

110TH CONGRESS
1ST SESSION

H. R. 721

To amend the Internal Revenue Code of 1986 to allow a deduction for qualified timber gains.

IN THE HOUSE OF REPRESENTATIVES

JANUARY 30, 2007

Mr. DAVIS of Alabama (for himself, Mr. BRADY of Texas, Mr. NORWOOD, Mr. JONES of North Carolina, Mr. MCHENRY, Mr. JINDAL, Mr. THOMPSON of Mississippi, Mr. REICHERT, Mr. SIMPSON, Mr. CRENSHAW, Mr. HALL of Texas, Mr. SMITH of Washington, Mr. BAIRD, Mr. INSLEE, Mr. MELANCON, Mr. LARSEN of Washington, Mr. BERRY, Mr. MANZULLO, Mr. SENSENBRENNER, Mr. SESSIONS, Mr. GALLEGLY, Mr. MCHUGH, Mr. CONAWAY, Mr. HASTINGS of Washington, Mr. GORDON of Tennessee, Mr. BLUNT, Mr. LEWIS of Kentucky, Mr. BARTON of Texas, Mr. DAVIS of Kentucky, Mr. CUELLAR, Mr. BONNER, Mr. BUTTERFIELD, Ms. HOOLEY, Mr. BISHOP of Georgia, Mr. BROWN of South Carolina, Mr. WILSON of South Carolina, Mr. ALEXANDER, Mr. DICKS, Mr. SOUDER, Mr. BOUSTANY, Mr. PETRI, Mr. HAYES, Mr. DEFazio, Mr. TERRY, Mr. BOOZMAN, Mr. CANTOR, Mr. BARTLETT of Maryland, Ms. FOXX, Mr. MARCHANT, Mrs. CUBIN, Mr. ROSS, Mr. GOHMERT, Mr. ADERHOLT, and Mr. BAKER) 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 allow a deduction for qualified timber gains.

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

1 **SECTION 1. SHORT TITLE.**

2 This Act may be cited as the “Timber Tax Act of
3 2007”.

4 **SEC. 2. DEDUCTION FOR QUALIFIED TIMBER GAIN.**

5 (a) IN GENERAL.—Part I of subchapter P of chapter
6 1 of the Internal Revenue Code of 1986 is amended by
7 adding at the end the following new section:

8 **“SEC. 1203. DEDUCTION FOR QUALIFIED TIMBER GAIN.**

9 “(a) IN GENERAL.—In the case of a taxpayer which
10 elects the application of this section for a taxable year,
11 there shall be allowed a deduction against gross income
12 in an amount equal to 60 percent of the lesser of—

13 “(1) the taxpayer’s qualified timber gain for
14 such year, or

15 “(2) the taxpayer’s net capital gain for such
16 year.

17 “(b) QUALIFIED TIMBER GAIN.—For purposes of
18 this section, the term ‘qualified timber gain’ means, with
19 respect to any taxpayer for any taxable year, the excess
20 (if any) of—

21 “(1) the sum of the taxpayer’s gains described
22 in subsections (a) and (b) of section 631 for such
23 year, over

24 “(2) the sum of the taxpayer’s losses described
25 in such subsections for such year.

1 “(c) SPECIAL RULES FOR PASS-THRU ENTITIES.—
 2 In the case of any qualified timber gain of a pass-thru
 3 entity (as defined in section 1(h)(10)), the election under
 4 this section shall be made separately by each taxpayer sub-
 5 ject to tax on such gain.”.

6 (b) COORDINATION WITH MAXIMUM CAPITAL GAINS
 7 RATES.—

8 (1) TAXPAYERS OTHER THAN CORPORA-
 9 TIONS.—Paragraph (2) of section 1(h) of the Inter-
 10 nal Revenue Code of 1986 is amended to read as fol-
 11 lows:

12 “(2) REDUCTION OF NET CAPITAL GAIN.—For
 13 purposes of this subsection, the net capital gain for
 14 any taxable year shall be reduced (but not below
 15 zero) by the sum of—

16 “(A) the amount which the taxpayer takes
 17 into account as investment income under sec-
 18 tion 163(d)(4)(B)(iii), and

19 “(B) the lesser of—

20 “(i) the amount described in para-
 21 graph (1) of section 1203(a), or

22 “(ii) the amount described in para-
 23 graph (2) of such section.”.

24 (2) CORPORATIONS.—Section 1201 of such
 25 Code is amended by redesignating subsection (b) as

1 subsection (c) and inserting after subsection (a) the
 2 following new subsection:

3 “(b) QUALIFIED TIMBER GAIN NOT TAKEN INTO
 4 ACCOUNT.—For purposes of this section, in the case of
 5 a corporation with respect to which an election is in effect
 6 under section 1203, the net capital gain for any taxable
 7 year shall be reduced (but not below zero) by the corpora-
 8 tion’s qualified timber gain (as defined in section
 9 1203(b)).”.

10 (c) DEDUCTION ALLOWED WHETHER OR NOT INDIVIDUAL
 11 ITEMIZES OTHER DEDUCTIONS.—Subsection (a)
 12 of section 62 of the Internal Revenue Code of 1986 is
 13 amended by inserting before the last sentence the fol-
 14 lowing new paragraph:

15 “(22) QUALIFIED TIMBER GAINS.—The deduc-
 16 tion allowed by section 1203.”.

17 (d) DEDUCTION ALLOWED IN COMPUTING ADJUSTED
 18 CURRENT EARNINGS.—Subparagraph (C) of sec-
 19 tion 56(g)(4) of the Internal Revenue Code of 1986 is
 20 amended by adding at the end the following new clause:

21 “(vii) DEDUCTION FOR QUALIFIED
 22 TIMBER GAIN.—Clause (i) shall not apply
 23 to any deduction allowed under section
 24 1203.”.

1 (e) DEDUCTION ALLOWED IN COMPUTING TAXABLE
2 INCOME OF ELECTING SMALL BUSINESS TRUSTS.—Sub-
3 paragraph (C) of section 641(c)(2) of the Internal Rev-
4 enue Code of 1986 is amended by inserting after clause
5 (iii) the following new clause:

6 “(iv) The deduction allowed under
7 section 1203.”.

8 (f) CONFORMING AMENDMENTS.—

9 (1) Subparagraph (B) of section 172(d)(2) of
10 the Internal Revenue Code of 1986 is amended to
11 read as follows:

12 “(B) the exclusion under section 1202 and
13 the deduction under section 1203 shall not be
14 allowed.”.

15 (2) Paragraph (4) of section 642(c) of such
16 Code is amended by striking the first sentence and
17 inserting the following: “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) or qualified timber gain (as defined in sec-
21 tion 1203(b)), proper adjustment shall be made for
22 any exclusion allowable to the estate or trust under
23 section 1202 and for any deduction allowable to the
24 estate or trust under section 1203.”

1 (3) Paragraph (3) of section 643(a) of such
2 Code is amended by striking the last sentence and
3 inserting the following: “The exclusion under section
4 1202 and the deduction under section 1203 shall not
5 be taken into account.”

6 (4) Subparagraph (C) of section 643(a)(6) of
7 such Code is amended to read as follows:

8 “(C) Paragraph (3) shall not apply to a
9 foreign trust. In the case of such a trust—

10 “(i) there shall be included gains from
11 the sale or exchange of capital assets, re-
12 duced by losses from such sales or ex-
13 changes to the extent such losses do not
14 exceed gains from such sales or exchanges,
15 and

16 “(ii) the deduction under section 1203
17 shall not be taken into account.”.

18 (5) Paragraph (4) of section 691(c) of such
19 Code is amended by inserting “1203,” after
20 “1202,”.

21 (6) Paragraph (2) of section 871(a) of such
22 Code is amended by inserting “or 1203” after “sec-
23 tion 1202”.

1 (7) The table of sections for part I of sub-
2 chapter P of chapter 1 of such Code is amended by
3 adding at the end the following new item:

“Sec. 1203. Deduction for qualified timber gain.”.

4 (g) EFFECTIVE DATE.—

5 (1) IN GENERAL.—The amendments made by
6 this section shall apply to taxable years ending after
7 the date of the enactment of this Act.

8 (2) TAXABLE YEARS WHICH INCLUDE DATE OF
9 ENACTMENT.—In the case of any taxable year which
10 includes the date of the enactment of this Act, for
11 purposes of the Internal Revenue Code of 1986, the
12 taxpayer’s qualified timber gain shall not exceed the
13 excess that would be described in section 1203(b) of
14 such Code, as added by this section, if only disposi-
15 tions of timber after such date were taken into ac-
16 count.

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