

105TH CONGRESS  
1ST SESSION

# S. 20

To amend the Internal Revenue Code of 1986 to increase the rate and spread the benefits of economic growth and for other purposes.

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## IN THE SENATE OF THE UNITED STATES

JANUARY 21, 1997

Mr. DASCHLE (for himself, Mr. REID, Mr. LIEBERMAN, Mr. DORGAN, Mr. BREAUX, Mr. KOHL, Mr. WYDEN, and Mr. BINGAMAN) introduced the following bill; which was read twice and referred to the Committee on Finance

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## A BILL

To amend the Internal Revenue Code of 1986 to increase the rate and spread the benefits of economic growth and for other purposes.

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

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

4 (a) SHORT TITLE.—This Act may be cited as the  
5 “Targeted Investment Incentive and Economic Growth  
6 Act of 1997”.

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

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

## 4 **TITLE I—TAXATION OF CAPITAL** 5 **GAINS AND LOSSES**

### 6 **SEC. 101. ROLLOVER OF CAPITAL GAINS ON CERTAIN** 7 **SMALL BUSINESS INVESTMENTS.**

8 (a) IN GENERAL.—Part III of subchapter O of chap-  
 9 ter 1 (relating to common nontaxable exchanges) is  
 10 amended by adding at the end the following new section:

#### 11 **“SEC. 1045. ROLLOVER OF GAIN ON SMALL BUSINESS IN-** 12 **VESTMENTS.**

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

18 “(1) the cost of any other eligible small busi-  
 19 ness investment purchased by the taxpayer during  
 20 the 6-month period beginning on the date of such  
 21 sale, reduced by

22 “(2) any portion of such cost previously taken  
 23 into account under this section.

24 This section shall not apply to any gain which is treated  
 25 as ordinary income for purposes of this subtitle.

1       “(b) DEFINITIONS AND SPECIAL RULES.—For pur-  
2 poses of this section—

3               “(1) PURCHASE.—The term ‘purchase’ has the  
4 meaning given such term by section 1043(b)(4).

5               “(2) ELIGIBLE SMALL BUSINESS INVEST-  
6 MENT.—Except as otherwise provided in this sec-  
7 tion, the term ‘eligible small business investment’  
8 means any stock in a domestic corporation, and any  
9 partnership interest in a domestic partnership,  
10 which is originally issued after December 31, 1996,  
11 if—

12                       “(A) as of the date of issuance, such cor-  
13 poration or partnership is a qualified small  
14 business entity,

15                       “(B) such stock or partnership interest is  
16 acquired by the taxpayer at its original issue  
17 (directly or through an underwriter)—

18                               “(i) in exchange for money or other  
19 property (not including stock), or

20                               “(ii) as compensation for services  
21 (other than services performed as an un-  
22 derwriter of such stock or partnership in-  
23 terest), and

1           “(C) the taxpayer has held such stock or  
 2           interest at least 6 months as of the time of the  
 3           sale described in subsection (a).

4           A rule similar to the rule of section 1202(c)(3) shall  
 5           apply for purposes of this section.

6           “(3) ACTIVE BUSINESS REQUIREMENT.—Stock  
 7           in a corporation, and a partnership interest in a  
 8           partnership, shall not be treated as an eligible small  
 9           business investment unless, during substantially all  
 10          of the taxpayer’s holding period for such stock or  
 11          partnership interest, such corporation or partnership  
 12          meets the active business requirements of subsection  
 13          (c). A rule similar to the rule of section  
 14          1202(c)(2)(B) shall apply for purposes of this sec-  
 15          tion.

16          “(4) QUALIFIED SMALL BUSINESS ENTITY.—

17               “(A) IN GENERAL.—The term ‘qualified  
 18               small business entity’ means any domestic cor-  
 19               poration or partnership if—

20                   “(i) such entity (and any predecessor  
 21                   thereof) had aggregate gross assets (as de-  
 22                   fined in section 1202(d)(2)) of less than  
 23                   \$25,000,000 at all times before the issu-  
 24                   ance of the interest described in paragraph  
 25                   (2), and

1 “(ii) the aggregate gross assets (as so  
2 defined) of the entity immediately after the  
3 issuance (determined by taking into ac-  
4 count amounts received in the issuance)  
5 are less than \$25,000,000.

6 “(B) AGGREGATION RULES.—Rules similar  
7 to the rules of section 1202(d)(3) shall apply  
8 for purposes of this paragraph.

9 “(c) ACTIVE BUSINESS REQUIREMENT.—

10 “(1) IN GENERAL.—For purposes of subsection  
11 (b)(3), the requirements of this subsection are met  
12 by a qualified small business entity for any period  
13 if—

14 “(A) the entity is engaged in the active  
15 conduct of a trade or business, and

16 “(B) at least 80 percent (by value) of the  
17 assets of such entity are used in the active con-  
18 duct of a qualified trade or business (within the  
19 meaning of section 1202(e)(3)).

20 Such requirements shall not be treated as met for  
21 any period if during such period the entity is de-  
22 scribed in subparagraph (A), (B), (C), or (D) of sec-  
23 tion 1202(e)(4).

1           “(2) SPECIAL RULE FOR CERTAIN ACTIVITIES.—For purposes of paragraph (1), if, in connection with any future trade or business, an entity is engaged in—

5                   “(A) startup activities described in section  
6                   195(c)(1)(A),

7                   “(B) activities resulting in the payment or  
8                   incurring of expenditures which may be treated  
9                   as research and experimental expenditures  
10                  under section 174, or

11                  “(C) activities with respect to in-house re-  
12                  search expenses described in section 41(b)(4),  
13                  such entity shall be treated with respect to such ac-  
14                  tivities as engaged in (and assets used in such activi-  
15                  ties shall be treated as used in) the active conduct  
16                  of a trade or business. Any determination under this  
17                  paragraph shall be made without regard to whether  
18                  the entity has any gross income from such activities  
19                  at the time of the determination.

20                  “(3) CERTAIN RULES TO APPLY.—Rules similar  
21                  to the rules of paragraphs (5), (6), (7), and (8) of  
22                  section 1202(e) shall apply for purposes of this sub-  
23                  section.

24                  “(d) CERTAIN OTHER RULES TO APPLY.—Rules  
25                  similar to the rules of subsections (f), (g), (h), and (j)

1 of section 1202 shall apply for purposes of this section,  
2 except that a 6-month holding period shall be substituted  
3 for a 5-year holding period where applicable.

4 “(e) BASIS ADJUSTMENTS.—If gain from any sale is  
5 not recognized by reason of subsection (a), such gain shall  
6 be applied to reduce (in the order acquired) the basis for  
7 determining gain or loss of any eligible small business in-  
8 vestment which is purchased by the taxpayer during the  
9 6-month period described in subsection (a).

10 “(f) STATUTE OF LIMITATIONS.—If any gain is real-  
11 ized by the taxpayer on the sale or exchange of any eligible  
12 small business investment and there is in effect an election  
13 under subsection (a) with respect to such gain, then—

14 “(1) the statutory period for the assessment of  
15 any deficiency with respect to such gain shall not ex-  
16 pire before the expiration of 3 years from the date  
17 the Secretary is notified by the taxpayer (in such  
18 manner as the Secretary may by regulations pre-  
19 scribe) of—

20 “(A) the taxpayer’s cost of purchasing  
21 other eligible small business investments which  
22 the taxpayer claims results in nonrecognition of  
23 any part of such gain,

24 “(B) the taxpayer’s intention not to pur-  
25 chase other eligible small business investments

1           within the 6-month period described in sub-  
2           section (a), or

3                   “(C) a failure to make such purchase with-  
4           in such 6-month period, and

5                   “(2) such deficiency may be assessed before the  
6           expiration of such 3-year period notwithstanding the  
7           provisions of any other law or rule of law which  
8           would otherwise prevent such assessment.

9           “(g) REGULATIONS.—The Secretary shall prescribe  
10   such regulations as may be appropriate to carry out the  
11   purposes of this section, including regulations to prevent  
12   the avoidance of the purposes of this section through  
13   splitups, shell corporations, partnerships, or otherwise and  
14   regulations to modify the application of section 1202 to  
15   the extent necessary to apply such section to a partnership  
16   rather than a corporation.”

17           (b) CONFORMING AMENDMENT.—Paragraph (23) of  
18   section 1016(a) is amended—

19                   (1) by striking “or 1044” and inserting “,  
20           1044, or 1045”, and

21                   (2) by striking “or 1044(d)” and inserting “,  
22           1044(d), or 1045(e)”.

23           (c) CLERICAL AMENDMENT.—The table of sections  
24   for part III of subchapter O of chapter 1 is amended by  
25   adding at the end the following new item:

“Sec. 1045. Rollover of gain on small business investments.”



1 (d) EFFECTIVE DATE.—The amendments made by  
 2 this section shall apply to taxable years ending after De-  
 3 cember 31, 1996.

4 **SEC. 102. LOSSES ON ELIGIBLE SMALL BUSINESS INVEST-**  
 5 **MENTS.**

6 (a) INCREASE IN MAXIMUM AMOUNT.—Section  
 7 1244(b) (relating to maximum amount for any taxable  
 8 year) is amended—

9 (1) by striking “\$50,000” in paragraph (1) and  
 10 inserting “\$150,000”, and

11 (2) by striking “\$100,000” in paragraph (2)  
 12 and inserting “\$300,000”.

13 (b) EXTENSION OF APPLICATION OF SECTION 1244  
 14 TO PARTNERSHIP INTEREST AND INCREASE IN VALUE OF  
 15 CORPORATIONS ELIGIBLE FOR APPLICATION.—

16 (1) EXTENSION TO PARTNERSHIPS.—So much  
 17 of section 1244(c) as precedes paragraph (2) is  
 18 amended to read as follows:

19 “(c) SECTION 1244 INTEREST DEFINED.—

20 “(1) SECTION 1244 INTEREST.—For purposes of  
 21 this section—

22 “(A) IN GENERAL.—The term ‘section  
 23 1244 interest’ means an eligible small business  
 24 investment (as defined in section 1045(b)(1)) in  
 25 a qualified small business entity (as defined in

1           section 1045(b)(4)) if such entity, during the  
 2           period of its 5 most recent taxable years ending  
 3           before the date the loss on such investment was  
 4           sustained, derived more than 50 percent of its  
 5           aggregate gross receipts from sources other  
 6           than royalties, rents, dividends, interests, annu-  
 7           ities, and sales or exchanges of stocks or securi-  
 8           ties.

9           “(B) TRANSITION RULE.—Any stock in a  
 10          domestic corporation issued before January 1,  
 11          1997, which was section 1244 stock under this  
 12          section on December 31, 1996 (determined  
 13          under this section as in effect on such date),  
 14          shall be treated as a section 1244 interest for  
 15          purposes of this section.”

16          (2) CONFORMING AMENDMENTS.—

17                (A) Section 1244(a) is amended by strik-  
 18                ing “section 1244 stock” and inserting “a sec-  
 19                tion 1244 interest”.

20                (B) Section 1244(c)(2) is amended—

21                   (i) by striking “PARAGRAPH (1)(C)” in  
 22                   the heading and inserting “PARAGRAPH  
 23                   (1)”,

1 (ii) by striking “paragraph (1)(C)”  
2 each place it appears and inserting “para-  
3 graph (1)”,

4 (iii) by striking “corporation” each  
5 place it appears and inserting “entity”,  
6 and

7 (iv) by striking “Paragraph (1)(C)” in  
8 subparagraph (C) and inserting “Para-  
9 graph (1)”.

10 (C) Section 1244(c) is amended by striking  
11 paragraph (3).

12 (D) Section 1244(d) is amended—

13 (i) by striking “section 1244 stock”  
14 each place it appears and inserting “a sec-  
15 tion 1244 interest”,

16 (ii) by striking “stock” each place it  
17 appears and inserting “interest”,

18 (iii) by striking “paragraphs (1)(C)  
19 and (3)(A) of subsection (c)” in paragraph  
20 (2) and inserting “subsection (c)(1)”, and

21 (iv) by striking “(other than subpara-  
22 graph (C) thereof)” and inserting “(other  
23 than the gross receipts test thereof)”.

(E)(i) The heading for section 1244 is amended by striking “**STOCK**” and inserting “**INTEREST**”.

(ii) The item relating to section 1244 in the table of sections for part IV of subchapter P of chapter 1 is amended by striking “stocks” and inserting “interests”.

(F) Section 165(m)(5) is amended by striking “stock” and inserting “interests”.

(G) Section 1274(c)(3)(A)(i) is amended—

(i) by inserting “, as in effect on the day before the date of enactment of subclause (IV)” after “section 1244(c)(3)” in subclauses (II) and (III),

(ii) by striking “or” at the end of subclause (II),

(iii) by striking the period at the end of subclause (III) and inserting “, or”, and

(iv) by adding at the end the following new subclause:

“(IV) by a section 1244 interest (as defined in section 1244(c)(1)).”

(c) **EFFECTIVE DATE.**—The amendments made by this section shall apply to taxable years ending after December 31, 1996.

1 **SEC. 103. MODIFICATIONS TO EXCLUSION OF GAIN ON CER-**  
 2 **TAIN SMALL BUSINESS STOCK.**

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

4 (1) **IN GENERAL.**—Subsection (a) of section  
 5 1202 is amended by striking “other than a corpora-  
 6 tion”.

7 (2) **TECHNICAL AMENDMENT.**—Subsection (c)  
 8 of section 1202 is amended by adding at the end the  
 9 following new paragraph:

10 “(4) **STOCK HELD AMONG MEMBERS OF CON-**  
 11 **TROLLED GROUP NOT ELIGIBLE.**—Stock shall not be  
 12 treated as qualified small business stock if such  
 13 stock was at any time held by any member of the  
 14 parent-subsidary controlled group (as defined in  
 15 subsection (d)(3)) which includes the qualified small  
 16 business.”

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

18 (1) **IN GENERAL.**—Section 57(a) is amended by  
 19 striking paragraph (7).

20 (2) **TECHNICAL AMENDMENT.**—Section  
 21 53(d)(1)(B)(ii)(II) is amended by striking “, (5),  
 22 and (7)” and inserting “and (5)”.

23 (c) **STOCK OF LARGER BUSINESSES ELIGIBLE FOR**  
 24 **EXCLUSION.**—

1           (1) Section 1202(d)(1) is amended by striking  
 2           “\$50,000,000” each place it appears and inserting  
 3           “\$100,000,000”.

4           (2) Section 1202(d) is amended by adding at  
 5           the end the following new paragraph:

6           “(4) INFLATION ADJUSTMENT OF ASSET LIM-  
 7           TATION.—In the case of stock issued in any calendar  
 8           year after 1997, the \$100,000,000 amount con-  
 9           tained in paragraph (1) shall be increased by an  
 10          amount equal to—

11                   “(A) such dollar amount, multiplied by

12                   “(B) the cost-of-living adjustment deter-  
 13                   mined under section 1(f)(3) for the calendar  
 14                   year in which the taxable year begins, deter-  
 15                   mined by substituting ‘calendar year 1996’ for  
 16                   ‘calendar year 1992’ in subparagraph (B)  
 17                   thereof.

18          If any amount as adjusted under the preceding sen-  
 19          tence is not a multiple of \$1,000,000, such amount  
 20          shall be rounded to the next lower multiple of  
 21          \$1,000,000.”

22          (d)           PER-ISSUER           LIMITATION.—Section  
 23          1202(b)(1)(A) is amended by striking “\$10,000,000” and  
 24          inserting “\$20,000,000”.

25          (e) OTHER MODIFICATIONS.—

1           (1) WORKING CAPITAL LIMITATION.—Section  
2       1202(e)(6) is amended by striking “2 years” each  
3       place it appears and inserting “5 years”.

4           (2) REDEMPTION RULES.—Section 1203(c)(3)  
5       is amended by adding at the end the following new  
6       subparagraph:

7                   “(D) WAIVER WHERE BUSINESS PUR-  
8           POSE.—A purchase of stock by the issuing cor-  
9           poration shall be disregarded for purposes of  
10          subparagraph (B) if the issuing corporation es-  
11          tablishes that there was a business purpose for  
12          such purchase and one of the principal purposes  
13          of the purchase was not to avoid the limitation  
14          of this section.”

15       (f) EFFECTIVE DATES.—

16           (1) IN GENERAL.—The amendments made by  
17       this section shall apply to stock issued after the date  
18       of the enactment of this Act.

19           (2) SPECIAL RULE.—The amendments made by  
20       subsection (b), (d), and (e) shall apply to stock is-  
21       sued after August 10, 1993.

1 **SEC. 104. EXEMPTION FROM TAX FOR GAIN ON SALE OF**  
2 **PRINCIPAL RESIDENCE.**

3 (a) IN GENERAL.—Section 121 (relating to one-time  
4 exclusion of gain from sale of principal residence by indi-  
5 vidual who has attained age 55) is amended to read as  
6 follows:

7 **“SEC. 121. EXCLUSION OF GAIN FROM SALE OF PRINCIPAL**  
8 **RESIDENCE.**

9 “(a) EXCLUSION.—Gross income shall not include  
10 gain from the sale or exchange of property if, during the  
11 5-year period ending on the date of the sale or exchange,  
12 such property has been owned and used by the taxpayer  
13 as the taxpayer’s principal residence for periods aggregat-  
14 ing 2 years or more.

15 “(b) LIMITATIONS.—

16 “(1) DOLLAR LIMITATION.—The amount of  
17 gain excluded from gross income under subsection  
18 (a) with respect to any sale or exchange shall not ex-  
19 ceed \$250,000 (\$500,000 in the case of a joint re-  
20 turn where both spouses meet the use requirement  
21 of subsection (a)).

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

24 “(A) IN GENERAL.—Subsection (a) shall  
25 not apply to any sale or exchange by the tax-  
26 payer if, during the 2-year period ending on the



1 date of such sale or exchange, there was any  
 2 other sale or exchange by the taxpayer or his  
 3 spouse to which subsection (a) applied.

4 “(B) PREMARRIAGE SALES BY SPOUSE  
 5 NOT TAKEN INTO ACCOUNT.—If, but for this  
 6 subparagraph, subsection (a) would not apply  
 7 to a sale or exchange by a married individual  
 8 by reason of a sale or exchange by such individ-  
 9 ual’s spouse before their marriage—

10 “(i) subparagraph (A) shall be applied  
 11 without regard to the sale or exchange by  
 12 such individual’s spouse, but

13 “(ii) the amount of gain excluded  
 14 from gross income under subsection (a)  
 15 with respect to the sale or exchange by  
 16 such individual shall not exceed \$250,000.

17 “(C) PRE-1997 SALES NOT TAKEN INTO AC-  
 18 COUNT.—Subparagraph (A) shall be applied  
 19 without regard to any sale or exchange before  
 20 January 1, 1997.

21 “(c) EXCLUSION FOR TAXPAYERS FAILING TO MEET  
 22 CERTAIN REQUIREMENTS.—

23 “(1) IN GENERAL.—In the case of a sale or ex-  
 24 change to which this subsection applies, the owner-  
 25 ship and use requirements of subsection (a) shall not

1       apply and subsection (b)(2) shall not apply; but the  
 2       amount of gain excluded from gross income under  
 3       subsection (a) with respect to such sale or exchange  
 4       shall not exceed—

5               “(A) the amount which bears the same  
 6       ratio to the amount which would be so excluded  
 7       if such requirements had been met, as

8               “(B) the shorter of—

9               “(i) the aggregate periods, during the  
 10       5-year period ending on the date of such  
 11       sale or exchange, such property has been  
 12       owned and used by the taxpayer as the  
 13       taxpayer’s principal residence, or

14              “(ii) the period after the date of the  
 15       most recent prior sale or exchange by the  
 16       taxpayer or his spouse to which subsection  
 17       (a) applied and before the date of such sale  
 18       or exchange,

19       bears to 2 years.

20       “(2) SALES AND EXCHANGES TO WHICH SUB-  
 21       SECTION APPLIES.—This subsection shall apply to  
 22       any sale or exchange if—

23              “(A) subsection (a) would not (but for this  
 24       subsection) apply to such sale or exchange by  
 25       reason of—

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

3 “(ii) subsection (b)(2), and

4 “(B) such sale or exchange is by reason of  
5 a change in place of employment, health, or  
6 other unforeseen circumstances.

7 “(d) SPECIAL RULES.—

8 “(1) JOINT RETURNS.—For purposes of this  
9 section, if a husband and wife make a joint return  
10 for the taxable year of the sale or exchange of prop-  
11 erty, subsection (a) shall, subject to the provisions of  
12 subsection (b), apply if either spouse meets the own-  
13 ership and use requirements of subsection (a) with  
14 respect to such property.

15 “(2) PROPERTY OF DECEASED SPOUSE.—For  
16 purposes of this section, in the case of an unmarried  
17 individual whose spouse is deceased on the date of  
18 the sale or exchange of property, the period such un-  
19 married individual owned such property shall include  
20 the period such deceased spouse held such property  
21 before death.

22 “(3) TENANT-STOCKHOLDER IN COOPERATIVE  
23 HOUSING CORPORATION.—For purposes of this sec-  
24 tion, if the taxpayer holds stock as a tenant-stock-  
25 holder (as defined in section 216) in a cooperative

1       housing corporation (as defined in such section),  
 2       then—

3               “(A) the holding requirements of sub-  
 4               section (a) shall be applied to the holding of  
 5               such stock, and

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

10       “(4) INVOLUNTARY CONVERSIONS.—

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

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

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

1 whole or in part) under section 1033(b) (relat-  
2 ing to basis of property acquired through invol-  
3 untary conversion), then the holding and use by  
4 the taxpayer of the converted property shall be  
5 treated as holding and use by the taxpayer of  
6 the property sold or exchanged.

7 “(5) RECOGNITION OF GAIN ATTRIBUTABLE TO  
8 DEPRECIATION.—Subsection (a) shall not apply to  
9 so much of the gain from the sale of any property  
10 as does not exceed the portion of the depreciation  
11 adjustments (as defined in section 1250(b)(3)) at-  
12 tributable to periods after December 31, 1996, in re-  
13 spect of such property.

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

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

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

23 then the taxpayer shall be treated as using such  
24 property as the taxpayer’s principal residence during

1 any time during such 5-year period in which the tax-  
 2 payer owns the property and resides in any facility  
 3 (including a nursing home) licensed by a State or  
 4 political subdivision to care for an individual in the  
 5 taxpayer's condition.

6 “(7) DETERMINATION OF MARITAL STATUS.—

7 In the case of any sale or exchange, for purposes of  
 8 this section—

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

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

16 “(e) DENIAL OF EXCLUSION FOR EXPATRIATES.—

17 This section shall not apply to any sale or exchange by  
 18 an individual if the treatment provided by section  
 19 877(a)(1) applies to such individual.

20 “(f) ELECTION TO HAVE SECTION NOT APPLY.—

21 This section shall not apply to any sale or exchange with  
 22 respect to which the taxpayer elects not to have this sec-  
 23 tion apply.

24 “(g) RESIDENCES ACQUIRED IN ROLLOVERS UNDER

25 SECTION 1034.—For purposes of this section, in the case

1 of property the acquisition of which by the taxpayer re-  
 2 sulted under section 1034 (as in effect on the day before  
 3 the date of the enactment of this sentence) in the non-  
 4 recognition of any part of the gain realized on the sale  
 5 or exchange of another residence, in determining the pe-  
 6 riod for which the taxpayer has owned and used such  
 7 property as the taxpayer's principal residence, there shall  
 8 be included the aggregate periods for which such other  
 9 residence (and each prior residence taken into account  
 10 under section 1223(7) in determining the holding period  
 11 of such property) had been so owned and used.”

12 (b) REPEAL OF NONRECOGNITION OF GAIN ON  
 13 ROLLOVER OF PRINCIPAL RESIDENCE.—Section 1034  
 14 (relating to rollover of gain on sale of principal residence)  
 15 is hereby repealed.

16 (c) CONFORMING AMENDMENTS.—

17 (1) The following provisions of the Internal  
 18 Revenue Code of 1986 are each amended by striking  
 19 “section 1034” and inserting “section 121”: sections  
 20 25(e)(7), 56(e)(1)(A), 56(e)(3)(B)(i),  
 21 143(i)(1)(C)(i)(I), 163(h)(4)(A)(i)(I),  
 22 280A(d)(4)(A), 464(f)(3)(B)(i), 1033(h)(3),  
 23 1274(c)(3)(B), 6334(a)(13), and 7872(f)(11)(A).

24 (2) Paragraph (4) of section 32(c) is amended  
 25 by striking “(as defined in section 1034(h)(3))” and

1 by adding at the end the following new sentence:  
2 “For purposes of the preceding sentence, the term  
3 ‘extended active duty’ means any period of active  
4 duty pursuant to a call or order to such duty for  
5 a period in excess of 90 days or for an indefinite  
6 period.”

7 (3) Subparagraph (A) of 143(m)(6) is amended  
8 by inserting “(as in effect on the day before the date  
9 of the enactment of the Targeted Investment Incen-  
10 tive and Economic Growth Act of 1997)” after  
11 “1034(e)”.

12 (4) Subsection (e) of section 216 is amended by  
13 striking “such exchange qualifies for nonrecognition  
14 of gain under section 1034(f)” and inserting “such  
15 dwelling unit is used as his principal residence (with-  
16 in the meaning of section 121)”.

17 (5) Section 512(a)(3)(D) is amended by insert-  
18 ing “(as in effect on the day before the date of the  
19 enactment of the Targeted Investment Incentive and  
20 Economic Growth Act of 1997)” after “1034”.

21 (6) Paragraph (7) of section 1016(a) is amend-  
22 ed by inserting “(as in effect on the day before the  
23 date of the enactment of the Targeted Investment  
24 Incentive and Economic Growth Act of 1997)” after



1 “1034” and by inserting “(as so in effect)” after  
2 “1034(e)”.

3 (7) Paragraph (3) of section 1033(k) is amend-  
4 ed to read as follows:

5 “(3) For exclusion from gross income of gain  
6 from involuntary conversion of principal residence,  
7 see section 121.”

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

10 “(e) PRINCIPAL RESIDENCES.—If—

11 “(1) subsection (a) applies to a reacquisition of  
12 real property with respect to the sale of which gain  
13 was not recognized under section 121 (relating to  
14 gain on sale of principal residence); and

15 “(2) within 1 year after the date of the reacqui-  
16 sition of such property by the seller, such property  
17 is resold by him,

18 then, under regulations prescribed by the Secretary, sub-  
19 sections (b), (c), and (d) of this section shall not apply  
20 to the reacquisition of such property and, for purposes of  
21 applying section 121, the resale of such property shall be  
22 treated as a part of the transaction constituting the origi-  
23 nal sale of such property.”

24 (9) Paragraph (7) of section 1223 is amended  
25 by inserting “(as in effect on the day before the date

1 of the enactment of the Targeted Investment Incen-  
 2 tive and Economic Growth Act of 1997)” after  
 3 “1034”.

4 (10) Paragraph (7) of section 1250(d) is  
 5 amended to read as follows:

6 “(7) DISPOSITION OF PRINCIPAL RESIDENCE.—  
 7 Subsection (a) shall not apply to a disposition of  
 8 property to the extent used by the taxpayer as his  
 9 principal residence (within the meaning of section  
 10 121, relating to gain on sale of principal residence).”

11 (11) Subsection (c) of section 6012 is amended  
 12 by striking “(relating to one-time exclusion of gain  
 13 from sale of principal residence by individual who  
 14 has attained age 55)” and inserting “(relating to  
 15 gain from sale of principal residence)”.

16 (12) Paragraph (2) of section 6212(c) is  
 17 amended by striking subparagraph (C) and by redesh-  
 18 ignating the succeeding subparagraphs accordingly.

19 (13) Section 6504 is amended by striking para-  
 20 graph (4) and by redesignating the succeeding para-  
 21 graphs accordingly.

22 (14) The item relating to section 121 in the  
 23 table of sections for part III of subchapter B of  
 24 chapter 1 is amended to read as follows:

“Sec. 121. Exclusion of gain from sale of principal residence.”

1           (15) The table of sections for part III of sub-  
 2           chapter O of chapter 1 of such Code is amended by  
 3           striking the item relating to section 1034.

4           (d) EFFECTIVE DATE.—

5           (1) IN GENERAL.—The amendments made by  
 6           this section shall apply to sales and exchanges after  
 7           December 31, 1996.

8           (2) BINDING CONTRACTS, ETC.—At the election  
 9           of the taxpayer, the amendments made by this sec-  
 10          tion shall not apply to a sale or exchange after De-  
 11          cember 31, 1996, if—

12                   (A) such sale or exchange is pursuant to a  
 13                   contract which was binding on the date of the  
 14                   enactment of this Act, or

15                   (B) without regard to such amendments,  
 16                   gain would not be recognized under section  
 17                   1034 of the Internal Revenue Code of 1986 (as  
 18                   in effect on the day before the date of the en-  
 19                   actment of this Act) on such sale or exchange  
 20                   by reason of a new residence acquired on or be-  
 21                   fore such date.

22          This paragraph shall not apply to any sale or ex-  
 23          change by an individual if the treatment provided by  
 24          section 877(a)(1) of the Internal Revenue Code of  
 25          1986 applies to such individual.

# 1 **TITLE II—RETIREMENT SAVINGS**

## 2 **SEC. 201. INCREASE IN DEDUCTION FOR CONTRIBUTIONS** 3 **TO INDIVIDUAL RETIREMENT PLANS.**

4 (a) IN GENERAL.—Section 219(b)(1)(A) is amended  
5 by striking “\$2,000” and inserting “\$2,500”.

6 (b) CONFORMING AMENDMENTS.—Subsections  
7 (a)(1), (b), and (j) of section 408 are each amended by  
8 striking “\$2,000” each place it appears and inserting  
9 “\$2,500”.

10 (c) EFFECTIVE DATE.—The amendments made by  
11 this section shall apply to taxable years beginning after  
12 December 31, 1996.

## 13 **SEC. 202. ROLLOVER OF GAIN FROM SALE OF FARM ASSETS** 14 **TO INDIVIDUAL RETIREMENT PLANS.**

15 (a) IN GENERAL.—Part III of subchapter O of chap-  
16 ter 1 (relating to common nontaxable exchanges) is  
17 amended by inserting after section 1034 the following new  
18 section:

### 19 **“SEC. 1034A. ROLLOVER OF GAIN ON SALE OF FARM ASSETS** 20 **INTO ASSET ROLLOVER ACCOUNT.**

21 “(a) NONRECOGNITION OF GAIN.—Subject to the  
22 limits of subsection (c), if a taxpayer has a qualified net  
23 farm gain from the sale of a qualified farm asset, then,  
24 at the election of the taxpayer, gain (if any) from such

1 sale shall be recognized only to the extent such gain ex-  
2 ceeds the contributions to 1 or more asset rollover ac-  
3 counts of the taxpayer for the taxable year in which such  
4 sale occurs.

5 “(b) ASSET ROLLOVER ACCOUNT.—

6 “(1) GENERAL RULE.—Except as provided in  
7 this section, an asset rollover account shall be treat-  
8 ed for purposes of this title in the same manner as  
9 an individual retirement plan.

10 “(2) ASSET ROLLOVER ACCOUNT.—For pur-  
11 poses of this title, the term ‘asset rollover account’  
12 means an individual retirement plan which is des-  
13 ignated at the time of the establishment of the plan  
14 as an asset rollover account. Such designation shall  
15 be made in such manner as the Secretary may pre-  
16 scribe.

17 “(c) CONTRIBUTION RULES.—

18 “(1) NO DEDUCTION ALLOWED.—No deduction  
19 shall be allowed under section 219 for a contribution  
20 to an asset rollover account.

21 “(2) AGGREGATE CONTRIBUTION LIMITA-  
22 TION.—Except in the case of rollover contributions,  
23 the aggregate amount for all taxable years which

1        may be contributed to all asset rollover accounts es-  
 2        tablished on behalf of an individual shall not ex-  
 3        ceed—

4                “(A) \$400,000 (\$200,000 in the case of a  
 5                separate return by a married individual), re-  
 6                duced by

7                “(B) the amount by which the aggregate  
 8                value of the assets held by the individual (and  
 9                spouse) in individual retirement plans (other  
 10              than asset rollover accounts) exceeds \$100,000.

11        The determination under subparagraph (B) shall be  
 12        made as of the close of the taxable year for which  
 13        the determination is being made.

14              “(3) ANNUAL CONTRIBUTION LIMITATIONS.—

15              “(A) GENERAL RULE.—The aggregate  
 16              contribution which may be made in any taxable  
 17              year to all asset rollover accounts shall not ex-  
 18              ceed the lesser of—

19                      “(i) the qualified net farm gain for  
 20                      the taxable year, or

21                      “(ii) an amount determined by mul-  
 22                      tiplying the number of years the taxpayer  
 23                      is a qualified farmer by \$10,000.

24              “(B) SPOUSE.—In the case of a married  
 25              couple filing a joint return under section 6013

1           for the taxable year, subparagraph (A) shall be  
 2           applied by substituting ‘\$20,000’ for ‘\$10,000’  
 3           for each year the taxpayer’s spouse is a quali-  
 4           fied farmer.

5           “(4) TIME WHEN CONTRIBUTION DEEMED  
 6           MADE.—For purposes of this section, a taxpayer  
 7           shall be deemed to have made a contribution to an  
 8           asset rollover account on the last day of the preced-  
 9           ing taxable year if the contribution is made on ac-  
 10          count of such taxable year and is made not later  
 11          than the time prescribed by law for filing the return  
 12          for such taxable year (not including extensions  
 13          thereof).

14          “(d) QUALIFIED NET FARM GAIN; ETC.—For pur-  
 15          poses of this section—

16               “(1) QUALIFIED NET FARM GAIN.—The term  
 17               ‘qualified net farm gain’ means the lesser of—

18                       “(A) the net capital gain of the taxpayer  
 19                       for the taxable year, or

20                       “(B) the net capital gain for the taxable  
 21                       year determined by only taking into account  
 22                       gain (or loss) in connection with a disposition  
 23                       of a qualified farm asset.

24               “(2) QUALIFIED FARM ASSET.—The term  
 25               ‘qualified farm asset’ means an asset used by a

1 qualified farmer in the active conduct of the trade  
 2 or business of farming (as defined in section  
 3 2032A(e)).

4 “(3) QUALIFIED FARMER.—

5 “(A) IN GENERAL.—The term ‘qualified  
 6 farmer’ means a taxpayer who—

7 “(i) during the 5-year period ending  
 8 on the date of the disposition of a qualified  
 9 farm asset materially participated in the  
 10 trade or business of farming, and

11 “(ii) owned (or who with the tax-  
 12 payer’s spouse owned) 50 percent or more  
 13 of such trade or business during such 5-  
 14 year period.

15 “(B) MATERIAL PARTICIPATION.—For  
 16 purposes of this paragraph, a taxpayer shall be  
 17 treated as materially participating in a trade or  
 18 business if the taxpayer meets the requirements  
 19 of section 2032A(e)(6).

20 “(4) ROLLOVER CONTRIBUTIONS.—Rollover  
 21 contributions to an asset rollover account may be  
 22 made only from other asset rollover accounts.

23 “(e) DISTRIBUTION RULES.—For purposes of this  
 24 title, the rules of paragraphs (1) and (2) of section 408(d)



1 shall apply to any distribution from an asset rollover ac-  
 2 count.

3 “(f) INDIVIDUAL REQUIRED TO REPORT QUALIFIED  
 4 CONTRIBUTIONS.—

5 “(1) IN GENERAL.—Any individual who—

6 “(A) makes a contribution to any asset  
 7 rollover account for any taxable year, or

8 “(B) receives any amount from any asset  
 9 rollover account for any taxable year,

10 shall include on the return of tax imposed by chap-  
 11 ter 1 for such taxable year and any succeeding tax-  
 12 able year (or on such other form as the Secretary  
 13 may prescribe) information described in paragraph  
 14 (2).

15 “(2) INFORMATION REQUIRED TO BE SUP-  
 16 PLIED.—The information described in this para-  
 17 graph is information required by the Secretary  
 18 which is similar to the information described in sec-  
 19 tion 408(o)(4)(B).

20 “(3) PENALTIES.—For penalties relating to re-  
 21 ports under this paragraph, see section 6693(b).”

22 (b) CONTRIBUTIONS NOT DEDUCTIBLE.—Section  
 23 219(d) (relating to other limitations and restrictions) is  
 24 amended by adding at the end the following new para-  
 25 graph:

1           “(5) CONTRIBUTIONS TO ASSET ROLLOVER AC-  
 2           COUNTS.—No deduction shall be allowed under this  
 3           section with respect to a contribution under section  
 4           1034A.”

5           (c) EXCESS CONTRIBUTIONS.—

6           (1) IN GENERAL.—Section 4973 (relating to  
 7           tax on excess contributions to individual retirement  
 8           accounts, certain section 403(b) contracts, and cer-  
 9           tain individual retirement annuities) is amended by  
 10          adding at the end the following new subsection:

11          “(e) ASSET ROLLOVER ACCOUNTS.—For purposes of  
 12          this section, in the case of an asset rollover account re-  
 13          ferred to in subsection (a)(1), the term ‘excess contribu-  
 14          tion’ means the excess (if any) of the amount contributed  
 15          for the taxable year to such account over the amount  
 16          which may be contributed under section 1034A.”

17          (2) CONFORMING AMENDMENTS.—

18                (A) Section 4973(a)(1) is amended by in-  
 19                serting “an asset rollover account (within the  
 20                meaning of section 1034A),” after the comma  
 21                at the end.

22                (B) The heading for section 4973 is  
 23                amended by inserting “**ASSET ROLLOVER AC-**  
 24                **COUNTS,**” after “**CONTRACTS**”.

1 (C) The table of sections for chapter 43 is  
 2 amended by inserting “asset rollover accounts,”  
 3 after “contracts” in the item relating to section  
 4 4973.

5 (d) TECHNICAL AMENDMENTS.—

6 (1) Section 408(a)(1) (defining individual re-  
 7 tirement account) is amended by inserting “or a  
 8 qualified contribution under section 1034A,” before  
 9 “no contribution”.

10 (2) Section 408(d)(5)(A) is amended by insert-  
 11 ing “or qualified contributions under section 1034A”  
 12 after “rollover contributions”.

13 (3)(A) Section 6693(b)(1)(A) is amended by in-  
 14 serting “or 1034A(f)(1)” after “408(o)(4)”.

15 (B) Section 6693(b)(2) is amended by inserting  
 16 “or 1034A(f)(1)” after “408(o)(4)”.

17 (4) The table of sections for part III of sub-  
 18 chapter O of chapter 1 is amended by inserting after  
 19 the item relating to section 1034 the following new  
 20 item:

“Sec. 1034A. Rollover of gain on sale of farm assets into asset  
 rollover account.”

21 (e) EFFECTIVE DATE.—The amendments made by  
 22 this section shall apply to sales and exchanges after the  
 23 date of the enactment of this Act.

# **TITLE III—PERFORMANCE STOCK OPTIONS**

## **SEC. 301. PERFORMANCE STOCK OPTIONS.**

(a) IN GENERAL.—Part II of subchapter D of chapter 1 (relating to certain stock options) is amended by redesignating section 424 as section 425 and by inserting after section 423 the following new section:

### **“SEC. 424. PERFORMANCE STOCK OPTIONS.**

“(a) IN GENERAL.—Section 421(a) shall apply with respect to the transfer of a share of stock to any person pursuant to the exercise of a performance stock option if no disposition of such share is made by such person within 1 year after the transfer of such share to such person.

“(b) PERFORMANCE STOCK OPTION.—For purposes of this part—

“(1) IN GENERAL.—The term ‘performance stock option’ means an option to purchase stock of any corporation described in paragraph (4) which is granted to any person—

“(A) in connection with the performance of services for an entity described in paragraph (4), and

“(B) upon the attainment of performance goals established by the entity.

1           “(2) ADDITIONAL REQUIREMENTS.—An option  
2       shall not be treated as a performance stock option  
3       unless the following requirements are met:

4           “(A) NONDISCRIMINATION.—Either—

5               “(i) the option is granted to an em-  
6               ployee who, at the time of the grant, is not  
7               a highly compensated employee, or

8               “(ii) immediately after the grant of  
9               the option, employees who are not highly  
10              compensated employees hold performance  
11              share options which permit the acquisition  
12              of at least 50 percent of all shares which  
13              may be acquired pursuant to all perform-  
14              ance stock options outstanding (whether or  
15              not exercisable) as of such time.

16       For purposes of clause (ii), only that portion of  
17       the options held by persons other than non-  
18       highly compensated employees which results in  
19       the requirements of clause (ii) not being met  
20       shall be treated as options which are not per-  
21       formance stock options, and such portion shall  
22       be allocated among options held by such per-  
23       sons in such manner as the Secretary may pre-  
24       scribe.

1                   “(B) SPECIFIC NUMBER OF OPTIONS.—

2                   The option is granted pursuant to a plan that  
3                   includes either—

4                   “(i) the aggregate number of shares  
5                   that may be issued under options granted  
6                   under the plan, or

7                   “(ii) a method by which the aggregate  
8                   number of shares that may be issued under  
9                   options granted under the plan can be de-  
10                  termined (without regard to whether such  
11                  aggregate number may change under such  
12                  method),

13                  and which is approved by the stockholders of  
14                  the granting corporation within 12 months be-  
15                  fore or after the date such plan is adopted.

16                  “(C) TIME WHEN OPTION GRANTED.—The  
17                  option is granted within 10 years after the date  
18                  the plan described in subparagraph (B) is  
19                  adopted, or the date such plan is approved by  
20                  the stockholders, whichever is earlier.

21                  “(D) TIME FOR EXERCISING OPTION.—

22                  The option by its terms is not exercisable after  
23                  the expiration of 10 years from the date such  
24                  option is granted.

1           “(E) OPTION PRICE.—Except as provided  
 2           in paragraph (6) of subsection (c), the option  
 3           price is not less than the fair market value of  
 4           the stock at the time the option is granted.

5           “(F) TRANSFERABILITY.—The option by  
 6           its terms is not transferable by the person hold-  
 7           ing the option, other than—

8                   “(i) in the case of an individual, by  
 9                   will or the laws of descent and distribution,  
 10                  or pursuant to a qualified domestic rela-  
 11                  tions order (as defined in subsection (p) of  
 12                  section 414), and

13                   “(ii) in the case of any other person,  
 14                  by any transaction in which gain or loss is  
 15                  not recognized in whole or in part.

16           “(3) ELECTION NOT TO TREAT OPTION AS PER-  
 17           FORMANCE STOCK OPTION.—An option shall not be  
 18           treated as a performance stock option if—

19                   “(A) as of the time the option is granted  
 20                  the terms of such option provide that it will not  
 21                  be treated as a performance stock option, or

22                   “(B) as of the time such option is exer-  
 23                  cised the grantor and holder agree that such  
 24                  option will not be treated as a performance  
 25                  stock option.

1           “(4) ENTITIES TO WHICH SECTION APPLIES.—

2           This section shall apply to an option granted to a  
3           person who performs services for—

4                   “(A) the corporation issuing the option, or  
5                   its parent or subsidiary corporation,

6                   “(B) a partnership in which the corpora-  
7                   tion issuing the option holds (at the time of the  
8                   grant) a capital or profits interest representing  
9                   at least 20 percent of the total capital or profits  
10                  interest of the partnership, or

11                  “(C) a corporation or a parent or subsidi-  
12                  ary corporation of such corporation issuing or  
13                  assuming a stock option in a transaction to  
14                  which section 425(a) applies.

15           “(5) HIGHLY COMPENSATED EMPLOYEE.—For  
16           purposes of this subsection, the term ‘highly com-  
17           pensated employee’ has the meaning given such term  
18           by section 414(q).

19           “(c) SPECIAL RULES.—

20                   “(1) GOOD FAITH EFFORTS TO VALUE  
21                   STOCK.—If a share of stock is acquired pursuant to  
22                   the exercise by any person of an option which would  
23                   fail to qualify as a performance stock option under  
24                   subsection (b) because there was a failure in an at-  
25                   tempt, made in good faith, to meet the requirement



1 of subparagraph (E) of subsection (b)(2), the re-  
2 quirement of subparagraph (E) of subsection (b)(2)  
3 shall be considered to have been met.

4 “(2) PERMISSIBLE PROVISIONS.—An option  
5 that meets the requirements of subsection (b) shall  
6 be treated as a performance stock option even if—

7 “(A) the option holder may pay for the  
8 stock with stock of the corporation granting the  
9 option,

10 “(B) the option holder has the right to re-  
11 ceive property at the time of the exercise of the  
12 option,

13 “(C) the right to exercise all or any por-  
14 tion of a performance stock option may be sub-  
15 ject to any condition, contingency or other cri-  
16 teria (including, without limitation, the contin-  
17 ued performance of services, achievement of  
18 performance objectives, or the occurrence of any  
19 event) which are determined in accordance with  
20 the provisions of the plan or the terms of such  
21 option, or

22 “(D) the option is subject to any condition  
23 not inconsistent with the provisions of sub-  
24 section (b).

1           “(3) FAIR MARKET VALUE.—For purposes of  
 2           this section, the fair market value of stock shall be  
 3           determined without regard to any restriction other  
 4           than a restriction that, by its terms, will never lapse.

5           “(4) DEFINITION OF PARENT AND SUBSIDIARY  
 6           CORPORATIONS.—For purposes of this section, the  
 7           terms ‘parent corporation’ and ‘subsidiary corpora-  
 8           tion’ have the meanings given such terms by sub-  
 9           sections (e) and (f) of section 425 except that such  
 10          subsections shall be applied by substituting ‘20 per-  
 11          cent’ for ‘50 percent’ each place it appears.

12          “(5) PERFORMANCE CRITERIA.—In the case of  
 13          a performance stock option that provides that its ex-  
 14          ercise is subject to any conditions or criteria de-  
 15          scribed in subparagraph (C) of paragraph (2), the  
 16          date or time the option is granted with respect to  
 17          each share that may be acquired shall be the date  
 18          or time the original performance share option is  
 19          granted and subject to the provisions of section  
 20          425(h), no portion of the option shall be treated as  
 21          granted at any other time.

22          “(6) CONVERSION OF OPTIONS.—If—

23                 “(A) there is a transfer of an incentive  
 24                 stock option in exchange for a performance  
 25                 stock option, and

1           “(B) the number of shares that may be ac-  
 2           quired pursuant to such performance stock op-  
 3           tion and the transferred incentive stock option  
 4           are the same,  
 5           then the option acquired shall qualify as a perform-  
 6           ance stock option if the option price pursuant to the  
 7           performance share option is no less than the option  
 8           price under the transferred incentive stock option.”

9           (b) CONFORMING AMENDMENTS.—

10           (1) Section 421(a) is amended by striking “or  
 11           423(a)” and inserting “, 423(a), or 424(a)”.

12           (2) Section 421(b) is amended—

13                   (A) by striking “or 423(a)” and inserting  
 14                   “, 423(a), or 424(a)”, and

15                   (B) by striking “or 423(a)(1)” and insert-  
 16                   ing “423(a)(1), or 424(a)”.

17           (3) Section 421(c)(1)(A) is amended by insert-  
 18           ing “and the holding period requirement of section  
 19           424(a)” after “423(a)”.

20           (4)(A) Sections 421(a)(2), 422(a)(2), and  
 21           423(a)(2) are each amended by striking “424(a)”  
 22           and inserting “425(a)”.

23           (B) Clause (ii) of section 402(e)(4)(E) is  
 24           amended by striking “424” and inserting “425”.

1           (5) Section 423(b)(3) is amended by striking  
2           “424(d)” and inserting “425(d)”.

3           (6) Section 425(a), as redesignated by sub-  
4           section (a), is amended by striking “424(a)” and in-  
5           serting “425(a)”.

6           (7) Section 425(c)(3)(A)(ii), as redesignated by  
7           subsection (a), is amended by striking “or  
8           423(a)(1)” and inserting “, 423(a)(1), or 424(a)”.

9           (8) Section 425(g), as redesignated by sub-  
10          section (a), is amended by striking “and 423(a)(2)”  
11          and inserting “, 423(a)(2) and 424(b)(4) (as modi-  
12          fied by section 424(c)(4))”.

13          (9) Section 425(j), as redesignated by sub-  
14          section (a) (relating to cross-references), is amended  
15          by inserting “performance stock option” after “em-  
16          ployee stock purchase plans,”.

17          (10) Section 1042(c)(1)(B)(ii) is amended by  
18          striking “or 423” and inserting “423, or 424”.

19          (11)(A) Section 6039(a)(1) is amended by in-  
20          serting “or performance stock option” after “incen-  
21          tive stock option”.

22          (B) Section 6039(b)(1) is amended by inserting  
23          “, performance share option,” after “incentive stock  
24          option”.

1 (C) Section 6039(c) is amended by striking  
 2 “and” at the end of paragraph (1), by striking the  
 3 period at the end of paragraph (2) and inserting “,  
 4 and” and by adding at the end the following new  
 5 paragraph:

6 “(3) the term ‘performance share option’, see  
 7 424(b).”

8 (12) The table of sections for part II of sub-  
 9 chapter D of chapter 1 is amended by striking the  
 10 item relating to section 424 and inserting the follow-  
 11 ing new items:

“Sec. 424. Performance stock options.

“Sec. 425. Definitions and special rules.”

12 **SEC. 302. TAX TREATMENT OF GAIN ON PERFORMANCE**  
 13 **SHARE OPTIONS.**

14 (a) EXCLUSION.—

15 (1) IN GENERAL.—Part I of subchapter P of  
 16 chapter 1 (relating to capital gains and losses) is  
 17 amended by adding at the end the following new sec-  
 18 tion:

19 **“SEC. 1203. 50-PERCENT EXCLUSION FOR GAIN FROM**  
 20 **STOCK ACQUIRED THROUGH PERFORMANCE**  
 21 **STOCK OPTIONS.**

22 “(a) GENERAL RULE.—Gross income shall not in-  
 23 clude 50 percent of the gain from the disposition of any  
 24 stock acquired pursuant to the exercise of a performance

1 stock option if such disposition occurs more than 2 years  
 2 after the date on which such option was exercised with  
 3 respect to such stock.

4 “(b) DEFINITIONS AND RULES.—For purposes of  
 5 this section—

6 “(1) PERFORMANCE STOCK OPTION.—The term  
 7 ‘performance stock option’ has the meaning given  
 8 such term by section 424(b).

9 “(2) CERTAIN ACQUISITIONS DISREGARDED.—  
 10 If stock described in subsection (a) is disposed of  
 11 and the basis of the person acquiring the stock is de-  
 12 termined by reference to the basis of the stock in the  
 13 hands of the person who acquired it through exercise  
 14 of the performance stock option, such person shall  
 15 be treated as acquiring such stock pursuant to such  
 16 option on the date such stock was acquired pursuant  
 17 to the exercise of such option.

18 “(3) EXERCISE BY ESTATE.—If a performance  
 19 stock option is exercised after the death of an indi-  
 20 vidual holder by the estate of the decedent, or by a  
 21 person who acquired the right to exercise such op-  
 22 tion by bequest or inheritance or by reason of the  
 23 death of the decedent, the 2-year holding require-  
 24 ment of subsection (a) shall not apply to the disposi-  
 25 tion by such estate or person.”

1 (2) CONFORMING AMENDMENTS.—

2 (A) Section 172(d)(2) (relating to modi-  
3 fications with respect to net operating loss de-  
4 duction) is amended to read as follows:

5 “(2) CAPITAL GAINS AND LOSSES OF TAX-  
6 PAYERS OTHER THAN CORPORATIONS.—In the case  
7 of a taxpayer other than a corporation—

8 “(A) the amount deductible on account of  
9 losses from sales or exchanges of capital assets  
10 shall not exceed the amount includable on ac-  
11 count of gains from sales or exchanges of cap-  
12 ital assets, and

13 “(B) the exclusion provided by section  
14 1202 shall not be allowed.”

15 (B) Paragraph (4) of section 642(c) is  
16 amended to read as follows:

17 “(4) ADJUSTMENTS.—To the extent that the  
18 amount otherwise allowable as a deduction under  
19 this subsection consists of gain described in section  
20 1202(a), proper adjustment shall be made for any  
21 exclusion allowable to the estate or trust under sec-  
22 tion 1202 or 1203. In the case of a trust, the deduc-  
23 tion allowed by this subsection shall be subject to  
24 section 681 (relating to unrelated business income).”

1 (C) Paragraph (3) of section 643(a) is  
 2 amended by adding at the end thereof the fol-  
 3 lowing new sentence: “The exclusion under sec-  
 4 tion 1202 or 1203 shall not be taken into ac-  
 5 count.”

6 (D) Paragraph (4) of section 691(c) is  
 7 amended by striking “1202, and 1211” and in-  
 8 serting “1202, 1203, and 1211”.

9 (E) The second sentence of paragraph (2)  
 10 of section 871(a) is amended by inserting “such  
 11 gains and losses shall be determined without re-  
 12 gard to sections 1202 and 1203 and” after “ex-  
 13 cept that”.

14 (F) The table of sections for part I of sub-  
 15 chapter P of chapter 1 is amended by adding  
 16 after the item relating to section 1202 the fol-  
 17 lowing new item:

“Sec. 1203. 50-percent exclusion for gain from stock acquired  
 through performance stock options.”

18 (b) TREATMENT FOR WAGE WITHHOLDING AND EM-  
 19 PLOYMENT TAXES.—

20 (1) FICA TAXES.—Section 3121(a) (defining  
 21 wages) is amended by striking “or” at the end of  
 22 paragraph (20), by striking the period at the end of  
 23 paragraph (21) and inserting “, or”, and by adding  
 24 after paragraph (21) the following new paragraph:



1           “(22) any gain from the exercise of a perform-  
 2           ance stock option (as defined in section 424(b)) or  
 3           from the disposition of stock acquired pursuant to  
 4           the exercise of such a performance stock option.”

5           (2) FUTA TAXES.—Section 3306(b) (defining  
 6           wages) is amended by striking “or” at the end of  
 7           paragraph (16), by striking the period at the end of  
 8           paragraph (17) and inserting “, or”, and by adding  
 9           after paragraph (17) the following new paragraph:

10           “(18) any gain described in section  
 11           3121(a)(22).”

12           (3) WAGE WITHHOLDING.—

13           (A) Section 3401(a) (defining wages) is  
 14           amended by striking “or” at the end of para-  
 15           graph (20), by striking the period at the end of  
 16           paragraph (21) and inserting “, or”, and by  
 17           adding at the end the following new paragraph:

18           “(22) any gain from the exercise of a perform-  
 19           ance stock option (as defined in section 424(b)) or  
 20           from the disposition of stock acquired pursuant to  
 21           such a performance stock option.”

22           (B) Section 421(b) (relating to effect of  
 23           disqualifying disposition) is amended by adding  
 24           at the end the following new sentence: “A de-  
 25           duction to the employer corporation in the case

1 of a transfer pursuant to an option described in  
 2 section 422, 423, or 424 shall not be disallowed  
 3 by reason of a failure to withhold tax under  
 4 chapter 24 with respect to gain on stock ac-  
 5 quired in the transfer.”

6 **SEC. 303. EFFECTIVE DATE.**

7 The amendments made by this title shall apply to op-  
 8 tions granted after the date of the enactment of this Act.

9 **TITLE IV—EMPLOYER-PROVIDED**  
 10 **TRAINING**

11 **SEC. 401. EXTENSION OF EXCLUSION FOR EDUCATIONAL**  
 12 **ASSISTANCE PROGRAMS.**

13 (a) IN GENERAL.—Section 127 is amended by strik-  
 14 ing subsection (d) and by redesignating subsection (e) as  
 15 subsection (d).

16 (b) EFFECTIVE DATE.—The amendments made by  
 17 this section shall apply to taxable years beginning after  
 18 December 31, 1996.

19 **SEC. 402. STUDY OF NONDISCRIMINATION RULES**  
 20 **APPLICABLE TO EDUCATIONAL ASSISTANCE**  
 21 **PROGRAMS.**

22 (a) STUDY.—The Secretary of Labor, in consultation  
 23 with the Secretary of the Treasury, shall conduct a study  
 24 which examines—

1           (1) the pattern in which taxpayers providing  
2       job-related training and education assistance pro-  
3       grams under section 127 of the Internal Revenue  
4       Code of 1986 extend such benefits to highly com-  
5       pensated employees and nonhighly compensated em-  
6       ployees;

7           (2) the merits and administrative feasibility of  
8       applying nondiscrimination rules to job-related train-  
9       ing and educational assistance programs under sec-  
10      tion 127 of the Internal Revenue Code of 1986  
11      which are similar to the nondiscrimination rules ap-  
12      plicable to employer-provided pension plans; and

13          (3) the merits and administrative feasibility of  
14      conditioning the exclusion for job-related training  
15      and section 127 assistance on an employee remain-  
16      ing with the employer for at least 1 year after re-  
17      ceiving the training or educational assistance.

18      (b) REPORT.—Not later than 9 months after the date  
19      of the enactment of this Act, the Secretary of Labor shall  
20      report to the Congress the results of the study conducted  
21      under subsection (a), including any recommendations for  
22      legislation as the Secretary determines appropriate.

# 1     **TITLE V—ESTATE TAX RELIEF**

## 2     **SEC. 501. FAMILY-OWNED BUSINESS EXCLUSION.**

3           (a) IN GENERAL.—Part III of subchapter A of chap-  
4     ter 11 (relating to gross estate) is amended by inserting  
5     after section 2033 the following new section:

### 6     **“SEC. 2033A. FAMILY-OWNED BUSINESS EXCLUSION.**

7           “(a) IN GENERAL.—In the case of an estate of a de-  
8     cedent to which this section applies, the value of the gross  
9     estate shall not include the lesser of—

10           “(1) the adjusted value of the qualified family-  
11           owned business interests of the decedent otherwise  
12           includible in the estate, or

13           “(2) \$900,000, reduced by the amount of any  
14           exclusion allowed under this section with respect to  
15           the estate of a previously deceased spouse of the de-  
16           cedent.

17           “(b) ESTATES TO WHICH SECTION APPLIES.—

18           “(1) IN GENERAL.—This section shall apply to  
19           an estate if—

20           “(A) the decedent was (at the date of the  
21           decedent’s death) a citizen or resident of the  
22           United States,

23           “(B) the sum of—

1 “(i) the adjusted value of the qualified  
 2 family-owned business interests described  
 3 in paragraph (2), plus

4 “(ii) the amount of the gifts of such  
 5 interests determined under paragraph (3),  
 6 exceeds 50 percent of the adjusted gross estate,  
 7 and

8 “(C) during the 8-year period ending on  
 9 the date of the decedent’s death there have  
 10 been periods aggregating 5 years or more dur-  
 11 ing which—

12 “(i) such interests were owned by the  
 13 decedent or a member of the decedent’s  
 14 family, and

15 “(ii) there was material participation  
 16 (within the meaning of section  
 17 2032A(e)(6)) by the decedent or a member  
 18 of the decedent’s family in the operation of  
 19 the business to which such interests relate.

20 “(2) INCLUDIBLE QUALIFIED FAMILY-OWNED  
 21 BUSINESS INTERESTS.—The qualified family-owned  
 22 business interests described in this paragraph are  
 23 the interests which—

1           “(A) are included in determining the value  
2           of the gross estate (without regard to this sec-  
3           tion), and

4           “(B) are acquired by any qualified heir  
5           from, or passed to any qualified heir from, the  
6           decedent (within the meaning of section  
7           2032A(e)(9)).

8           “(3) INCLUDIBLE GIFTS OF INTERESTS.—The  
9           amount of the gifts of qualified family-owned busi-  
10          ness interests determined under this paragraph is  
11          the excess of—

12           “(A) the sum of—

13           “(i) the amount of such gifts from the  
14           decedent to members of the decedent’s  
15           family taken into account under subsection  
16           2001(b)(1)(B), plus

17           “(ii) the amount of such gifts other-  
18           wise excluded under section 2503(b),  
19           to the extent such interests are continuously  
20           held by members of such family (other than the  
21           decedent’s spouse) between the date of the gift  
22           and the date of the decedent’s death, over

23           “(B) the amount of such gifts from the de-  
24           cedent to members of the decedent’s family oth-  
25           erwise included in the gross estate.

1       “(c) ADJUSTED GROSS ESTATE.—For purposes of  
 2 this section, the term ‘adjusted gross estate’ means the  
 3 value of the gross estate (determined without regard to  
 4 this section)—

5               “(1) reduced by any amount deductible under  
 6 paragraph (3) or (4) of section 2053(a), and

7               “(2) increased by the excess of—

8                       “(A) the sum of—

9                               “(i) the amount of gifts determined  
 10 under subsection (b)(3), plus

11                               “(ii) the amount (if more than de  
 12 minimis) of other transfers from the dece  
 13 dent to the decedent’s spouse (at the time  
 14 of the transfer) within 10 years of the date  
 15 of the decedent’s death, plus

16                               “(iii) the amount of other gifts (not  
 17 included under clause (i) or (ii)) from the  
 18 decedent within 3 years of such date, other  
 19 than gifts to members of the decedent’s  
 20 family otherwise excluded under section  
 21 2503(b), over

22                       “(B) the sum of the amounts described in  
 23 clauses (i), (ii), and (iii) of subparagraph (A)  
 24 which are otherwise includible in the gross es  
 25 tate.

1 For purposes of the preceding sentence, the Secretary may  
 2 provide that de minimis gifts to persons other than mem-  
 3 bers of the decedent's family shall not be taken into ac-  
 4 count.

5 “(d) ADJUSTED VALUE OF THE QUALIFIED FAMILY-  
 6 OWNED BUSINESS INTERESTS.—For purposes of this sec-  
 7 tion, the adjusted value of any qualified family-owned  
 8 business interest is the value of such interest for purposes  
 9 of this chapter (determined without regard to this sec-  
 10 tion), reduced by the excess of—

11 “(1) any amount deductible under paragraph  
 12 (3) or (4) of section 2053(a), over

13 “(2) the sum of—

14 “(A) any indebtedness on any qualified  
 15 residence of the decedent the interest on which  
 16 is deductible under section 163(h)(3), plus

17 “(B) any indebtedness to the extent the  
 18 taxpayer establishes that the proceeds of such  
 19 indebtedness were used for the payment of edu-  
 20 cational and medical expenses of the decedent,  
 21 the decedent's spouse, or the decedent's depend-  
 22 ents (within the meaning of section 152), plus

23 “(C) any indebtedness not described in  
 24 clause (i) or (ii), to the extent such indebted-  
 25 ness does not exceed \$10,000.



1       “(e) QUALIFIED FAMILY-OWNED BUSINESS INTER-  
2 EST.—

3               “(1) IN GENERAL.—For purposes of this sec-  
4 tion, the term ‘qualified family-owned business inter-  
5 est’ means—

6                       “(A) an interest as a proprietor in a trade  
7 or business carried on as a proprietorship, or

8                       “(B) an interest in an entity carrying on  
9 a trade or business, if—

10                               “(i) at least—

11                                       “(I) 50 percent of such entity is  
12 owned (directly or indirectly) by the  
13 decedent and members of the dece-  
14 dent’s family,

15                                       “(II) 70 percent of such entity is  
16 so owned by members of 2 families, or

17                                       “(III) 90 percent of such entity  
18 is so owned by members of 3 families,  
19 and

20                               “(ii) for purposes of subclause (II) or  
21 (III) of clause (i), at least 30 percent of  
22 such entity is so owned by the decedent  
23 and members of the decedent’s family.

24               “(2) LIMITATION.—Such term shall not in-  
25 clude—

1           “(A) any interest in a trade or business  
2           the principal place of business of which is not  
3           located in the United States,

4           “(B) any interest in an entity, if the stock  
5           or debt of such entity or a controlled group (as  
6           defined in section 267(f)(1)) of which such en-  
7           tity was a member was readily tradable on an  
8           established securities market or secondary mar-  
9           ket (as defined by the Secretary) at any time  
10          within 3 years of the date of the decedent’s  
11          death,

12          “(C) any interest in a trade or business  
13          not described in section 542(c)(2), if more than  
14          35 percent of the adjusted ordinary gross in-  
15          come of such trade or business for the taxable  
16          year which includes the date of the decedent’s  
17          death would qualify as personal holding com-  
18          pany income (as defined in section 543(a)),

19          “(D) that portion of an interest in a trade  
20          or business that is attributable to—

21                 “(i) cash or marketable securities, or  
22                 both, in excess of the reasonably expected  
23                 day-to-day working capital needs of such  
24                 trade or business, and

“(ii) any other assets of the trade or business (other than assets used in the active conduct of a trade or business described in section 542(c)(2)), the income of which is described in section 543(a) or in subparagraph (B), (C), (D), or (E) of section 954(c)(1) (determined by substituting ‘trade or business’ for ‘controlled foreign corporation’).

“(3) RULES REGARDING OWNERSHIP.—

“(A) OWNERSHIP OF ENTITIES.—For purposes of paragraph (1)(B)—

“(i) CORPORATIONS.—Ownership of a corporation shall be determined by the holding of stock possessing the appropriate percentage of the total combined voting power of all classes of stock entitled to vote and the appropriate percentage of the total value of shares of all classes of stock.

“(ii) PARTNERSHIPS.—Ownership of a partnership shall be determined by the owning of the appropriate percentage of the capital interest in such partnership.

“(B) OWNERSHIP OF TIERED ENTITIES.—

For purposes of this section, if by reason of

1 holding an interest in a trade or business, a de-  
 2 cedent, any member of the decedent's family,  
 3 any qualified heir, or any member of any quali-  
 4 fied heir's family is treated as holding an inter-  
 5 est in any other trade or business—

6 “(i) such ownership interest in the  
 7 other trade or business shall be dis-  
 8 regarded in determining if the ownership  
 9 interest in the first trade or business is a  
 10 qualified family-owned business interest,  
 11 and

12 “(ii) this section shall be applied sepa-  
 13 rately in determining if such interest in  
 14 any other trade or business is a qualified  
 15 family-owned business interest.

16 “(C) INDIVIDUAL OWNERSHIP RULES.—

17 For purposes of this section, an interest owned,  
 18 directly or indirectly, by or for an entity de-  
 19 scribed in paragraph (1)(B) shall be considered  
 20 as being owned proportionately by or for the en-  
 21 tity's shareholders, partners, or beneficiaries. A  
 22 person shall be treated as a beneficiary of any  
 23 trust only if such person has a present interest  
 24 in such trust.

1       “(f) TAX TREATMENT OF FAILURE TO MATERIALLY  
2 PARTICIPATE IN BUSINESS OR DISPOSITIONS OF INTER-  
3 ESTS.—

4           “(1) IN GENERAL.—There is imposed an addi-  
5 tional estate tax if, within 10 years after the date  
6 of the decedent’s death and before the date of the  
7 qualified heir’s death—

8           “(A) the material participation require-  
9 ments described in section 2032A(c)(6)(B) are  
10 not met with respect to the qualified family-  
11 owned business interest which was acquired (or  
12 passed) from the decedent,

13           “(B) the qualified heir disposes of any por-  
14 tion of a qualified family-owned business inter-  
15 est (other than by a disposition to a member of  
16 the qualified heir’s family or through a qualified  
17 conservation contribution under section  
18 170(h)),

19           “(C) the qualified heir loses United States  
20 citizenship (within the meaning of section 877)  
21 or with respect to whom an event described in  
22 subparagraph (A) or (B) of section 877(e)(1)  
23 occurs, and such heir does not comply with the  
24 requirements of subsection (g), or

1           “(D) the principal place of business of a  
 2           trade or business of the qualified family-owned  
 3           business interest ceases to be located in the  
 4           United States.

5           “(2) ADDITIONAL ESTATE TAX.—

6           “(A) IN GENERAL.—The amount of the  
 7           additional estate tax imposed by paragraph (1)  
 8           shall be equal to—

9                   “(i) the applicable percentage of the  
 10                  adjusted tax difference attributable to the  
 11                  qualified family-owned business interest  
 12                  (as determined under rules similar to the  
 13                  rules of section 2032A(c)(2)(B)), plus

14                   “(ii) interest on the amount deter-  
 15                  mined under clause (i) at the underpay-  
 16                  ment rate established under section 6621  
 17                  for the period beginning on the date the  
 18                  estate tax liability was due under this  
 19                  chapter and ending on the date such addi-  
 20                  tional estate tax is due.

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

<b>“If the event described in paragraph (1) occurs in the following year of material participation:</b>	<b>The applicable percentage is:</b>
1 through 6 .....	100
7 .....	80
8 .....	60
9 .....	40
10 .....	20.

1       “(g) SECURITY REQUIREMENTS FOR NONCITIZEN  
2 QUALIFIED HEIRS.—

3               “(1) IN GENERAL.—Except upon the applica-  
4 tion of subparagraph (F) or (M) of subsection  
5 (h)(3), if a qualified heir is not a citizen of the Unit-  
6 ed States, any interest under this section passing to  
7 or acquired by such heir (including any interest held  
8 by such heir at a time described in subsection  
9 (f)(1)(C)) shall be treated as a qualified family-  
10 owned business interest only if the interest passes or  
11 is acquired (or is held) in a qualified trust.

12               “(2) QUALIFIED TRUST.—The term ‘qualified  
13 trust’ means a trust—

14                       “(A) which is organized under, and gov-  
15 erned by, the laws of the United States or a  
16 State, and

17                       “(B) except as otherwise provided in regu-  
18 lations, with respect to which the trust instru-  
19 ment requires that at least 1 trustee of the  
20 trust be an individual citizen of the United  
21 States or a domestic corporation.

1       “(h) OTHER DEFINITIONS AND APPLICABLE  
2 RULES.—For purposes of this section—

3               “(1) QUALIFIED HEIR.—The term ‘qualified  
4 heir’—

5                       “(A) has the meaning given to such term  
6 by section 2032A(e)(1), and

7                       “(B) includes any active employee of the  
8 trade or business to which the qualified family-  
9 owned business interest relates if such employee  
10 has been employed by such trade or business  
11 for a period of at least 10 years before the date  
12 of the decedent’s death.

13               “(2) MEMBER OF THE FAMILY.—The term  
14 ‘member of the family’ has the meaning given to  
15 such term by section 2032A(e)(2).

16               “(3) APPLICABLE RULES.—Rules similar to the  
17 following rules shall apply:

18                       “(A) Section 2032A(b)(4) (relating to de-  
19 cedents who are retired or disabled).

20                       “(B) Section 2032A(b)(5) (relating to spe-  
21 cial rules for surviving spouses).

22                       “(C) Section 2032A(c)(2)(D) (relating to  
23 partial dispositions).



1           “(D) Section 2032A(c)(3) (relating to only  
2           1 additional tax imposed with respect to any 1  
3           portion).

4           “(E) Section 2032A(c)(4) (relating to due  
5           date).

6           “(F) Section 2032A(c)(5) (relating to li-  
7           ability for tax; furnishing of bond).

8           “(G) Section 2032A(c)(7) (relating to no  
9           tax if use begins within 2 years; active manage-  
10          ment by eligible qualified heir treated as mate-  
11          rial participation).

12          “(H) Section 2032A(e)(10) (relating to  
13          community property).

14          “(I) Section 2032A(e)(14) (relating to  
15          treatment of replacement property acquired in  
16          section 1031 or 1033 transactions).

17          “(J) Section 2032A(f) (relating to statute  
18          of limitations).

19          “(K) Section 6166(b)(3) (relating to farm-  
20          houses and certain other structures taken into  
21          account).

22          “(L) Subparagraphs (B), (C), and (D) of  
23          section 6166(g)(1) (relating to acceleration of  
24          payment).

1                   “(M) Section 6324B (relating to special  
2                   lien for additional estate tax).”.

3           (b) CLERICAL AMENDMENT.—The table of sections  
4 for part III of subchapter A of chapter 11 is amended  
5 by inserting after the item relating to section 2033 the  
6 following new item:

                  “Sec. 2033A. Family-owned business exclusion.”.

7           (c) EFFECTIVE DATE.—The amendments made by  
8 this section shall apply to estates of decedents dying after  
9 December 31, 1996.

10 **SEC. 502. PORTION OF ESTATE TAX SUBJECT TO 4-PERCENT**  
11 **INTEREST RATE INCREASED TO \$1,600,000.**

12           (a) IN GENERAL.—Subparagraph (B) of section  
13 6601(j)(2) (defining 4-percent portion) is amended by  
14 striking “\$345,800” and inserting “\$600,800”.

15           (b) EFFECTIVE DATE.—The amendment made by  
16 this section shall apply to estates of decedents dying after  
17 December 31, 1996.

18 **SEC. 503. CERTAIN CASH RENTALS OF FARMLAND NOT TO**  
19 **CAUSE RECAPTURE OF SPECIAL ESTATE TAX**  
20 **VALUATION.**

21           (a) IN GENERAL.—Subsection (c) of section 2032A  
22 (relating to tax treatment of dispositions and failures to  
23 use for qualified use) is amended by adding at the end  
24 the following new paragraph:

1           “(8) CERTAIN CASH RENTAL NOT TO CAUSE  
 2 RECAPTURE.—For purposes of this subsection, a  
 3 qualified heir shall not be treated as failing to use  
 4 property in a qualified use solely because such heir  
 5 rents such property on a net cash basis to a member  
 6 of the decedent’s family, but only if, during the pe-  
 7 riod of the lease, such member of the decedent’s  
 8 family uses such property in a qualified use.”

9           (b) EFFECTIVE DATE.—The amendment made by  
 10 subsection (a) shall apply with respect to rentals occurring  
 11 after December 31, 1976.

## 12       **TITLE VI—TRANSPORTATION** 13                               **INVESTMENT**

### 14   **SEC. 601. FINDINGS.**

15       Congress finds that—

16           (1) decaying roads and bridges are clogging the  
 17 economic lifelines and hampering growth of commu-  
 18 nities around the country, costing nearly  
 19 \$40,000,000,000 in annual losses from traffic con-  
 20 gestion alone;

21           (2) with “just-in-time” manufacturing a critical  
 22 aspect of our economic competitiveness, a modern,  
 23 efficient transportation system is more vital now  
 24 than ever;

1           (3) user fee revenues continue to flow into our  
2           transportation trust funds for their intended purpose  
3           of infrastructure investment;

4           (4) Federal budget constraints have prevented  
5           States from fully utilizing all amounts of the trans-  
6           portation trust fund revenues made available to  
7           them;

8           (5) at the same time, recent Federal initiatives  
9           have equipped States with new infrastructure financ-  
10          ing tools that help attract private investment, stimu-  
11          late the Nation’s economy, and create jobs; and

12          (6) enabling States to use a portion of their un-  
13          obligated balances of apportioned Highway Trust  
14          Fund revenues via these new financing tools will  
15          maximize the benefits of vitally needed infrastruc-  
16          ture investments.

17 **SEC. 602. PROGRAM STRUCTURE.**

18          (a) IN GENERAL.—The Secretary of Transportation  
19          (referred to in this title as the “Secretary”) shall make  
20          available to a State a portion of the State’s unobligated  
21          balance in accordance with section 603.

22          (b) QUALIFYING PROJECT.—Federal funds made  
23          available under this title may be used only to provide as-  
24          sistance with respect to a project eligible for assistance  
25          under section 133(b) of title 23, United States Code.

1 (c) PROJECT ADMINISTRATION.—A project receiving  
 2 assistance under this title shall be carried out in accord-  
 3 ance with title 23, United States Code.

4 **SEC. 603. FUNDING.**

5 (a) UNOBLIGATED BALANCES.—

6 (1) IN GENERAL.—For each fiscal year, upon  
 7 the request of a State, the Secretary shall make  
 8 available to the State to carry out projects eligible  
 9 for assistance under this title an aggregate amount  
 10 not to exceed 10 percent, as of the last day of the  
 11 preceding fiscal year, of the funds that were appor-  
 12 tioned to the State under sections 104(b)(1),  
 13 104(b)(3), 104(b)(5), 144, and 160 of title 23, Unit-  
 14 ed States Code, and are not obligated.

15 (2) URBANIZED AREAS OVER 200,000.—Funds  
 16 that were apportioned to a State under section  
 17 104(b)(3) or 160 of title 23, United States Code,  
 18 and attributed to an urbanized area of the State  
 19 with an urbanized area population of over 200,000  
 20 under section 133(d)(3) of that title may be made  
 21 available by the Secretary under paragraph (1) only  
 22 if the metropolitan planning organization designated  
 23 for the area concurs, in writing, with that use.

24 (b) USE OF FUNDS.—

25 (1) STATE INFRASTRUCTURE BANKS.—

1           (A) IN GENERAL.—A State shall contrib-  
2           ute the amounts made available to the State  
3           under subsection (a)(1) to the State infrastruc-  
4           ture bank established by the State in accord-  
5           ance with section 350 of the National Highway  
6           System Designation Act of 1995 (23 U.S.C.  
7           101 note; 109 Stat. 618). Federal funds con-  
8           tributed to the bank under this subparagraph  
9           shall constitute a capitalization grant for the in-  
10          frastructure bank.

11          (B) DISBURSEMENTS.—The Secretary  
12          shall ensure that the disbursements of the Fed-  
13          eral funds referred to in subparagraph (A) to  
14          the infrastructure bank shall be at a rate con-  
15          sistent with historic rates for the Federal-aid  
16          highway program.

17          (2) GRANTS.—In lieu of contributing the funds  
18          to an infrastructure bank, and upon approval by the  
19          Secretary, a State may obligate amounts made avail-  
20          able to the State under subsection (a)(1) for a  
21          project eligible for assistance under section 602(b).

22          (3) NO OBLIGATION LIMITATION.—No limita-  
23          tion shall apply to obligations of amounts made  
24          available under subsection (a)(1).

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