

106TH CONGRESS
1ST SESSION

H. R. 1084

To amend the Internal Revenue Code of 1986 to provide tax relief, to encourage savings and investment, and to provide incentives for public school construction, and to amend the Social Security Act to provide relief from the earnings test.

IN THE HOUSE OF REPRESENTATIVES

MARCH 11, 1999

Ms. DUNN (for herself, Mr. WELLER, Mr. GILLMOR, Mr. HILL of Montana, Mr. LEWIS of California, Mr. HOSTETTLER, Mrs. FOWLER, Mr. SPENCE, Mr. CUNNINGHAM, and Mrs. BIGGERT) introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to provide tax relief, to encourage savings and investment, and to provide incentives for public school construction, and to amend the Social Security Act to provide relief from the earnings test.

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.**

4 (a) SHORT TITLE.—This Act may be cited as the
5 “Lifetime Tax Relief Act of 1999”.

1 (b) AMENDMENT OF 1986 CODE.—Except as other-
 2 wise expressly provided, whenever in this Act an amend-
 3 ment or repeal is expressed in terms of an amendment
 4 to, or repeal of, a section or other provision, the reference
 5 shall be considered to be made to a section or other provi-
 6 sion of the Internal Revenue Code of 1986.

7 (c) SECTION 15 NOT TO APPLY.—No amendment
 8 made by section 103 shall be treated as a change in a
 9 rate of tax for purposes of section 15 of the Internal Reve-
 10 nue Code of 1986 .

11 (d) TABLE OF CONTENTS.—

Sec. 1. Short title.

TITLE I—FAMILY RELIEF

Subtitle A—Tax Relief

- Sec. 101. Basic standard deduction for married individuals to be twice the de-
duction for unmarried individuals.
- Sec. 102. Increase in personal exemption.
- Sec. 103. Reduction of individual income taxes by increasing amounts of income
subject to tax at the 15 percent rate.
- Sec. 104. Nonrefundable personal credits fully allowed against regular tax li-
ability during 1999 and 2000.

Subtitle B—Relief From Social Security Earning Test

- Sec. 111. Elimination of earnings test for individuals who have attained retire-
ment age.
- Sec. 112. Conforming amendments eliminating the special exempt amount for
individuals who have attained retirement age.
- Sec. 113. Additional conforming amendments.
- Sec. 114. Effective date.

TITLE II—BUSINESS RELIEF

- Sec. 201. Phaseout of estate and gift taxes.
- Sec. 202. Modification and permanent extension of research credit.
- Sec. 203. Work opportunity credit made permanent.
- Sec. 204. Permanent subpart F exemption for active financing income.
- Sec. 205. Deduction for health insurance costs of self-employed individuals in-
creased to 100 percent.
- Sec. 206. Increased exclusion and other modifications applicable to qualified
small business stock.

Sec. 207. Increased exclusion for incentive stock options; exception from alternative minimum tax.

TITLE III—SAVINGS AND INVESTMENT

Sec. 301. Exclusion from gross income of certain amounts of the net capital gain of individuals.

Sec. 302. Increase in maximum amount of deduction for IRAs.

Sec. 303. Higher elective deferral limit if employee's spouse is not a participant in section 401(k) plan.

TITLE IV—EDUCATION

Sec. 401. Amendments to encourage additional school construction.

Sec. 402. Modification of arbitrage rebate rules applicable to public school construction bonds.

Sec. 403. Additional increase in arbitrage rebate exception for governmental bonds used to finance public school facilities.

Sec. 404. Exclusion from gross income of education distributions from qualified tuition programs; coverage of private programs.

TITLE I—FAMILY RELIEF

Subtitle A—Tax Relief

SEC. 101. BASIC STANDARD DEDUCTION FOR MARRIED INDIVIDUALS TO BE TWICE THE DEDUCTION FOR UNMARRIED INDIVIDUALS.

(a) IN GENERAL.—Paragraph (2) of section 63(c) (relating to standard deduction) is amended—

(1) by striking “\$5,000” in subparagraph (A) and inserting “twice the dollar amount in effect under subparagraph (C) for the taxable year”,

(2) by adding “or” at the end of subparagraph (B),

(3) by striking “in the case of” and all that follows in subparagraph (C) and inserting “in any other case.”, and

(4) by striking subparagraph (D).

1 (b) TECHNICAL AMENDMENT.—Subparagraph (B) of
 2 section 1(f)(6) is amended by striking “(other than with”
 3 and all that follows through “shall be applied” and insert-
 4 ing “(other than sections 63(c)(4) and 151(d)(4)(A)) shall
 5 be applied”.

6 (c) EFFECTIVE DATE.—The amendments made by
 7 this section shall apply to taxable years beginning after
 8 December 31, 1999.

9 **SEC. 102. INCREASE IN PERSONAL EXEMPTION.**

10 (a) IN GENERAL.—Paragraph (1) of section 151(d)
 11 (relating to exemption amount) is amended by striking
 12 “\$2,000” and inserting “\$3,500”.

13 (b) CONFORMING AMENDMENT.—Subparagraph (A)
 14 of section 151(d)(4) is amended to read as follows:

15 “(A) ADJUSTMENT TO BASIC AMOUNT OF
 16 EXEMPTION.—In the case of any taxable year
 17 beginning in a calendar year after 2000, the
 18 dollar amount contained in paragraph (1) shall
 19 be increased by an amount equal to—

20 “(i) such dollar amount, multiplied by

21 “(ii) the cost-of-living adjustment de-
 22 termined under section 1(f)(3) for the cal-
 23 endar year in which the taxable year be-
 24 gins.”.

1 (c) EFFECTIVE DATE.—The amendments made by
 2 this section shall apply to taxable years beginning after
 3 December 31, 1999.

4 **SEC. 103. REDUCTION OF INDIVIDUAL INCOME TAXES BY**
 5 **INCREASING AMOUNTS OF INCOME SUBJECT**
 6 **TO TAX AT THE 15 PERCENT RATE.**

7 (a) GENERAL RULE.—Section 1 (relating to tax im-
 8 posed) is amended by striking subsections (a) through (e)
 9 and inserting the following:

10 “(a) MARRIED INDIVIDUALS FILING JOINT RETURNS
 11 AND SURVIVING SPOUSES.—There is hereby imposed on
 12 the taxable income of every married individual (as defined
 13 in section 7703) who makes a single return jointly with
 14 his spouse under section 6013, and every surviving spouse
 15 (as defined in section 2(a)), a tax determined in accord-
 16 ance with the following tables:

17 “(1) FOR TAXABLE YEARS BEGINNING IN
 18 2000.—

“If taxable income is:	The tax is:
Not over \$53,560	15% of taxable income.
Over \$53,560 but not over \$124,900.	\$8,034, plus 28% of the excess over \$53,560.
Over \$124,900 but not over \$260,500.	\$28,009.20, plus 31% of the excess over \$124,900.
Over \$260,500 but not over \$566,300.	\$70,045.20, plus 36% of the excess over \$260,500.
Over \$566,300	\$180,133.20, plus 39.6% of the ex- cess over \$566,300.

19 “(2) FOR TAXABLE YEARS BEGINNING IN
 20 2001.—

“If taxable income is:

Not over \$55,105
 Over \$55,105 but not over
 \$124,900.
 Over \$124,900 but not over
 \$260,500.
 Over \$260,500 but not over
 \$566,300.
 Over \$566,300

The tax is:

15% of taxable income.
 \$8,265.75, plus 28% of the excess
 over \$55,105.
 \$27,808.35, plus 31% of the excess
 over \$124,900.
 \$69,844.35, plus 36% of the excess
 over \$260,500.
 \$179,932.35, plus 39.6% of the ex-
 cess over \$566,300.

1 “(3) FOR TAXABLE YEARS BEGINNING AFTER
 2 2001.—

“If taxable income is:

Not over \$56,650
 Over \$56,650 but not over
 \$124,900.
 Over \$124,900 but not over
 \$260,500.
 Over \$260,500 but not over
 \$566,300.
 Over \$566,300

The tax is:

15% of taxable income.
 \$8,497.50, plus 28% of the excess
 over \$56,650.
 \$27,607.50, plus 31% of the excess
 over \$124,900.
 \$69,643.50, plus 36% of the excess
 over \$260,500.
 \$179,731.50, plus 39.6% of the ex-
 cess over \$566,300.

3 “(b) HEADS OF HOUSEHOLDS.—There is hereby im-
 4 posed on the taxable income of every head of a household
 5 (as defined in section 2(b)) a tax determined in accordance
 6 with the following tables:

7 “(1) FOR TAXABLE YEARS BEGINNING IN
 8 2000.—

“If taxable income is:

Not over \$35,932
 Over \$35,932 but not over
 \$89,150.
 Over \$89,150 but not over
 \$144,400.
 Over \$144,400 but not over
 \$283,150.
 Over \$283,150

The tax is:

15% of taxable income.
 \$5,389.80, plus 28% of the excess
 over \$35,932.
 \$20,290.84, plus 31% of the excess
 over \$89,150.
 \$37,418.34, plus 36% of the excess
 over \$144,400.
 \$87,368.34, plus 39.6% of the excess
 over \$283,150.

9 “(2) FOR TAXABLE YEARS BEGINNING IN
 10 2001.—

“If taxable income is:

Not over \$36,969
 Over \$36,969 but not over
 \$89,150.
 Over \$89,150 but not over
 \$144,400.
 Over \$144,400 but not over
 \$283,150.
 Over \$283,150

The tax is:

15% of taxable income.
 \$5,545.35, plus 28% of the excess
 over \$36,969.
 \$20,156.03, plus 31% of the excess
 over \$89,150.
 \$37,283.53, plus 36% of the excess
 over \$144,400.
 \$87,233.53, plus 39.6% of the excess
 over \$283,150.

1 “(3) FOR TAXABLE YEARS BEGINNING AFTER
 2 2001.—

“If taxable income is:

Not over \$38,514
 Over \$38,514 but not over
 \$89,150.
 Over \$89,150 but not over
 \$144,400.
 Over \$144,400 but not over
 \$283,150.
 Over \$283,150

The tax is:

15% of taxable income.
 \$5,777.10, plus 28% of the excess
 over \$38,514.
 \$19,955.18, plus 31% of the excess
 over \$89,150.
 \$37,082.68, plus 36% of the excess
 over \$144,400.
 \$87,032.68, plus 39.6% of the excess
 over \$283,150.

3 “(c) OTHER INDIVIDUALS.—There is hereby imposed
 4 on the taxable income of every individual (other than an
 5 individual to whom subsection (a) or (b) applies) a tax
 6 determined in accordance with the following tables:

7 “(1) FOR TAXABLE YEARS BEGINNING IN
 8 2000.—

“If taxable income is:

Not over \$26,780
 Over \$26,780 but not over
 \$62,450.
 Over \$62,450 but not over
 \$130,250.
 Over \$130,250 but not over
 \$283,150.
 Over \$283,150

The tax is:

15% of taxable income.
 \$4,017, plus 28% of the excess over
 \$26,780.
 \$14,004.60, plus 31% of the excess
 over \$62,450.
 \$35,022.60, plus 36% of the excess
 over \$130,250.
 \$90,066.60, plus 39.6% of the excess
 over \$283,150.

9 “(2) FOR TAXABLE YEARS BEGINNING IN
 10 2001.—

“If taxable income is:

Not over \$27,553
 Over \$27,553 but not over
 \$62,450.
 Over \$62,450 but not over
 \$130,250.
 Over \$130,250 but not over
 \$283,150.
 Over \$283,150

The tax is:

15% of taxable income.
 \$4,132.95, plus 28% of the excess
 over \$27,553.
 \$13,904.11, plus 31% of the excess
 over \$62,450.
 \$34,922.11, plus 36% of the excess
 over \$130,250.
 \$89,966.11, plus 39.6% of the excess
 over \$283,150.

1 “(3) FOR TAXABLE YEARS BEGINNING AFTER
 2 2001.—

“If taxable income is:

Not over \$28,326
 Over \$28,326 but not over
 \$62,450.
 Over \$62,450 but not over
 \$130,250.
 Over \$130,250 but not over
 \$283,150.
 Over \$283,150

The tax is:

15% of taxable income.
 \$4,248.90, plus 28% of the excess
 over \$28,326.
 \$13,803.62, plus 31% of the excess
 over \$62,450.
 \$34,821.62, plus 36% of the excess
 over \$130,250.
 \$89,865.62, plus 39.6% of the excess
 over \$283,150.

3 “(d) ESTATES AND TRUSTS.—There is hereby im-
 4 posed on the taxable income of every estate and every
 5 trust taxable under this subsection a tax determined in
 6 accordance with the following tables:

7 “(1) FOR TAXABLE YEARS BEGINNING IN
 8 2000.—

“If taxable income is:

Not over \$1,820
 Over \$1,820 but not over \$4,050 ..
 Over \$4,050 but not over \$6,200 ..
 Over \$6,200 but not over \$8,450 ..
 Over \$8,450

The tax is:

15% of taxable income.
 \$273, plus 28% of the excess over
 \$1,820.
 \$897.40, plus 31% of the excess over
 \$4,050.
 \$1,563.90, plus 36% of the excess
 over \$6,200.
 \$2,373.90, plus 39.6% of the excess
 over \$8,450.

9 “(2) FOR TAXABLE YEARS BEGINNING IN
 10 2001.—

“If taxable income is:

Not over \$1,873

Over \$1,873 but not over \$4,050 ..

Over \$4,050 but not over \$6,200 ..

Over \$6,200 but not over \$8,450 ..

Over \$8,450

The tax is:

15% of taxable income.

\$280.95, plus 28% of the excess over \$1,873.

\$890.51, plus 31% of the excess over \$4,050.

\$1,557.01, plus 36% of the excess over \$6,200.

\$2,367.01, plus 39.6% of the excess over \$8,450.

1 “(3) FOR TAXABLE YEARS BEGINNING AFTER

2 2001.—

“If taxable income is:

Not over \$1,926

Over \$1,926 but not over \$4,050 ..

Over \$4,050 but not over \$6,200 ..

Over \$6,200 but not over \$8,450 ..

Over \$8,450

The tax is:

15% of taxable income.

\$288.90, plus 28% of the excess over \$1,926.

\$883.62, plus 31% of the excess over \$4,050.

\$1,550.12, plus 36% of the excess over \$6,200.

\$2,360.12, plus 39.6% of the excess over \$8,450.”.

3 (b) INFLATION ADJUSTMENT TO APPLY IN DETER-

4 MINING RATES AFTER 1999.—Subsection (f) of section 1

5 is amended—

6 (1) by striking “1993” in paragraph (1) and in-

7 serting “1999”,

8 (2) by striking “1992” in paragraph (3)(B) and

9 inserting “1998”, and

10 (3) by striking paragraph (7).

11 (c) CONFORMING AMENDMENTS.—

12 (1) The following provisions are each amended

13 by striking “1992” and inserting “1998” each place

14 it appears:

15 (A) Section 25A(h).

- 1 (B) Section 32(j)(1)(B).
- 2 (C) Section 41(e)(5)(C).
- 3 (D) Section 59(j)(2)(B).
- 4 (E) Section 63(c)(4)(B).
- 5 (F) Section 68(b)(2)(B).
- 6 (G) Section 135(b)(2)(B)(ii).
- 7 (H) Section 151(d)(4).
- 8 (I) Section 220(g)(2).
- 9 (J) Section 221(g)(1)(B).
- 10 (K) Section 512(d)(2)(B).
- 11 (L) Section 513(h)(2)(C)(ii).
- 12 (M) Section 685(c)(3)(B).
- 13 (N) Section 877(a)(2).
- 14 (O) Section 911(b)(2)(D)(ii)(II).
- 15 (P) Section 2032A(a)(3)(B).
- 16 (Q) Section 2503(b)(2)(B).
- 17 (R) Section 2631(c)(1)(B).
- 18 (S) Section 4001(e)(1)(B).
- 19 (T) Section 4261(e)(4)(A)(ii).
- 20 (U) Section 6039F(d).
- 21 (V) Section 6323(i)(4)(B).
- 22 (W) Section 6601(j)(3)(B).
- 23 (X) Section 7430(c)(1).
- 24 (2) Subclause (II) of section 42(h)(6)(G)(i) is
- 25 amended by striking “1987” and inserting “1998”.

1 (3) Subparagraph (B) of section 132(f)(6) is
 2 amended by inserting before the period “, deter-
 3 mined by substituting ‘calendar year 1992’ for ‘cal-
 4 endar year 1998’ in subparagraph (B) thereof”.

5 (d) EFFECTIVE DATE.—The amendments made by
 6 this section shall apply to taxable years beginning after
 7 December 31, 1999.

8 **SEC. 104. NONREFUNDABLE PERSONAL CREDITS FULLY AL-**
 9 **LOWED AGAINST REGULAR TAX LIABILITY**
 10 **DURING 1999 AND 2000.**

11 (a) IN GENERAL.—The last sentence of section 26(a)
 12 is by striking “1998” and inserting “1998, 1999, or
 13 2000”.

14 (b) EFFECTIVE DATE.—The amendment made by
 15 this section shall apply to taxable years beginning after
 16 December 31, 1999.

17 **Subtitle B—Relief From Social**
 18 **Security Earning Test**

19 **SEC. 111. ELIMINATION OF EARNINGS TEST FOR INDIVID-**
 20 **UALS WHO HAVE ATTAINED RETIREMENT**
 21 **AGE.**

22 Section 203 of the Social Security Act (42 U.S.C.
 23 403) is amended—

1 (1) in subsection (c)(1), by striking “the age of
2 seventy” and inserting “retirement age (as defined
3 in section 216(l))”;

4 (2) in paragraphs (1)(A) and (2) of subsection
5 (d), by striking “the age of seventy” each place it
6 appears and inserting “retirement age (as defined in
7 section 216(l))”;

8 (3) in subsection (f)(1)(B), by striking “was
9 age seventy or over” and inserting “was at or above
10 retirement age (as defined in section 216(l))”;

11 (4) in subsection (f)(3)—

12 (A) by striking “33 $\frac{1}{3}$ percent” and all
13 that follows through “any other individual,”
14 and inserting “50 percent of such individual’s
15 earnings for such year in excess of the product
16 of the exempt amount as determined under
17 paragraph (8),”; and

18 (B) by striking “age 70” and inserting
19 “retirement age (as defined in section 216(l))”;

20 (5) in subsection (h)(1)(A), by striking “age
21 70” each place it appears and inserting “retirement
22 age (as defined in section 216(l))”; and

23 (6) in subsection (j)—

24 (A) in the heading, by striking “Age Sev-
25 enty” and inserting “Retirement Age”; and

1 (B) by striking “seventy years of age” and
 2 inserting “having attained retirement age (as
 3 defined in section 216(l))”.

4 **SEC. 112. CONFORMING AMENDMENTS ELIMINATING THE**
 5 **SPECIAL EXEMPT AMOUNT FOR INDIVIDUALS**
 6 **WHO HAVE ATTAINED RETIREMENT AGE.**

7 (a) UNIFORM EXEMPT AMOUNT.—Section
 8 203(f)(8)(A) of the Social Security Act (42 U.S.C.
 9 403(f)(8)(A)) is amended by striking “the new exempt
 10 amounts (separately stated for individuals described in
 11 subparagraph (D) and for other individuals) which are to
 12 be applicable” and inserting “a new exempt amount which
 13 shall be applicable”.

14 (b) CONFORMING AMENDMENTS.—Section
 15 203(f)(8)(B) of the Social Security Act (42 U.S.C.
 16 403(f)(8)(B)) is amended—

17 (1) in the matter preceding clause (i), by strik-
 18 ing “Except” and all that follows through “which-
 19 ever” and inserting “The exempt amount which is
 20 applicable for each month of a particular taxable
 21 year shall be whichever”;

22 (2) in clauses (i) and (ii), by striking “cor-
 23 responding” each place it appears; and

24 (3) in the last sentence, by striking “an exempt
 25 amount” and inserting “the exempt amount”.

1 (c) REPEAL OF BASIS FOR COMPUTATION OF SPE-
2 CIAL EXEMPT AMOUNT.—Section 203(f)(8)(D) of the So-
3 cial Security Act (42 U.S.C. 403(f)(8)(D)) is repealed.

4 **SEC. 113. ADDITIONAL CONFORMING AMENDMENTS.**

5 (a) ELIMINATION OF REDUNDANT REFERENCES TO
6 RETIREMENT AGE.—Section 203 of the Social Security
7 Act (42 U.S.C. 403) is amended—

8 (1) in subsection (c), in the last sentence, by
9 striking “nor shall any deduction” and all that fol-
10 lows and inserting “nor shall any deduction be made
11 under this subsection from any widow’s or widower’s
12 insurance benefit if the widow, surviving divorced
13 wife, widower, or surviving divorced husband in-
14 volved became entitled to such benefit prior to at-
15 taining age 60.”; and

16 (2) in subsection (f)(1), by striking clause (D)
17 and inserting the following: “(D) for which such in-
18 dividual is entitled to widow’s or widower’s insurance
19 benefits if such individual became so entitled prior
20 to attaining age 60,”.

21 (b) CONFORMING AMENDMENT TO PROVISIONS FOR
22 DETERMINING AMOUNT OF INCREASE ON ACCOUNT OF
23 DELAYED RETIREMENT.—Section 202(w)(2)(B)(ii) of the
24 Social Security Act (42 U.S.C. 402(w)(2)(B)(ii)) is
25 amended—

1 (1) by striking “either”; and

2 (2) by striking “or suffered deductions under
3 section 203(b) or 203(c) in amounts equal to the
4 amount of such benefit”.

5 (c) PROVISIONS RELATING TO EARNINGS TAKEN
6 INTO ACCOUNT IN DETERMINING SUBSTANTIAL GAINFUL
7 ACTIVITY OF BLIND INDIVIDUALS.—The second sentence
8 of section 223(d)(4) of such Act (42 U.S.C. 423(d)(4))
9 is amended by striking “if section 102 of the Senior Citi-
10 zens’ Right to Work Act of 1996 had not been enacted”
11 and inserting the following: “if the amendments to section
12 203 made by section 102 of the Senior Citizens’ Right
13 to Work Act of 1996 and by subtitle B of title I of the
14 Lifetime Tax Relief Act of 1999 had not been enacted”.

15 **SEC. 114. EFFECTIVE DATE.**

16 The amendments and repeals made by this subtitle
17 shall apply with respect to taxable years ending after De-
18 cember 31, 1999.

19 **TITLE II—BUSINESS RELIEF**

20 **SEC. 201. PHASEOUT OF ESTATE AND GIFT TAXES.**

21 (a) REPEAL OF ESTATE AND GIFT TAXES.—Subtitle
22 B (relating to estate and gift taxes) is repealed effective
23 with respect to estates of decedents dying, and gifts made,
24 after December 31, 2009.

1 (b) PHASEOUT OF TAX.—Subsection (c) of section
 2 2001 (relating to imposition and rate of tax) is amended
 3 by adding at the end the following new paragraph:

4 “(3) PHASEOUT OF TAX.—In the case of es-
 5 tates of decedents dying, and gifts made, during any
 6 calendar year after 1999 and before 2010—

7 “(A) IN GENERAL.—The tentative tax
 8 under this subsection shall be determined by
 9 using a table prescribed by the Secretary (in
 10 lieu of using the table contained in paragraph
 11 (1)) which is the same as such table; except
 12 that—

13 “(i) each of the rates of tax shall be
 14 reduced (but not below zero) by the num-
 15 ber of percentage points determined under
 16 subparagraph (B), and

17 “(ii) the amounts setting forth the tax
 18 shall be adjusted to the extent necessary to
 19 reflect the adjustments under clause (i).

20 “(B) PERCENTAGE POINTS OF REDUC-
 21 TION.—

“For calendar year:	The number of percentage points is:
2000	5
2001	10
2002	15
2003	20
2004	25
2005	30
2006	35

“For calendar year:	The number of percentage points is:
2007	40
2008	45
2009	50.

1 “(C) COORDINATION WITH PARAGRAPH
2 (2).—Paragraph (2) shall be applied by reduc-
3 ing the 55 percent percentage contained therein
4 by the number of percentage points determined
5 for such calendar year under subparagraph (B).

6 “(D) COORDINATION WITH CREDIT FOR
7 STATE DEATH TAXES.—Rules similar to the
8 rules of subparagraph (A) shall apply to the
9 table contained in section 2011(b) except that
10 the number of percentage points referred to in
11 subparagraph (A)(i) shall be determined under
12 the following table:

“For calendar year:	The number of percentage points is:
2000	1½
2001	3
2002	4½
2003	6
2004	7½
2005	9
2006	10½
2007	12
2008	13½
2009	15.”

13 (c) EFFECTIVE DATE.—The amendments made by
14 this section shall apply to estates of decedents dying, and
15 gifts made, after December 31, 1999.

1 **SEC. 202. MODIFICATION AND PERMANENT EXTENSION OF**
2 **RESEARCH CREDIT.**

3 (a) CREDIT MADE PERMANENT.—

4 (1) IN GENERAL.—Section 41 (relating to cred-
5 it for increasing research activities) is amended by
6 striking subsection (h).

7 (2) CONFORMING AMENDMENT.—Paragraph (1)
8 of section 45C(b) is amended by striking subpara-
9 graph (D).

10 (b) INCREASE IN ALTERNATIVE INCREMENTAL
11 CREDIT RATES.—Subparagraph (A) of section 41(c)(4) is
12 amended—

13 (1) by striking “1.65 percent” in clause (i) and
14 inserting “2.65 percent”,

15 (2) by striking “2.2 percent” in clause (ii) and
16 inserting “3.2 percent”, and

17 (3) by striking “2.75 percent” in clause (iii)
18 and inserting “3.75 percent”.

19 (c) EFFECTIVE DATE.—The amendments made by
20 this section shall apply to amounts paid or incurred after
21 June 30, 1999.

22 **SEC. 203. WORK OPPORTUNITY CREDIT MADE PERMANENT.**

23 (a) IN GENERAL.—Subsection (c) of section 51 is
24 amended by striking paragraph (4).

1 (b) EFFECTIVE DATE.—The amendment made by
 2 subsection (a) shall apply to individuals who begin work
 3 for the employer after June 30, 1999.

4 **SEC. 204. PERMANENT SUBPART F EXEMPTION FOR ACTIVE**
 5 **FINANCING INCOME.**

6 (a) BANKING, FINANCING, OR SIMILAR BUSI-
 7 NESSES.—Subsection (h) of section 954 (relating to spe-
 8 cial rule for income derived in the active conduct of bank-
 9 ing, financing, or similar businesses) is amended by strik-
 10 ing paragraph (9).

11 (b) INSURANCE BUSINESSES.—Subsection (a) of sec-
 12 tion 953 (defining insurance income) is amended by strik-
 13 ing paragraph (10) and by redesignating paragraph (11)
 14 as paragraph (10).

15 (c) EFFECTIVE DATE.—The amendments made by
 16 this section shall apply to taxable years of a foreign cor-
 17 poration beginning after December 31, 1998, and to tax-
 18 able years of United States shareholders with or within
 19 which such taxable years of such foreign corporation end.

20 **SEC. 205. DEDUCTION FOR HEALTH INSURANCE COSTS OF**
 21 **SELF-EMPLOYED INDIVIDUALS INCREASED**
 22 **TO 100 PERCENT.**

23 (a) IN GENERAL.—Paragraph (1) of section 162(l)
 24 (relating to special rules for health insurance costs of self-
 25 employed individuals) is amended to read as follows:

1 “(1) ALLOWANCE OF DEDUCTION.—In the case
 2 of an individual who is an employee within the
 3 meaning of section 401(c)(1), there shall be allowed
 4 as a deduction under this section an amount equal
 5 to the amount paid during the taxable year for in-
 6 surance which constitutes medical care for the tax-
 7 payer, the taxpayer’s spouse, and dependents.”

8 (b) EFFECTIVE DATE.—The amendment made by
 9 this section shall apply to taxable years beginning after
 10 December 31, 1999.

11 **SEC. 206. INCREASED EXCLUSION AND OTHER MODIFICA-**
 12 **TIONS APPLICABLE TO QUALIFIED SMALL**
 13 **BUSINESS STOCK.**

14 (a) INCREASED EXCLUSION.—

15 (1) IN GENERAL.—Subsection (a) of section
 16 1202 (50-percent exclusion for gain from certain
 17 small business stock) is amended—

18 (A) by striking “50 percent” and inserting
 19 “100 percent”, and

20 (B) by striking “50-PERCENT” in the
 21 heading and inserting “100-PERCENT”.

22 (2) CONFORMING AMENDMENTS.—

23 (A) Subparagraph (A) of section 1(h)(5) is
 24 amended to read as follows:

25 “(A) collectibles gain, over”.

1 (B) Section 1(h) is amended by striking
2 paragraph (8).

3 (C) Paragraph (9) of section 1(h) is
4 amended by striking “, gain described in para-
5 graph (7)(A)(i), and section 1202 gain” and in-
6 serting “and gain described in paragraph
7 (7)(A)(i)”.

8 (D) The heading for section 1202 is
9 amended by striking “**50-PERCENT**” and in-
10 serting “**100-PERCENT**”.

11 (E) The table of sections for part I of sub-
12 chapter P of chapter 1 is amended by striking
13 “50-percent” in the item relating to section
14 1202 and inserting “100-percent”.

15 (b) REDUCTION IN HOLDING PERIOD.—

16 (1) IN GENERAL.—Subsection (a) of section
17 1202 is amended by striking “5 years” and inserting
18 “3 years”.

19 (2) CONFORMING AMENDMENT.—Subsections
20 (g)(2)(A) and (j)(1)(A) of section 1202 are each
21 amended by striking “5 years” and inserting “3
22 years”.

23 (c) EXCLUSION AVAILABLE TO CORPORATIONS.—

1 (1) IN GENERAL.—Subsection (a) of section
2 1202 is amended by striking “other than a corpora-
3 tion”.

4 (2) TECHNICAL AMENDMENT.—Subsection (c)
5 of section 1202 is amended by adding at the end the
6 following new paragraph:

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

13 (d) REPEAL OF MINIMUM TAX PREFERENCE.—

14 (1) IN GENERAL.—Subsection (a) of section 57
15 (relating to items of tax preference) is amended by
16 striking paragraph (7).

17 (2) TECHNICAL AMENDMENT.—Subclause (II)
18 of section 53(d)(1)(B)(ii) is amended by striking “,
19 (5), and (7)” and inserting “and (5)”.

20 (e) STOCK OF LARGER BUSINESSES ELIGIBLE FOR
21 EXCLUSION.—

22 (1) IN GENERAL.—Paragraph (1) of section
23 1202(d) (defining qualified small business) is
24 amended by striking “\$50,000,000” each place it
25 appears and inserting “\$300,000,000”.

1 (2) INFLATION ADJUSTMENT.—Section 1202(d)
 2 is amended by adding at the end the following:

3 “(4) INFLATION ADJUSTMENT OF ASSET LIM-
 4 TATION.—In the case of stock issued in any calendar
 5 year after 2000, the \$300,000,000 amount con-
 6 tained in paragraph (1) shall be increased by an
 7 amount equal to—

8 “(A) such dollar amount, multiplied by

9 “(B) the cost-of-living adjustment deter-
 10 mined under section 1(f)(3) for the calendar
 11 year in which the taxable year begins, deter-
 12 mined by substituting ‘calendar year 1999’ for
 13 ‘calendar year 1992’ in subparagraph (B)
 14 thereof.

15 If any amount as adjusted under the preceding sen-
 16 tence is not a multiple of \$10,000, such amount
 17 shall be rounded to the nearest multiple of
 18 \$10,000.”

19 (f) REPEAL OF PER-ISSUER LIMITATION.—Section
 20 1202 is amended by striking subsection (b).

21 (g) OTHER MODIFICATIONS.—

22 (1) REPEAL OF WORKING CAPITAL LIMITA-
 23 TION.—Section 1202(e)(6) (relating to working cap-
 24 ital) is amended—

1 (A) in subparagraph (B), by striking “2
2 years” and inserting “5 years”; and

3 (B) by striking the last sentence.

4 (2) EXCEPTION FROM REDEMPTION RULES
5 WHERE BUSINESS PURPOSE.—Section 1202(c)(3)
6 (relating to certain purchases by corporation of its
7 own stock) is amended by adding at the end the fol-
8 lowing:

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

17 (h) QUALIFIED TRADE OR BUSINESS.—Section
18 1202(e)(3) (defining qualified trade or business) is
19 amended by inserting “and” at the end of subparagraph
20 (C), by striking “, and” at the end of subparagraph (D)
21 and inserting a period, and by striking subparagraph (E).

22 (i) EFFECTIVE DATES.—

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

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

3 (2) SPECIAL RULE.—The amendments made by
4 subsections (a), (c), (e), (f), and (g)(1) apply to
5 stock issued after August 10, 1993.

6 **SEC. 207. INCREASED EXCLUSION FOR INCENTIVE STOCK**
7 **OPTIONS; EXCEPTION FROM ALTERNATIVE**
8 **MINIMUM TAX.**

9 (a) INCREASED EXCLUSION.—Subsection (d) of sec-
10 tion 422 (relating to \$100,000 per year limitation) is
11 amended by striking “\$100,000” each place it appears
12 and inserting “\$200,000”.

13 (b) EXCEPTION FROM ALTERNATIVE MINIMUM
14 TAX.—Subsection (b) of section 56 is amended by striking
15 paragraph (3).

16 (c) EFFECTIVE DATE.—The amendments made by
17 this section shall apply to options exercised in calendar
18 years beginning after the date of the enactment of this
19 Act.

TITLE III—SAVINGS AND INVESTMENT

SEC. 301. EXCLUSION FROM GROSS INCOME OF CERTAIN AMOUNTS OF THE NET CAPITAL GAIN OF IN- DIVIDUALS.

(a) IN GENERAL.—Part I of subchapter P of chapter 1 (relating to treatment of capital gains) is amended by adding at the end the following new section:

“SEC. 1203. EXCLUSION OF CERTAIN AMOUNTS OF NET CAP- ITAL GAIN OF INDIVIDUALS.

“(a) GENERAL RULE.—In the case of an individual, gross income shall not include an amount equal to the net capital gain of the taxpayer for the taxable year.

“(b) LIMITATION.—The amount excluded from gross income under subsection (a) shall not exceed \$1,000 (\$2,000 in the case of a joint return).”

(b) CONFORMING AMENDMENTS.—

(1) Section 1222 is amended by adding at the end the following new sentence:

“Determinations under this section shall be made before the application of section 1203.”

(2) The table of sections for part I of subchapter P of chapter 1 is amended by adding at the end the following new item:

“Sec. 1203. Exclusion of certain amounts of net capital gain of individuals.”

1 (c) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to taxable years beginning after
3 December 31, 1999.

4 **SEC. 302. INCREASE IN MAXIMUM AMOUNT OF DEDUCTION**
5 **FOR IRAS.**

6 (a) INCREASE IN MAXIMUM AMOUNT OF DEDUC-
7 TION.—Subparagraph (A) of section 219(b)(1) (relating
8 to maximum amount of deduction) is amended by striking
9 “\$2,000” and inserting “\$3,000”.

10 (b) CONFORMING AMENDMENTS.—

11 (1) Subsections (a)(1) and (b) of section 408
12 are each amended by striking “\$2,000” each place
13 it appears and inserting “the dollar limitation in ef-
14 fect under section 219(b)(1)(A)”.

15 (2) Subsection (j) of section 408 is amended by
16 striking “the \$2,000 amounts contained” and insert-
17 ing “the dollar limitations referred to”.

18 (3) Paragraph (8) of section 408(p) is amended
19 by striking “\$2,000” and inserting “the dollar limi-
20 tation in effect under section 219(b)(1)(A)”.

21 (c) EFFECTIVE DATE.—The amendments made by
22 this section shall apply to taxable years beginning after
23 December 31, 1999.

1 **SEC. 303. HIGHER ELECTIVE DEFERRAL LIMIT IF EMPLOY-**
2 **EE'S SPOUSE IS NOT A PARTICIPANT IN ELEC-**
3 **TIVE DEFERRALS PLAN.**

4 (a) IN GENERAL.—Paragraph (1) of section 402(g)
5 (relating to limitation on elective deferrals) is amended to
6 read as follows:

7 “(1) DOLLAR LIMITATION.—

8 “(A) IN GENERAL.—Notwithstanding sub-
9 sections (e)(3) and (h)(1)(B), the elective defer-
10 rals of any individual for any taxable year shall
11 be included in such individual's gross income to
12 the extent the amount of such deferrals for the
13 taxable year exceeds \$7,000.

14 “(B) HIGHER LIMITATION IF SPOUSE OF
15 EMPLOYEE NOT ELIGIBLE TO PARTICIPATE IN
16 ELECTIVE DEFERRAL PLAN.—In the case of a
17 married individual whose spouse is not eligible
18 at any time during the taxable year to partici-
19 pate in any plan or contract which permits elec-
20 tive deferrals—

21 “(I) the dollar amount applicable to
22 such individual under subparagraph (A)
23 shall be twice the dollar amount which
24 would otherwise be applicable for the tax-
25 able year, and

1 “(II) elective deferrals permitted by
 2 this subparagraph shall not be taken into
 3 account under section 415, 401(a)(4), or
 4 401(k)(4)(A)(ii).”

5 (b) EFFECTIVE DATE.—The amendment made by
 6 subsection (a) shall apply to taxable years beginning after
 7 December 31, 1999.

8 **TITLE IV—EDUCATION**

9 **SEC. 401. AMENDMENTS TO ENCOURAGE ADDITIONAL** 10 **SCHOOL CONSTRUCTION.**

11 (a) IN GENERAL.—Clause (i) of section 149(d)(3)(A)
 12 is amended—

13 (1) by striking “or” at the end of subclause (I),

14 (2) by adding “or” at the end of subclause (II),

15 and

16 (3) by inserting after subclause (II) the follow-
 17 ing:

18 “(III) the 2d advance refunding
 19 of the original bond if the original
 20 bond was issued after 1985 or the 3d
 21 advance refunding of the original
 22 bond if the original bond was issued
 23 before 1986 if, in either case, the
 24 original bond was issued to finance
 25 the construction, reconstruction, or re-

1 habilitation of public elementary and
 2 secondary schools, provided that the
 3 issuer in good faith estimates the
 4 present value savings, if any, associ-
 5 ated with such advance refunding and
 6 applies those savings to the construc-
 7 tion, reconstruction, or rehabilitation
 8 of public elementary and secondary
 9 schools,”.

10 (b) EFFECTIVE DATE.—The amendment made by
 11 this section shall apply to refunding obligations issued
 12 after December 31, 1999.

13 **SEC. 402. MODIFICATION OF ARBITRAGE REBATE RULES**
 14 **APPLICABLE TO PUBLIC SCHOOL CONSTRUC-**
 15 **TION BONDS.**

16 (a) IN GENERAL.—Subparagraph (C) of section
 17 148(f)(4) is amended by adding at the end the following
 18 new clause:

19 “(xviii) 4-YEAR SPENDING REQUIRE-
 20 MENT FOR PUBLIC SCHOOL CONSTRUCTION
 21 ISSUE.—

22 “(I) IN GENERAL.—In the case
 23 of a public school construction issue,
 24 the spending requirements of clause
 25 (ii) shall be treated as met if at least

1 10 percent of the available construc-
2 tion proceeds of the construction issue
3 are spent for the governmental pur-
4 poses of the issue within the 1-year
5 period beginning on the date the
6 bonds are issued, 30 percent of such
7 proceeds are spent for such purposes
8 within the 2-year period beginning on
9 such date, 50 percent of such pro-
10 ceeds are spent for such purposes
11 within the 3-year period beginning on
12 such date, and 100 percent of such
13 proceeds are spent for such purposes
14 within the 4-year period beginning on
15 such date.

16 “(II) PUBLIC SCHOOL CON-
17 STRUCTION ISSUE.—For purposes of
18 this clause, the term ‘public school
19 construction issue’ means any con-
20 struction issue if no bond which is
21 part of such issue is a private activity
22 bond and all of the available construc-
23 tion proceeds of such issue are to be
24 used for the construction (as defined
25 in clause (iv)) of public school facili-

1 ties to provide education or training
 2 below the postsecondary level or for
 3 the acquisition of land that is func-
 4 tionally related and subordinate to
 5 such facilities.

6 “(III) OTHER RULES TO
 7 APPLY.—Rules similar to the rules of
 8 the preceding provisions of this sub-
 9 paragraph which apply to clause (ii)
 10 also apply to this clause.”.

11 (b) EFFECTIVE DATE.—The amendment made by
 12 this section shall apply to obligations issued after Decem-
 13 ber 31, 1999.

14 **SEC. 403. ADDITIONAL INCREASE IN ARBITRAGE REBATE**
 15 **EXCEPTION FOR GOVERNMENTAL BONDS**
 16 **USED TO FINANCE PUBLIC SCHOOL FACILI-**
 17 **TIES.**

18 (a) IN GENERAL.—Section 148(f)(4)(D)(vii) (relat-
 19 ing to increase in exception for bonds financing public
 20 school capital expenditures) is amended by striking
 21 “\$5,000,000” the second place it appears and inserting
 22 “\$15,000,000”.

23 (b) EFFECTIVE DATE.—The amendment made by
 24 subsection (a) shall apply to obligations issued after De-
 25 cember 31, 1999.

1 **SEC. 404. EXCLUSION FROM GROSS INCOME OF EDUCATION**
 2 **DISTRIBUTIONS FROM QUALIFIED TUITION**
 3 **PROGRAMS; COVERAGE OF PRIVATE PRO-**
 4 **GRAMS.**

5 (a) EXCLUSION.—

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

9 “(B) DISTRIBUTIONS FOR QUALIFIED
 10 HIGHER EDUCATION EXPENSES.—If a distribu-
 11 tee elects the application of this subparagraph
 12 for any taxable year—

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

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

1 of the distributee bears to the amount of
2 the distribution.”

3 (2) ADDITIONAL TAX ON AMOUNTS NOT USED
4 FOR HIGHER EDUCATION EXPENSES.—Section 529
5 is amended by adding at the end the following new
6 subsection:

7 “(f) ADDITIONAL TAX FOR DISTRIBUTIONS NOT
8 USED FOR EDUCATIONAL EXPENSES.—

9 “(1) IN GENERAL.—The tax imposed by section
10 530(d)(4) shall apply to payments and distributions
11 from qualified tuition programs in the same manner
12 as such tax applies to education individual retire-
13 ment accounts.

14 “(2) EXCESS CONTRIBUTIONS RETURNED BE-
15 FORE DUE DATE OF RETURN.—Paragraph (1) shall
16 not apply to the distribution to a contributor of any
17 contribution paid during a taxable year to a quali-
18 fied tuition program to the extent that such con-
19 tribution exceeds the limitation in section 4973(e) if
20 such distribution (and the net income with respect
21 to such excess contribution) meets requirements
22 comparable to the requirements of clauses (i) and
23 (ii) of section 530(d)(4)(C).”

1 (3) COORDINATION WITH EDUCATION CRED-
 2 ITS.—Section 25A(e)(2) is amended by inserting
 3 “529(c)(3)(B) or” before “530(d)(2)”.

4 (4) EFFECTIVE DATE.—The amendments made
 5 by this subsection shall apply to distributions after
 6 December 31, 1999, for education furnished in aca-
 7 demic periods beginning after such date.

8 (b) ELIGIBLE EDUCATIONAL INSTITUTIONS PER-
 9 MITTED TO MAINTAIN QUALIFIED TUITION PROGRAMS.—

10 (1) IN GENERAL.—Paragraph (1) of section
 11 529(b) (defining qualified State tuition program) is
 12 amended by inserting “or by one or more eligible
 13 educational institutions” after “maintained by a
 14 State or agency or instrumentality thereof”.

15 (2) CONFORMING AMENDMENTS.—

16 (A) Paragraph (2) of section 26(b) is
 17 amended by redesignating subparagraphs (E)
 18 through (Q) as subparagraphs (F) through (R),
 19 respectively, and by inserting after subpara-
 20 graph (D) the following new subparagraph:

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

24 (B) The text and headings of sections 529
 25 and 530 are amended by striking “qualified

1 State tuition program” each place it appears
 2 and inserting “qualified tuition program”.

3 (C)(i) The section heading of section 529
 4 is amended to read as follows:

5 **“SEC. 529. QUALIFIED TUITION PROGRAMS.”**

6 (ii) The item relating to section 529 in the
 7 table of sections for part VIII of subchapter F
 8 of chapter 1 is amended by striking “State”.

9 (3) EFFECTIVE DATE.—The amendments made
 10 by this subsection shall apply to taxable years begin-
 11 ning after December 31, 1999.

12 (c) CHANGE OF QUALIFIED TUITION PROGRAM OR
 13 OF DESIGNATED BENEFICIARY.—

14 (1) IN GENERAL.—Clause (i) of section
 15 529(c)(3)(C) is amended by inserting “to another
 16 qualified tuition program for the benefit of the des-
 17 ignated beneficiary or” after “transferred”.

18 (2) INCLUSION OF SIBLINGS AS MEMBER OF
 19 FAMILY.—Paragraph (2) of section 529(e) is amend-
 20 ed by striking “subparagraph (B).” and inserting
 21 “subparagraph (B),
 22 except that such term shall include any sibling
 23 (whether by the whole or half blood) of the des-
 24 ignated beneficiary.”.

1 (3) EFFECTIVE DATE.—The amendments made
2 by this subsection shall apply to taxable years begin-
3 ning after December 31, 1999.

○