMITED LIABILITY.**

20      (a) IN GENERAL.—Subsection (c) of section 514 (re-  
21      lating to acquisition indebtedness) is amended by adding  
22      at the end the following new paragraph:

23           “(10) SECURITIES AND COMMODITIES AC-  
24      QUIRED BY PARTNERSHIPS IN WHICH AN ORGANIZA-  
25      TION IS A PARTNER WITH LIMITED LIABILITY.—

1           “(A) IN GENERAL.—In the case of any or-  
2           organization which is a partner with limited liabil-  
3           ity in a partnership, the term ‘acquisition in-  
4           debtedness’ does not, for purposes of this sec-  
5           tion, include indebtedness incurred or continued  
6           by such partnership in purchasing or carrying  
7           any qualified security or commodity.

8           “(B) QUALIFIED SECURITY OR COM-  
9           MODITY.—For purposes of this paragraph, the  
10          term ‘qualified security or commodity’ means  
11          any security (as defined in section 475(e)(2)  
12          without regard to the last sentence thereof),  
13          any commodity (as defined in section  
14          475(e)(2)), or any option or derivative contract  
15          with respect to such a security or commodity.

16          “(C) APPLICATION TO TIERED PARTNER-  
17          SHIPS AND OTHER PASS-THRU ENTITIES.—  
18          Rules similar to the rules of subparagraph (A)  
19          shall apply in the case of tiered partnerships  
20          and other pass-thru entities.

21          “(D) REGULATIONS.—The Secretary may  
22          prescribe such regulations as may be necessary  
23          or appropriate to carry out the purposes of this  
24          paragraph, including regulations to prevent the  
25          abuse of this paragraph.”.

1 (b) EFFECTIVE DATE.—The amendment made by  
2 this section shall apply to taxable years beginning after  
3 the date of the enactment of this Act.

4 **SEC. 613. APPLICATION TO PARTNERSHIP INTERESTS AND**  
5 **TAX SHARING AGREEMENTS OF RULE TREAT-**  
6 **ING CERTAIN GAIN ON SALES BETWEEN RE-**  
7 **LATED PERSONS AS ORDINARY INCOME.**

8 (a) PARTNERSHIP INTERESTS.—Subsection (a) of  
9 section 1239 is amended to read as follows:

10 “(a) TREATMENT OF GAIN AS ORDINARY INCOME.—  
11 In the case of a sale or exchange of property, directly or  
12 indirectly, between related persons, any gain recognized to  
13 the transferor shall be treated as ordinary income if—

14 “(1) such property is, in the hands of the trans-  
15 feree, of a character which is subject to the allow-  
16 ance for depreciation provided in section 167, or

17 “(2) such property is an interest in a partner-  
18 ship, but only to the extent of gain attributable to  
19 unrealized appreciation in property which is of a  
20 character subject to the allowance for depreciation  
21 provided in section 167.”.

22 (b) TAX SHARING AGREEMENTS.—Section 1239 (re-  
23 lating to gain from sale of depreciable property between  
24 certain related taxpayers) is amended by adding at the  
25 end the following new subsection:

1       “(f) APPLICATION TO TAX SHARING AGREE-  
2 MENTS.—

3           “(1) IN GENERAL.—If there is a tax sharing  
4 agreement with respect to any sale or exchange, the  
5 transferee and the transferor shall be treated as re-  
6 lated persons for purposes of this section.

7           “(2) TAX SHARING AGREEMENT.—For purposes  
8 of this subsection, the term ‘tax sharing agreement’  
9 means any agreement which provides for the pay-  
10 ment to the transferor of any amount which is deter-  
11 mined by reference to any portion of the tax benefit  
12 realized by the transferee with respect to the depre-  
13 ciation (or amortization) of the property trans-  
14 ferred.”.

15       (c) EFFECTIVE DATE.—

16           (1) IN GENERAL.—Except as provided in para-  
17 graph (2), the amendments made by this section  
18 shall apply to sales and exchanges after the date of  
19 the enactment of this Act.

20           (2) EXCEPTION FOR BINDING CONTRACTS.—  
21 The amendment made by subsection (b) shall not  
22 apply to any sale or exchange pursuant to a written  
23 binding contract which includes a tax sharing agree-  
24 ment and which is in effect on November 1, 2007,  
25 and not modified thereafter in any material respect.



1           **Subtitle C—Other Provisions**

2   **SEC. 621. DELAY IN APPLICATION OF WORLDWIDE ALLOCA-**  
3                           **TION OF INTEREST.**

4           (a) IN GENERAL.—Paragraphs (5)(D) and (6) of sec-  
5   tion 864(f) are each amended by striking “December 31,  
6   2008” and inserting “December 31, 2017”.

7           (b) EFFECTIVE DATE.—The amendments made by  
8   this section shall apply to taxable years beginning after  
9   December 31, 2008.

10   **SEC. 622. BROKER REPORTING OF CUSTOMER’S BASIS IN**  
11                           **SECURITIES TRANSACTIONS.**

12           (a) IN GENERAL.—

13                   (1) BROKER REPORTING FOR SECURITIES  
14   TRANSACTIONS.—Section 6045 (relating to returns  
15   of brokers) is amended by adding at the end the fol-  
16   lowing new subsection:

17           “(g) ADDITIONAL INFORMATION REQUIRED IN THE  
18   CASE OF SECURITIES TRANSACTIONS.—

19                   “(1) IN GENERAL.—If a broker is otherwise re-  
20   quired to make a return under subsection (a) with  
21   respect to the gross proceeds of the sale of a covered  
22   security, the broker shall include in such return the  
23   information described in paragraph (2).

24                   “(2) ADDITIONAL INFORMATION REQUIRED.—

1           “(A) IN GENERAL.—The information re-  
2           quired under paragraph (1) to be shown on a  
3           return with respect to a covered security of a  
4           customer shall include the customer’s adjusted  
5           basis in such security and whether any gain or  
6           loss with respect to such security is long-term  
7           or short-term (within the meaning of section  
8           1222).

9           “(B) DETERMINATION OF ADJUSTED  
10          BASIS.—For purposes of subparagraph (A)—

11           “(i) IN GENERAL.—The customer’s  
12          adjusted basis shall be determined—

13           “(I) in the case of any stock  
14           (other than any stock in an open-end  
15           fund), in accordance with the first-in  
16           first-out method unless the customer  
17           notifies the broker by means of mak-  
18           ing an adequate identification of the  
19           stock sold or transferred,

20           “(II) in the case of any stock in  
21           an open-end fund acquired before  
22           January 1, 2011, in accordance with  
23           any acceptable method under section  
24           1012 with respect to the account in  
25           which such interest is held,

1                   “(III) in the case of any stock in  
2                   an open-end fund acquired after De-  
3                   cember 31, 2010, in accordance with  
4                   the broker’s default method unless the  
5                   customer notifies the broker that he  
6                   elects another acceptable method  
7                   under section 1012 with respect to the  
8                   account in which such interest is held,  
9                   and

10                   “(IV) in any other case, under  
11                   the method for making such deter-  
12                   mination under section 1012.

13                   “(ii) EXCEPTION FOR WASH SALES.—  
14                   Except as otherwise provided by the Sec-  
15                   retary, the customer’s adjusted basis shall  
16                   be determined without regard to section  
17                   1091 (relating to loss from wash sales of  
18                   stock or securities) unless the transactions  
19                   occur in the same account with respect to  
20                   identical securities.

21                   “(3) COVERED SECURITY.—For purposes of  
22                   this subsection—

23                   “(A) IN GENERAL.—The term ‘covered se-  
24                   curity’ means any specified security acquired on  
25                   or after the applicable date if such security—

1           “(i) was acquired through a trans-  
2           action in the account in which such secu-  
3           rity is held, or

4           “(ii) was transferred to such account  
5           from an account in which such security  
6           was a covered security, but only if the  
7           broker received a statement under section  
8           6045A with respect to the transfer.

9           “(B) SPECIFIED SECURITY.—The term  
10          ‘specified security’ means—

11           “(i) any share of stock in a corpora-  
12           tion,

13           “(ii) any note, bond, debenture, or  
14           other evidence of indebtedness,

15           “(iii) any commodity, or contract or  
16           derivative with respect to such commodity,  
17           if the Secretary determines that adjusted  
18           basis reporting is appropriate for purposes  
19           of this subsection, and

20           “(iv) any other financial instrument  
21           with respect to which the Secretary deter-  
22           mines that adjusted basis reporting is ap-  
23           propriate for purposes of this subsection.

24           “(C) APPLICABLE DATE.—The term ‘appli-  
25          cable date’ means—

1                   “(i) January 1, 2009, in the case of  
2                   any specified security which is stock in a  
3                   corporation, and

4                   “(ii) January 1, 2011, or such later  
5                   date determined by the Secretary in the  
6                   case of any other specified security.

7                   “(4) OPEN-END FUND.—For purposes of this  
8                   subsection, the term ‘open-end fund’ means a regu-  
9                   lated investment company (as defined in section  
10                  851) which is offering for sale or has outstanding  
11                  any redeemable security of which it is the issuer and  
12                  the shares of which are not traded on an established  
13                  securities exchange.”.

14                  (2) BROKER INFORMATION REQUIRED WITH RE-  
15                  SPECT TO OPTIONS.—Section 6045, as amended by  
16                  subsection (a), is amended by adding at the end the  
17                  following new subsection:

18                  “(h) APPLICATION TO OPTIONS ON COVERED SECU-  
19                  RITIES.—

20                  “(1) EXERCISE OF OPTION.—For purposes of  
21                  this section, in the case of any exercise of an option  
22                  on a covered security where the taxpayer is the  
23                  grantor of the option and the option was acquired in  
24                  the same account as the covered security, the  
25                  amount received for the grant of an option on a cov-

1       ered security shall be treated as an adjustment to  
2       gross proceeds or as an adjustment to basis, as the  
3       case may be. A similar rule shall apply in the case  
4       of the exercise of an option where the taxpayer is  
5       not the grantor of the option.

6               “(2) LAPSE OR CLOSING TRANSACTION.—For  
7       purposes of this section, in the case of the lapse (or  
8       closing transaction (as defined in section  
9       1234(b)(2)(A))) of an option on a covered security  
10      where the taxpayer is the grantor of the option, this  
11      section shall apply as if the premium received for  
12      such option were gross proceeds received on the date  
13      of the lapse or closing transaction, and the cost (if  
14      any) of the closing transaction shall be taken into  
15      account as adjusted basis. A similar rule shall apply  
16      in the case of a lapse or closing transaction where  
17      the taxpayer is not the grantor of the option.

18              “(3) PROSPECTIVE APPLICATION.—Paragraphs  
19      (1) and (2) shall not apply to any option which is  
20      granted or acquired before January 1, 2011.

21              “(4) COVERED SECURITY.—For purposes of  
22      this subsection, the term ‘covered security’ shall  
23      have the meaning given such term in subsection  
24      (g)(3).”.

1           (3) EXTENSION OF PERIOD FOR STATEMENTS  
2 SENT TO CUSTOMERS.—

3           (A) IN GENERAL.—Subsection (b) of sec-  
4 tion 6045 is amended by striking “January 31”  
5 and inserting “February 15”.

6           (B) STATEMENTS RELATED TO SUB-  
7 STITUTE PAYMENTS.—Subsection (d) of section  
8 6045 is amended—

9                   (i) by striking “at such time and”,  
10 and

11                   (ii) by inserting after “other item.”  
12 the following new sentence: “The written  
13 statement required under the preceding  
14 sentence shall be furnished on or before  
15 February 15 of the year following the cal-  
16 endar year during which such payment was  
17 made.”.

18           (C) OTHER STATEMENTS.—Subsection (b)  
19 of section 6045 is amended by adding at the  
20 end the following: “In the case of a consolidated  
21 reporting statement (as defined in regulations)  
22 with respect to any account which includes the  
23 statement required by this subsection, any  
24 statement which would otherwise be required to  
25 be furnished on or before January 31 under

1 section 6042(c), 6049(c)(2)(A), or 6050N(b)  
2 with respect to any item in such account shall  
3 instead be required to be furnished on or before  
4 February 15 if furnished as part of such con-  
5 solidated reporting statement.”.

6 (b) DETERMINATION OF BASIS OF CERTAIN SECURI-  
7 TIES ON ACCOUNT BY ACCOUNT METHOD.—Section 1012  
8 (relating to basis of property—cost) is amended—

9 (1) by striking “The basis of property” and in-  
10 sserting the following:

11 “(a) IN GENERAL.—The basis of property”,

12 (2) by striking “The cost of real property” and  
13 inserting the following:

14 “(b) SPECIAL RULE FOR APPORTIONED REAL ES-  
15 TATE TAXES.—The cost of real property”, and

16 (3) by adding at the end the following new sub-  
17 section:

18 “(c) DETERMINATIONS BY ACCOUNT.—

19 “(1) IN GENERAL.—In the case of the sale, ex-  
20 change, or other disposition of a specified security  
21 on or after the applicable date, the conventions pre-  
22 scribed by regulations under this section shall be ap-  
23 plied on an account by account basis.

24 “(2) APPLICATION TO OPEN-END FUNDS.—



1           “(A) IN GENERAL.—Except as provided in  
2           subparagraph (B), any stock in an open-end  
3           fund acquired before January 1, 2009, shall be  
4           treated as a separate account from any such  
5           stock acquired on or after such date.

6           “(B) ELECTION BY OPEN-END FUND FOR  
7           TREATMENT AS SINGLE ACCOUNT.—If an open-  
8           end fund elects (at such time and in such form  
9           and manner as the Secretary may prescribe) to  
10          have this subparagraph apply with respect to  
11          one or more of its stockholders—

12                   “(i) subparagraph (A) shall not apply  
13                   with respect to any stock in such fund held  
14                   by such stockholders, and

15                   “(ii) all stock in such fund which is  
16                   held by such stockholders shall be treated  
17                   as covered securities described in section  
18                   6045(g)(3) without regard to the date of  
19                   the acquisition of such stock.

20          “(3) DEFINITIONS.—For purposes of this sec-  
21          tion, the terms ‘specified security’, ‘applicable date’,  
22          and ‘open-end fund’ shall have the meaning given  
23          such terms in section 6045(g).”.

24          (c) INFORMATION BY TRANSFERORS TO AID BRO-  
25          KERS.—

1           (1) IN GENERAL.—Subpart B of part III of  
2           subchapter A of chapter 61 is amended by inserting  
3           after section 6045 the following new section:

4   **“SEC. 6045A. INFORMATION REQUIRED IN CONNECTION**  
5                           **WITH TRANSFERS OF COVERED SECURITIES**  
6                           **TO BROKERS.**

7           “(a) FURNISHING OF INFORMATION.—Every applica-  
8           ble person which transfers to a broker (as defined in sec-  
9           tion 6045(c)(1)) a security which is a covered security (as  
10           defined in section 6045(g)(3)) in the hands of such appli-  
11           cable person shall furnish to such broker a written state-  
12           ment in such manner and setting forth such information  
13           as the Secretary may by regulations prescribe for purposes  
14           of enabling such broker to meet the requirements of sec-  
15           tion 6045(g).

16           “(b) APPLICABLE PERSON.—For purposes of sub-  
17           section (a), the term ‘applicable person’ means—

18                   “(1) any broker (as defined in section  
19                   6045(c)(1)), and

20                   “(2) any other person as provided by the Sec-  
21                   retary in regulations.

22           “(c) TIME FOR FURNISHING STATEMENT.—Any  
23           statement required by subsection (a) shall be furnished  
24           not later than the earlier of—



1 **“SEC. 6045B. RETURNS RELATING TO ACTIONS AFFECTING**  
2 **BASIS OF SPECIFIED SECURITIES.**

3 “(a) IN GENERAL.—According to the forms or regu-  
4 lations prescribed by the Secretary, any issuer of a speci-  
5 fied security shall make a return setting forth—

6 “(1) a description of any organizational action  
7 which affects the basis of such specified security of  
8 such issuer,

9 “(2) the quantitative effect on the basis of such  
10 specified security resulting from such action, and

11 “(3) such other information as the Secretary  
12 may prescribe.

13 “(b) TIME FOR FILING RETURN.—Any return re-  
14 quired by subsection (a) shall be filed not later than the  
15 earlier of—

16 “(1) 45 days after the date of the action de-  
17 scribed in subsection (a), or

18 “(2) January 31 of the year following the cal-  
19 endar year during which such action occurred.

20 “(c) STATEMENTS TO BE FURNISHED TO HOLDERS  
21 OF SPECIFIED SECURITIES OR THEIR NOMINEES.—Ac-  
22 cording to the forms or regulations prescribed by the Sec-  
23 retary, every person required to make a return under sub-  
24 section (a) with respect to a specified security shall furnish  
25 to the nominee with respect to the specified security (or

1 certificate holder if there is no nominee) a written state-  
2 ment showing—

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

6           “(2) the information required to be shown on  
7           such return with respect to such security, and

8           “(3) such other information as the Secretary  
9           may prescribe.

10 The written statement required under the preceding sen-  
11 tence shall be furnished to the holder on or before January  
12 31 of the year following the calendar year during which  
13 the action described in subsection (a) occurred.

14           “(d) SPECIFIED SECURITY.—For purposes of this  
15 section, the term ‘specified security’ has the meaning given  
16 such term by section 6045(g)(3)(B). No return shall be  
17 required under this section with respect to actions de-  
18 scribed in subsection (a) with respect to a specified secu-  
19 rity which occur before the applicable date (as defined in  
20 section 6045(g)(3)(C) with respect to such security.

21           “(e) PUBLIC REPORTING IN LIEU OF RETURN.—The  
22 Secretary may waive the requirements under subsections  
23 (a) and (c) with respect to a specified security, if the per-  
24 son required to make the return under subsection (a)  
25 makes publicly available, in such form and manner as the

1 Secretary determines necessary to carry out the purposes  
2 of this section—

3 “(1) the name, address, phone number, and  
4 email address of the information contact of such  
5 person, and

6 “(2) the information described in paragraphs  
7 (1), (2), and (3) of subsection (a).”.

8 (2) ASSESSABLE PENALTIES.—

9 (A) Subparagraph (B) of section  
10 6724(d)(1) of such Code (defining information  
11 return) is amended by redesignating clauses (iv)  
12 through (xix) as clauses (v) through (xx), re-  
13 spectively, and by inserting after clause (iii) the  
14 following new clause:

15 “(iv) section 6045B(a) (relating to re-  
16 turns relating to actions affecting basis of  
17 specified securities),”.

18 (B) Paragraph (2) of section 6724(d) of  
19 such Code (defining payee statement), as  
20 amended by subsection (c)(2), is amended by  
21 redesignating subparagraphs (J) through (DD)  
22 as subparagraphs (K) through (EE), respec-  
23 tively, and by inserting after subparagraph (I)  
24 the following new subparagraph:

1           “(J) subsections (c) and (e) of section  
2           6045B (relating to returns relating to actions  
3           affecting basis of specified securities).”.

4           (3) CLERICAL AMENDMENT.—The table of sec-  
5           tions for subpart B of part III of subchapter A of  
6           chapter 61 of such Code, as amended by subsection  
7           (b)(3), is amended by inserting after the item relat-  
8           ing to section 6045A the following new item:

          “Sec. 6045B. Returns relating to actions affecting basis of specified securi-  
          ties.”.

9           (e) EFFECTIVE DATE.—The amendments made by  
10          this section shall take effect on January 1, 2009.

11       **SEC. 623. MODIFICATION OF PENALTY FOR FAILURE TO**  
12               **FILE PARTNERSHIP RETURNS.**

13          Section 6698 is amended by adding at the end the  
14          following new subsection:

15          “(e) MODIFICATIONS.—In the case of any return re-  
16          quired to be filed after the date of the enactment of this  
17          subsection—

18               “(1) the dollar amount in effect under sub-  
19               section (b)(1) shall be increased by \$25, and

20               “(2) the limitation on the number of months  
21               taken into account under subsection (a) shall not be  
22               less than 12 months.”.

1 **SEC. 624. PENALTY FOR FAILURE TO FILE S CORPORATION**  
2 **RETURNS.**

3 (a) IN GENERAL.—Part I of subchapter B of chapter  
4 68 (relating to assessable penalties) is amended by adding  
5 at the end the following new section:

6 **“SEC. 6699A. FAILURE TO FILE S CORPORATION RETURN.**

7 “(a) GENERAL RULE.—In addition to the penalty im-  
8 posed by section 7203 (relating to willful failure to file  
9 return, supply information, or pay tax), if any S corpora-  
10 tion required to file a return under section 6037 for any  
11 taxable year—

12 “(1) fails to file such return at the time pre-  
13 scribed therefor (determined with regard to any ex-  
14 tension of time for filing), or

15 “(2) files a return which fails to show the infor-  
16 mation required under section 6037,

17 such S corporation shall be liable for a penalty determined  
18 under subsection (b) for each month (or fraction thereof)  
19 during which such failure continues (but not to exceed 12  
20 months), unless it is shown that such failure is due to rea-  
21 sonable cause.

22 “(b) AMOUNT PER MONTH.—For purposes of sub-  
23 section (a), the amount determined under this subsection  
24 for any month is the product of—

25 “(1) \$25, multiplied by



1           “(2) the number of persons who were share-  
2 holders in the S corporation during any part of the  
3 taxable year.

4           “(c) ASSESSMENT OF PENALTY.—The penalty im-  
5 posed by subsection (a) shall be assessed against the S  
6 corporation.

7           “(d) DEFICIENCY PROCEDURES NOT TO APPLY.—  
8 Subchapter B of chapter 63 (relating to deficiency proce-  
9 dures for income, estate, gift, and certain excise taxes)  
10 shall not apply in respect of the assessment or collection  
11 of any penalty imposed by subsection (a).”.

12           (b) CLERICAL AMENDMENT.—The table of sections  
13 for part I of subchapter B of chapter 68 is amended by  
14 adding at the end the following new item:

“Sec. 6699A. Failure to file S corporation return.”.

15           (c) EFFECTIVE DATE.—The amendments made by  
16 this section shall apply to returns required to be filed after  
17 the date of the enactment of this Act.

18 **SEC. 625. TIME FOR PAYMENT OF CORPORATE ESTIMATED**  
19 **TAXES.**

20           Subparagraph (B) of section 401(1) of the Tax In-  
21 crease Prevention and Reconciliation Act of 2005 is

1 amended by striking “115 percent” and inserting “181  
2 percent”.

Passed the House of Representatives November 9,  
2007.

Attest:

*Clerk.*



110<sup>TH</sup> CONGRESS  
1<sup>ST</sup> SESSION

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**H. R. 3996**

**AN ACT**

To amend the Internal Revenue Code of 1986 to extend certain expiring provisions, and for other purposes.