thankful for all of those who put it together and hope that we all can support it.

Mr. GOODLING. Mr. Speaker, I yield 2 minutes to the gentlewoman from Kentucky [Mrs. NORTHUP], who worked hard in the State legislature to improve education.

Mrs. NORTHUP. Mr. Speaker, I rise and am pleased to rise in support of the Reading Excellence Act. While we are all concerned about new Federal programs, the budget agreement set aside $260 million for a new literacy program. What we could have had is another feel-good, unproven, sounds-good program, the kind of program that has failed our children so badly.

Mr. Speaker, 44 percent of the U.S. students in elementary school do not read at a basic level. Thirty-two percent of college graduates also have failed to reach this basic level. This may be the most important bill that we pass regarding our children and their success in school, because what it does, finally and most importantly, is focus on the proven ways of teaching children how to read.

We know today that the latest scientific research shows that 60 to 70 percent of all children read any way you teach them, but the other children need a very systemic, phonics-based approach to reading if they are ever going to read and be good readers.

We furthermore know that science has shown us that children that do not read by the end of third grade will always have a bigger struggle in reaching that basic level. Their opportunity to be good readers is much more difficult if they do not learn to read by the end of third grade.

Reading opens doors and failure to read slams those doors shut. So what we need is to make sure that we use the kind of scientifically proven method to teach our children, one that has not been in our schools so often in the past. This phonics-based approach is what teachers will learn as a result of this funding. We will also give parents the opportunity to provide tutorial service for their children, their choice based on the most recommended types of tutoring and reading approach.

It also endorses family literacy, so we are giving our children an opportunity to go to schools that teach the right kind of reading and parents who can help those children in the same way. I support this bill.

Mr. MARTINEZ. Mr. Speaker, I yield myself the balance of my time to say that everybody has said repeatedly that reading is so important to our way of life, even the basics for reading to fill out an application for employment, or reading instructions for toys that we put together for our children. Yet I have seen in my lifetime so many people that have even graduated from high school that have been functionally illiterate. Anything that we can do to improve the ability for children to read at an early age and to go on to higher education and better themselves by learning to read and read well is something that we have done that is worthwhile.

Mr. Speaker, I yield back the balance of my time.

Mr. GOODLING. Mr. Speaker, I yield myself the balance of my time.

Mr. Speaker, I think it is very important that we be careful when we say that we wish schools the way they were when we were kids. But we have to understand, schools must be much better than they were when we were children. Why? Because we are in the 21st century.

When I went to a two-room, eighth grade elementary school, most children did not go beyond eighth grade. They went on to work. Many were not very literate. They did not have to be. It was easy to get a job, it was easy to support a family. They did not have to be as literate as they must be today.

So what we have tried to do with this legislation is take the mandate from the budget agreement and see whether we could create something that would give teachers the opportunity to be the best reading teachers there are; to give parents an opportunity to be the child's first and most important teacher; to make sure children do not fail or get socially promoted in first grade.

Mr. Speaker, this is a small program to improve the existing program. We are not out there trying to create some magnificent program that will end all illiteracy in this country. We are trying to make all of our programs better programs so that every child has an opportunity for quality education. They must have it if we are going to succeed in a very competitive 21st century. We cannot have 40 percent of our children unable to read properly.

Reading readiness, reading skills. At one time one was literate if one could read at a sixth grade level. Now one is functionally illiterate if one cannot read and comprehend at the twelfth grade level. The only thing I want from the old schools is discipline. Everything else I want to be better.

Mr. Speaker, I rise in support of H.R. 2614, the Reading Excellence Act, which would authorize the Education Department to make grants to State reading and literacy partnerships.

Under the bill a State's reading and literacy partnership would consist of the Governor and chief State school officer, the chairmen and ranking members of each State legislative committee with jurisdiction over education, and a representative of a school district with at least one school in a title I school improvement program.

While the bill will allow State partnerships they must include in their applications an assurance that they would give subgrants only to those school districts that have family literacy programs based on Even Start, implement programs to assist kindergarten students who are not ready to make the transition to first grade, use supervised individuals to provide additional support before and after school and during the summer, and have a professional development program for the teaching of reading. Most important, the bill would require applications to describe how the state would send 95% of its funds to the local level.

The bill requires that State partnerships make subgrants on a competitive basis to school districts that have more than one school in a title I school improvement program.

This bill will be good for the children of Houston and good for the State of Texas because it will help to focus resources on the critical area of literacy and reading.

Reading is the most fundamental of skills that all children must master in order to do well in all subjects. I am a strong supporter of education, and feel that this measure will offer greater incentives to States and school districts to strengthen and develop reading programs. I urge my colleagues to support this bill.

Mr. Speaker, I yield back the balance of my time.

The SPEAKER pro tempore (Mr. COBLE). All time has expired.

The question is on the motion offered by the gentleman from Pennsylvania [Mr. GOODLING] that the House suspend the rules and pass the bill, H.R. 2614, as amended.

The question was taken; and (two-thirds having voted in favor thereof) the rules were suspended and the bill, as amended, was passed.

A motion to reconsider was laid on the table.

GENERAL LEAVE

Mr. GOODLING. Mr. Speaker, I ask unanimous consent that all Members may have 5 legislative days within which to revise and extend their remarks on H.R. 2614.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from Pennsylvania?

There was no objection.

LINE-ITEM VETO FIX

Mr. THOMAS. Mr. Speaker, I move that the House suspend the rules and pass the bill (H.R. 2513), to amend the Internal Revenue Code of 1986 to restore and modify the provision of the Taxpayer Relief Act of 1997 relating to exempting active financing income from foreign personal holding company income and to provide for the nonrecognition of gain on the sale of stock in agricultural processors to certain farmers' cooperatives, as amended, and table the bill, H.R. 2444.

The Clerk read as follows:

H.R. 2513

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. EXEMPTION FOR ACTIVE FINANCING INCOME.

(a) EXEMPTION FROM FOREIGN PERSONAL HOLDING COMPANY INCOME.—Section 954 of the Internal Revenue Code of 1986 (as amended by subsection (d)) is amended by adding at the end the following new subsection:

''(h) SPECIAL RULE FOR INCOME DERIVED IN THE ACTIVE CONDUCT OF INSURANCE BUSINESSES AND BANKING, FINANCING, OR SIMILAR BUSINESSES.—

''(1) IN GENERAL.—For purposes of subsection (c)(1), foreign personal holding company income shall not include income which is—

''(A) derived in the active conduct by a controlled foreign corporation of a banking, financing, or similar business, but only if—

''(i) the corporation is predominantly engaged in the active conduct of such business, and

''(ii) such income is derived from transactions with customers located within the country under the laws of which the corporation is created or organized,

''(B) received from a person other than a related person (within the meaning of subsection (d)(3)) and derived from the investments made by a qualifying insurance company of its reserves or of 80 percent of its unearned premiums (as both are determined in the manner prescribed under paragraph (4)), or

''(C) received from a person other than a related person (within the meaning of subsection (d)(3)) and derived from investments made by a qualifying insurance company of an amount of its assets equal to—

''(i) in the case of property, casualty, or health insurance contracts, one-third of its premiums earned on such insurance contracts during the taxable year (as defined in section 832(b)(4)), and

''(ii) in the case of life insurance or annuity contracts, 10 percent of the reserves described in subparagraph (B) for such contracts.

''(2) PREDOMINANTLY ENGAGED.—For purposes of paragraph (1)(A), a controlled foreign corporation shall be deemed predominantly engaged in the active conduct of a banking, financing, or similar business only if—

''(A) more than 70 percent of its gross income is derived from such business from transactions with customers which are located within the country under the laws of which the corporation is created or organized, or

''(B) the corporation is—

''(i) engaged in the active conduct of a banking business and is an institution licensed to do business as a bank in the United States (or is any other corporation not so licensed which is specified by the Secretary in regulations), or

''(ii) engaged in the active conduct of a securities business and is registered as a securities broker or dealer under section 15(a) of the Securities Exchange Act of 1934 or is registered as a Government securities broker or dealer under section 15C(a) of such Act (or is any other corporation not so registered which is specified by the Secretary in regulations).

''(3) PRINCIPLES FOR DETERMINING INSURANCE INCOME.—Except as provided by the Secretary, for purposes of paragraphs (1) (B) and (C)—

''(A) in the case of any contract which is a separate account-type contract (including any variable contract not meeting the requirements of section 817), income credited under such contract shall be allocable only to such contract, and

''(B) income not allocable under subparagraph (A) shall be allocated ratably among contracts not described in subparagraph (A).

''(4) METHODS FOR DETERMINING UNEARNED PREMIUMS AND RESERVES.—For purposes of paragraph (1)(B)—

''(A) PROPERTY AND CASUALTY CONTRACTS.—The unearned premiums and reserves of a qualifying insurance company with respect to property, casualty, or health insurance contracts shall be determined using the same methods and interest rates which would be used if such company were subject to tax under subchapter L.

''(B) LIFE INSURANCE AND ANNUITY CONTRACTS.—The amount of the reserve of a qualifying insurance company for any life insurance or annuity contract shall be equal to the greater of—

''(i) the net surrender value of such contract (as defined in section 807(e)(1)(A)), or

''(ii) the reserve determined under paragraph (5).

''(C) LIMITATION ON RESERVES.—In no event shall the reserve determined under this paragraph for any contract as of any time exceed the amount which would be taken into account with respect to such contract as of such time in determining foreign statement reserves (less any catastrophe, deficiency, or similar reserves).

''(5) AMOUNT OF RESERVE.—The amount of the reserve determined under this paragraph with respect to any contract shall be determined in the same manner as it would be determined if the qualifying insurance company were subject to tax under subchapter L, except that in applying such subchapter—

''(A) the interest rate determined for the foreign country in which such company is created or organized and which, except as provided by the Secretary, is calculated in the same manner as the Federal mid-term rate under section 1274(d) shall be substituted for the applicable Federal interest rate,

''(B) the highest assumed interest rate permitted to be used in determining foreign statement reserves shall be substituted for the prevailing State assumed interest rate, and

''(C) tables for mortality and morbidity which reasonably reflect the current mortality and morbidity risks in the foreign country shall be substituted for the mortality and morbidity tables otherwise used for such subchapter.

''(6) DEFINITIONS.—For purposes of this subsection—

''(A) QUALIFYING INSURANCE COMPANY.—The term 'qualifying insurance company' means any entity which—

''(i) is subject to regulation as an insurance company by the country under the laws of which the entity is created or organized,

''(ii) derives at least 50 percent of its net written premiums from the insurance or reinsurance of risks located within such country, and

''(iii) is engaged in the active conduct of an insurance business and would be subject to tax under subchapter L if it were a domestic corporation.

''(B) LIFE INSURANCE OR ANNUITY CONTRACT.—For purposes of this section and section 953, the determination of whether a contract issued by a controlled foreign corporation is a life insurance contract or an annuity contract shall be made without regard to sections 72(s), 101(f), 817(h), and 7702 if—

''(i) such contract is regulated as a life insurance or annuity contract by the country under the laws of which the corporation is created or organized, and

''(ii) no policyholder, insured, annuitant, or beneficiary with respect to the contract is a United States person.

''(C) NONCANCELLABLE ACCIDENT AND HEALTH INSURANCE CONTRACTS.—A noncancellable accident and health insurance contract shall be treated for purposes of this subsection in the same manner as a life insurance contract except that paragraph (4)(B)(i) shall not apply.

''(D) LOCATED.—

''(i) IN GENERAL.—The determination of where a customer is located shall be made under rules prescribed by the Secretary.

''(ii) SPECIAL RULE FOR QUALIFIED BUSINESS UNITS.—Gross income derived by a corporation's qualified business unit (within the meaning of section 989(a)) from transactions with customers which are located in the country in which the qualified business unit both maintains its principal office and conducts substantial business activity shall be treated as derived from transactions with customers which are located within the country under the laws of which the controlled foreign corporation is created or organized.

''(E) CUSTOMER.—

''(i) IN GENERAL.—The term 'customer' means, with respect to any controlled foreign corporation, any person which has a customer relationship with such corporation.

''(ii) EXCEPTION FOR RELATED, ETC. PERSONS.—A person who is a related person (as defined in subsection (d)(3)), an officer, a director, or an employee with respect to any controlled foreign corporation shall not be treated as a customer with respect to any transaction if a principal purpose of such transaction is to satisfy any requirement of this subsection.

''(7) ANTI-ABUSE RULES.—For purposes of applying this subsection and subsection (c)(2)(C)(ii), there shall be disregarded any item of income, gain, loss, or deduction with respect to any transaction or series of transactions one of the principal purposes of which is qualifying income or gain for the exclusion under this section, including—

''(A) any change in the method of computing reserves or any other transaction or series of transactions a principal purpose of which is the acceleration or deferral of any item in order to claim the benefits of such exclusion through the application of this subsection, and

''(B) organizing entities in order to satisfy any same country requirement under this subsection.

''(8) COORDINATION WITH OTHER PROVISIONS.—

''(A) SECTION 901(k).—

''(i) IN GENERAL.—The amount of qualified taxes (as defined in section 901(k)(4)) to which paragraphs (1) and (2) of section 901(k) do not apply by reason of paragraph (4) of such section 901(k) shall be reduced by an amount which bears the same ratio to such qualified taxes as the amount of income from the active conduct of a securities business which is not subpart F income solely by reason of this subsection, subsection (c)(2)(C)(ii), and subsection (e)(2)(C) bears to the total income from the active conduct of a securities business by a controlled foreign corporation which is not subpart F income. The determination under the preceding sentence shall be made by treating all members of an affiliated group as 1 corporation. For purposes of this clause, the term 'subpart F income' has the meaning given such term by section 952(a) but determined without regard to section 952(c) and paragraphs (3) and (4) of subsection (b) of this section.

''(ii) ELECTION NOT TO HAVE SUBSECTION AND CERTAIN OTHER PROVISIONS APPLY.—Clause (i) shall not apply for any taxable year of a foreign corporation if such corporation (and all members of the affiliated group of which such corporation is a member) elect not to have this subsection, subsection (c)(2)(C)(ii), and subsection (e)(2)(C) apply for such taxable year.

''(B) TREATMENT OF INCOME TO WHICH SECTION 953 APPLIES.—Subparagraphs (B) and (C) of paragraph (1) shall not apply to investment income allocable to contracts that insure related party risks or risks located in a foreign country other than the country in which the qualifying insurance company is created or organized.

''(9) APPLICATION.—This subsection, subsection (c)(2)(C)(ii), and subsection (e)(2)(C) shall apply only to the first full taxable year of a foreign corporation beginning after December 31, 1997, and before January 1, 1999, and to taxable years of United States shareholders with or within which such taxable year of such foreign corporation ends.''

(b) SPECIAL RULES FOR DEALERS.—Section 954(c)(2)(C) of such Code is amended to read as follows:

''(C) EXCEPTION FOR DEALERS.—Except as provided by regulations, in the case of a regular dealer in property (within the meaning of paragraph (1)(B)), forward contracts, option contracts, or similar financial instruments (including notional principal contracts and all instruments referenced to commodities), there shall not be taken into account in computing foreign personal holding income—

''(i) any item of income, gain, deduction, or loss (other than any item described in subparagraph (A), (E), or (G) of paragraph (1)) from any transaction (including hedging transactions) entered into in the ordinary course of such dealer's trade or business as such a dealer, and

''(ii) if such dealer is a dealer in securities (within the meaning of section 475), any interest or dividend or equivalent amount described in subparagraph (E) or (G) of paragraph (1) from any transaction (including any hedging transaction or transaction described in section 956(c)(2)(J)) entered into in the ordinary course of such dealer's trade or business as such a dealer in securities, but only if employees of the dealer which are located in the country under the laws of which the dealer is created or organized (or in the case of a qualified business unit described in section 989(a) which both maintains its principal office and conducts substantial business activity in a country, employees of such unit which are located in such country) materially participate in such transaction.''.

(c) EXEMPTION FROM FOREIGN BASE COMPANY SERVICES INCOME.—Paragraph (2) of section 954(e) of such Code (as amended by subsection (d)) is amended by striking ''or'' at the end of subparagraph (A), by striking the period at the end of subparagraph (B) and inserting '', or'', and by adding at the end the following:

''(C)(i) a transaction by the controlled foreign corporation if the income from the transaction is not foreign personal holding company income by reason of subsection (h), or

''(ii) a transaction by the controlled foreign corporation if subsection (c)(2)(C)(ii) applies to such transaction.''.

(d) REPEAL OF CANCELED PROVISIONS.—Section 1175 of the Taxpayer Relief Act of 1997, and the amendments made by such section, are hereby repealed, and the Internal Revenue Code of 1986 shall be applied and administered as if such section (and amendments) had never been enacted.

SEC. 2. NONRECOGNITION OF GAIN ON SALE OF STOCK TO CERTAIN FARMERS' COOPERATIVES.

(a) IN GENERAL.—Part III of subchapter O of chapter 1 of the Internal Revenue Code of 1986 (relating to nontaxable exchanges) is amended by inserting after section 1042 the following new section:

''SEC. 1042A. SALES OF STOCK TO CERTAIN FARMERS' COOPERATIVES.

''(a) NONRECOGNITION OF GAIN.—If—

''(1) the taxpayer elects the application of this section with respect to any sale of qualified agricultural processor stock,

''(2) the taxpayer purchases qualified replacement property within the replacement period, and

''(3) the requirements of subsection (c) are met with respect to such sale,

then the gain (if any) on such sale which would be recognized as long-term capital gain shall be recognized only to the extent that the amount realized on such sale exceeds the cost to the taxpayer of such qualified replacement property. The preceding sentence shall not apply to a sale by an eligible farmers' cooperative.

''(b) LIMITATION.—

''(1) IN GENERAL.—If subsection (a) applies to the sale of any stock by the taxpayer in a qualified agricultural processor, the aggregate amount of gain taken into account by the taxpayer under subsection (a) with respect to stock in such processor shall not exceed the amount of the limitation under paragraph (2) which is allocated to such sale by the eligible farmers' cooperative.

''(2) ALLOCATION.—The amount allocated under this paragraph by any cooperative with respect to stock acquired by such cooperative during any taxable year of such cooperative shall not exceed $75,000,000.

''(3) AGGREGATION RULES.—All eligible farmers' cooperatives which are under common control (within the meaning of subsection (a) or (b) of section 52) shall be treated as 1 cooperative for purposes of paragraph (2), and the limitation under such paragraph shall be allocated among such cooperatives in such manner as the Secretary shall prescribe.

''(c) REQUIREMENTS TO QUALIFY FOR NONRECOGNITION.—A sale of qualified agricultural processor stock meets the requirements of this subsection if—

''(1) SALE TO ELIGIBLE FARMERS' COOPERATIVE.—Such stock is sold to an eligible farmers' cooperative.

''(2) SPECIAL RULE FOR CERTAIN COOPERATIVES.—

''(A) IN GENERAL.—In the case of a sale of such stock to an eligible farmers' cooperative described in subparagraph (B), the processor purchased, during at least 3 of the 5 most recent taxable years of such processor ending on or before the date of the sale, more than one-half of the agricultural or horticultural products to be refined or processed by such processor from such cooperative or farmers who are members of such cooperative.

''(B) COOPERATIVES DESCRIBED.—A cooperative is described in this subparagraph with respect to any sale if, for any taxable year ending before the date of such sale—

''(i) such cooperative had gross receipts of more than $1,000,000,000, or

''(ii) such cooperative sold more than a de minimis amount of specialty produce.

''(C) SPECIALTY PRODUCE.—For purposes of subparagraph (B), the term 'specialty produce' means any agricultural or horticultural product other than wheat, feed grains, oil seeds, cotton, rice, cattle, hogs, sheep, or dairy products.

''(D) SPECIAL RULES.—

''(i) GROSS RECEIPTS.—For purposes of subparagraph (B)(i), rules similar to the rules of paragraph (2), and subparagraphs (B) and (C) of paragraph (3), of section 448(c) shall apply.

''(ii) PREDECESSOR.—Any reference in this paragraph to a cooperative or processor shall be treated as including a reference to any predecessor thereof.

''(3) COOPERATIVE MUST HOLD 100 PERCENT OF STOCK AFTER SALE.—The eligible farmers' cooperative owns, immediately after the sale, all of the qualified agricultural processor stock of the corporation.

''(4) WRITTEN STATEMENT AND HOLDING PERIOD.—Requirements similar to the requirements of paragraphs (3) and (4) of section 1042(b) are met.

''(d) DEFINITIONS.—For purposes of this section—

''(1) QUALIFIED AGRICULTURAL PROCESSOR STOCK.—The term 'qualified agricultural processor stock' means stock (other than stock described in section 1504(a)(4)) issued by a qualified agricultural processor.

''(2) QUALIFIED AGRICULTURAL PROCESSOR.—The term 'qualified agricultural processor' means a domestic C corporation substantially all of the assets of which are used in the active conduct of the trade or business of refining or processing agricultural or horticultural products in the United States.

''(3) ELIGIBLE FARMERS' COOPERATIVE.—The term 'eligible farmers' cooperative' means an organization to which part I of subchapter T applies and which is engaged in the marketing of agricultural or horticultural products.

''(4) REPLACEMENT PERIOD.—The term 'replacement period' means the period which begins 3 months before the date on which the sale of qualified agricultural processor stock occurs and which ends 12 months after the date of such sale.

''(5) QUALIFIED REPLACEMENT PROPERTY.—

''(A) IN GENERAL.—Except as provided in subparagraph (B), the term 'qualified replacement property' has the meaning given such term by section 1042(c)(4).

''(B) EXCEPTION.—The term 'qualified replacement property' shall not include any security issued by the taxpayer or by any corporation controlled by the taxpayer immediately after the purchase. For purposes of the preceding sentence, the term 'control' has the meaning given such term by section 304(c) (determined by substituting '10 percent' for '50 percent' each place it appears in paragraph (1) thereof).

''(e) SPECIAL RULES.—

''(1) IN GENERAL.—Except as otherwise provided in this subsection, rules similar to the rules of paragraphs (5) and (6) of section 1042(c), subsections (d), (e), and (f) of section 1042, section 1016(a)(22), and section 1223(13) shall apply for purposes of this section.

''(2) CERTAIN PROVISIONS NOT TO APPLY.—

''(A) RECOGNITION ON COMPLETE LIQUIDATION.—Section 332 shall not apply to the liquidation into the cooperative or any related person of a qualified agricultural processor if the cooperative or related person acquired the stock in such processor in a sale to which subsection (a) applied.

''(B) DEEMED SALE ELECTION NOT AVAILABLE.—No election may be made under section 338(h)(10) with respect to a sale to which subsection (a) applies.

''(f) RECAPTURE OF TAX BENEFIT WHERE LACK OF CONTINUITY.—

''(1) IN GENERAL.—If there is a recapture event during any taxable year with respect to any sale to an eligible farmers' cooperative to which this section applied, such cooperative's tax imposed by this chapter for such taxable year shall be increased by an amount equal to—

''(A) the recapture percentage of the amount allocated under subsection (b) to such sale, multiplied by

''(B) the highest rate of tax imposed by section 11 for such taxable year.

''(2) RECAPTURE EVENT.—For purposes of this subsection, a recapture event shall be treated as occurring in any taxable year if—

''(A) any portion of such taxable year is within the 3-year period beginning on the date on which the eligible farmers' cooperative acquired stock in a qualified agricultural processor in a sale to which this section applied and, as of the close of such portion, there is a decrease in the direct or indirect percentage ownership of such stock held by such cooperative which was not previously taken into account under this subsection, or

''(B) such taxable year is one of the first 5 taxable years ending after the date of such sale and is the third of such taxable years during which one-half or less of the agricultural or horticultural products refined or processed by the qualified agricultural processor are purchased from the eligible farmers' cooperative or farmers who are members of such cooperative.

''(3) RECAPTURE PERCENTAGE.—For purposes of this subsection, the term 'recapture percentage' means—

''(A) in the case of a recapture event described in paragraph (2)(A), the percentage equal to a fraction—

''(i) the numerator of which is the percentage decrease described in paragraph (2)(A), and

''(ii) the denominator of which is the percentage which the qualified agricultural processor stock acquired by the cooperative in a sale to which this section applied bears to all qualified agricultural processor stock in the processor, and

''(B) in the case of a recapture event described in paragraph (2)(B), 100 percent.

In no event shall the recapture percentage for any taxable year exceed 100 percent minus the sum of the recapture percentages for all prior taxable years.

''(4) EXCEPTIONS TO PURCHASE REQUIREMENT.—The purchase requirement of paragraph (2)(B) shall be treated as met for any taxable year if the Secretary determines that such requirement was not met due to 1 or more of the following: flood, drought, or other weather-related conditions, environmental contamination, disease, fire, or other similar extenuating circumstances prescribed by the Secretary.

''(g) COORDINATION WITH SECTION 1042.—No election may be made under this section with respect to any sale if an election is made under section 1042 with respect to such sale.

''(h) REGULATIONS.—The Secretary shall prescribe such regulations as are appropriate to carry out this section, including regulations which treat 2 or more sales which are part of the same transaction as 1 sale.''

(b) CONFORMING AMENDMENTS.—

(1) Paragraph (2) of section 26(b) of such Code is amended by striking ''and'' at the end of subparagraph (P), by striking the period at the end of subparagraph (Q) and inserting '', and'', and by adding at the end the following new subparagraph:

''(R) section 1042A(f) (relating to recapture of tax benefit where lack of continuity in certain agricultural processors).''

(2) The table of sections for part III of subchapter O of chapter 1 of such Code is amended by inserting after the item relating to section 1042 the following new item:

''Sec. 1042A. Sales of stock to certain farmers' cooperatives.''

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to sales after December 31, 1997.

SEC. 3. DISPOSAL OF PALLADIUM AND PLATINUM IN NATIONAL DEFENSE STOCKPILE.

(a) DISPOSAL REQUIRED.—(1) During fiscal year 1998, the President shall dispose of not more than 130,000 troy ounces of palladium and not more than 20,000 troy ounces of platinum contained in the National Defense Stockpile so as to result in receipts to the United States in an amount equal to $17,000,000 during fiscal year 1998.

(2) During each of the fiscal years 1999 through 2002, the President shall dispose of not more than 60,000 troy ounces of palladium contained in the National Defense Stockpile so as to result in receipts to the United States in an amount equal to $4,000,000 during each of the fiscal years 1999 through 2002.

(b) DEPOSIT OF RECEIPTS.—Notwithstanding section 9 of the Strategic and Critical Materials Stock Piling Act (50 U.S.C. 98h), funds received as a result of the disposal of materials under subsection (a) shall be deposited into the general fund of the Treasury for the purpose of deficit reduction.

(c) RELATIONSHIP TO OTHER DISPOSAL AUTHORITY.—The disposal authority provided in subsection (a) is new disposal authority and is in addition to, and shall not affect, any other disposal authority provided by law regarding palladium or platinum contained in the National Defense Stockpile.

(d) TERMINATION OF DISPOSAL AUTHORITY.—The disposal authority provided in subsection (a) shall terminate with regard to a fiscal year specified in such subsection on the date on which the total amount of receipts to the United States during that fiscal year from the disposal of materials under such subsection equals the amount specified in such subsection for that fiscal year.

(e) DEFINITION.—The term ''National Defense Stockpile'' means the stockpile provided for in section 4 of the Strategic and Critical Materials Stock Piling Act (50 U.S.C. 98c).

SEC. 4. RECOVERY OF COSTS OF HEALTH CARE SERVICES.

(a) AUTHORITIES.—Section 904 of the Foreign Service Act of 1980 (22 U.S.C. 4084) is amended—

(1) in subsection (a)—

(A) by striking ''and'' after ''employees,'', and

(B) by inserting before the period '', and (for care provided abroad) such other persons as are designated by the Secretary of State'';

(2) in subsection (d), by inserting '', subject to subsections (g) through (i)'' before ''the Secretary''; and

(3) by adding at the end the following new subsections:

''(g)(1)(A) In the case of a covered beneficiary who is provided health care under this section and who is enrolled in a covered health benefits plan of a third-party payer, the United States shall have the right to collect from the third-party payer a reasonable charge amount for the care to the extent that the payment would be made under such plan for such care under the conditions specified in paragraph (2) if a claim were submitted by or on behalf of the covered beneficiary.

''(B) Such a covered beneficiary is not required to pay any deductible, copayment, or other cost-sharing under the covered health benefits plan or under this section for health care provided under this section.

''(2) With respect to health care provided under this section to a covered beneficiary, for purposes of carrying out paragraph (1)—

''(A) the reasonable charge amount (as defined in paragraph (9)(C)) shall be treated by the third-party payer as the payment basis otherwise allowable for the care under the plan;

''(B) under regulations, if the covered health benefits plan restricts or differentiates in benefit payments based on whether a provider of health care has a participation agreement with the third-party payer, the Secretary shall be treated as having such an agreement as results in the highest level of payment under this subsection;

''(C) no provision of the health benefit plan having the effect of excluding from coverage or limiting payment of charges for certain care shall operate to prevent collection under subsection (a), including (but not limited to) any provision that limits coverage or payment on the basis that—

''(i) the care was provided outside the United States,

''(ii) the care was provided by a governmental entity,

''(iii) the covered beneficiary (or any other person) has no obligation to pay for the care,

''(iv) the provider of the care is not licensed to provide the care in the United States or other location,

''(v) a condition of coverage relating to utilization review, prior authorization, or similar utilization control has not been met, or

''(vi) in the case that drugs were provided, the provision of the drugs for any indicated purpose has not been approved by the Federal Food, Drug, and Cosmetic Administration;

''(D) if the covered health benefits plan contains a requirement for payment of a deductible, copayment, or similar cost-sharing by the beneficiary—

''(i) the beneficiary's not having paid such cost-sharing with respect to the care shall not preclude collection under this section, and

''(ii) the amount the United States may collect under this section shall be reduced by application of the appropriate cost-sharing;

''(E) amounts that would be payable by the third-party payer under this section but for the application of a deductible under subparagraph (D)(ii) shall be counted towards such deductible notwithstanding that under paragraph (1)(B) the individual is not charged for the care and did not pay an amount towards such care; and

''(F) the Secretary may apply such other provisions as may be appropriate to carry out this section in an equitable manner.

''(3) In exercising authority under paragraph (1)—

''(A) the United States shall be subrogated to any right or claim that the covered beneficiary may have against a third-party payer;

''(B) the United States may institute and prosecute legal proceedings against a third-party payer to enforce a right of the United States under this section; and

''(C) the Secretary may compromise, settle, or waive a claim of the United States under this section.

''(4) No law of any State, or of any political subdivision of a State, shall operate to prevent or hinder collection by the United States under this section.

''(5) If collection is sought from a third-party payer for health care furnished a covered beneficiary under this section, under regulations medical records of the beneficiary shall be made available for inspection and review by representatives of the third-party payer for the sole purpose of permitting the third-party payer to verify, consistent with this subsection that—

''(A) the care for which recovery or collection is sought were furnished to the beneficiary; and

''(B) except as otherwise provided in this subsection, the provision of such care to the beneficiary meets criteria generally applicable under the covered health benefits plan.

''(6) The Secretary shall establish (and periodically update) a schedule of reasonable charge amounts for health care provided under this section. The amount under such schedule for health care shall be based on charges or fee schedule amounts recognized by third-party payers under covered health benefits plans for payment purposes for similar health care services furnished in the Metropolitan Washington, District of Columbia, area.

''(7) The Secretary shall establish a procedure under which a covered beneficiary may elect to have subsection (h) apply instead of this subsection with respect to some or all health care provided to the beneficiary under this section.

''(8) Amounts collected under this subsection, under subsection (h), or under any authority referred to in subsection (i), from a third-party payer or from any other payer shall be deposited in the Treasury as a miscellaneous offsetting receipt.

''(9) For purposes of this section:

''(A) The term 'covered beneficiary' means a member or employee (or family member of such a member of employee) described in subsection (a) who is enrolled under a covered health benefits plan.

''(B)(i) Subject to clause (ii), the term 'covered health benefits plan' means a health

benefits plan offered under the Federal Employees Health Benefits Program under chapter 89 of title 5, United States Code.

''(ii) Such term does not include such a health benefits plan (such as a plan of a staff-model health maintenance organization) as the Secretary determines pursuant to regulations to be structured in a manner that impedes the application of this subsection to individuals enrolled under the plan. To the extent practicable, the Secretary shall seek to disseminate to members of the Service and designated employees described in subsection (a) who are eligible to receive health care under this section the names of plans excluded under this clause.

''(C) The term 'reasonable charge amount' means, with respect to health care provided under this section, the amount for such care specified in the schedule established under paragraph (6).

''(D) The term 'third-party payer' means an entity that offers a covered health benefits plan.

''(h)(1) In the case of an individual who—

''(A) receives health care pursuant to this section; and

''(B)(i) is not a covered beneficiary (including by virtue of enrollment only in a health benefits plan excluded under subsection (g)(9)(B)(ii)), or

''(ii) is such a covered beneficiary and has made an election described in subsection (g)(7) with respect to such care,

the Secretary is authorized to collect from the individual the full reasonable charge amount for such care.

''(2) The United States shall have the same rights against such individuals with respect to collection of such amounts as the United States has with respect to collection of amounts against a third-party payer under subsection (g), except that the rights under this subsection shall be exercised without regard to any rules for deductibles, coinsurance, or other cost-sharing.

''(i) Subsections (g) and (h) shall apply to reimbursement for the cost of hospitalization and related outpatient expenses paid for under subsection (d) only to the extent provided in regulations. Nothing in this subsection, or subsections (g) and (h), shall be construed as limiting any authority the Secretary otherwise has with respect to obtaining reimbursement for the payments made under subsection (d).''.

(b) EFFECTIVE DATE.—(1) The amendments made by subsection (a) shall apply to items and services provided on and after January 1, 1998.

(2) In order to carry out such amendments in a timely manner, the Secretary of State is authorized to issue interim, final regulations that take effect pending notice and opportunity for public comment.

(c) AUTHORIZATION OF APPROPRIATIONS.—There are authorized to be appropriated to the Secretary of State $2,000,000 to offset the costs of carrying out the amendments made by this section. Amounts appropriated under this subsection shall remain available until expended.

The SPEAKER pro tempore. Pursuant to the rule, the gentleman from California [Mr. THOMAS] and the gentlewoman from Connecticut [Mrs. KENNELLY], each will control 20 minutes.

The Chair recognizes the gentleman from California [Mr. THOMAS].

Mr. THOMAS. Mr. Speaker, I rise in support of H.R. 2513, which would restore and modify the two tax provisions in the Taxpayer Relief Act of 1997 that was subject to a Presidential line-item veto earlier this year.

The first provision applies to the income earned abroad by companies engaged in providing financial services, and the second one that was line item vetoed applies to the sale of farmer cooperatives of stock in a corporation that owns agricultural processing assets.

President Clinton, by virtue of his line item power, canceled these two provisions, stating several objections. In short, the committee, working with the administration, with groups who were affected on the outside, and with Members who thought these were worthy projects, have now corrected the concerns of the administration, and as modified and presented here today, the two incentives are supported by the administration and by all known interested parties.

□ 1645

It should also be noted that in revising the two provisions, they have been narrowed, it will be significantly reducing their revenue cost.

Frankly, Mr. Speaker, we believe that in the changes that were made, since H.R. 2513 actually saves money, there is no need to have a revenue or a spending offset. Suffice it to say this is not the time, nor do we have the time, to argue the way in which we determined budgetary matters. So what we have done is made sure that there are some spending offsets which are available.

We are indebted to the Committee on the Budget. The gentleman from Ohio [Mr. KASICH] has graciously provided in the bill two offsets, as I understand them. One is the disposal of some palladium and platinum in the national defense stockpile, and second, the recovery of costs of health care services for foreign service personnel. That is about the limit of my knowledge of these offsets.

Mr. Speaker, I yield 3 minutes to the gentleman from Ohio [Mr. HOBSON], a member of the Committee on the Budget, to explain these offsets in some detail.

Mr. HOBSON. Mr. Speaker, I rise in support of the bill. The Joint Tax Committee estimates that the enactment of these two provisions will reduce Federal receipts by $72 million between 1998 through 2002. The two tax procedures are paid for by two other offsets as required by pay-go procedures.

The first offset requires the U.S. Embassies to recover costs they incur by providing medical care to Federal employees overseas from the employee's health insurance provider when the employee is a participant in the Federal Employees Health Benefit Plan. This offset is going to provide $40 million, according to CBO.

The second offset would sell 33 million dollars' worth of commodities, specifically platinum and palladium, that have been identified by the Department of Defense as being in excess to the national security. This would be the second amount and would complete the amount of money necessary to do this which is required under the current legislation relating to the line-item veto.

Mrs. KENNELLY of Connecticut. Mr. Speaker, I yield myself such time as I may consume.

Mr. Speaker, I am very appreciative to be talking about this bill today. It is a bill which I have worked for, for a number of years. In fact, my interest in it has dated back to 1986, when we did the large tax reform. This bill contains a modified version of the following two tax provisions that were contained in the recently enacted Taxpayer Relief Act of 1997. They were canceled by the President under his line-item veto.

The first one was a temporary exemption under subpart F of financial services income. The second part, and these two pieces are linked together in the override, is a nonrecognition of gain on certain sales of processing facilities to farmers' cooperatives.

The bill is bipartisan, and it is a compromise that addresses the concerns of the President of the United States in his line-item veto. The administration does not object to the provisions contained in the bill before us today.

I have been a supporter of this provision of the bill that modifies subpart F for active financial services income for the following reasons:

U.S. companies with active businesses overseas generally are not required to pay tax on the income from these businesses until the income is repatriated back to the United States. This treatment is called deferral.

The only active businesses not receiving the benefits of deferral are financial services businesses, because they derive much of their income in the form of dividends, interest, and capital gains that are subject to concurrent taxation under subpart F.

Prior to 1986, active financial service businesses were eligible for the benefits of deferral. The 1986 Tax Reform Act denied the benefits of deferral to active financial service businesses out of concern that these businesses could utilize tax havens to avoid all taxation. The moneys in question had to stay within the countries where the business was being done.

The bill reinstates pre-1986 treatment for financial businesses, but it contains many restrictions to limit the potential abuses that led to the enactment of the 1986 restrictions. When the President and his people at the White House looked as this bill, they were afraid that the same kind of abuses would happen as were thought to happen before 1986. Interestingly enough, these things did not happen, but the same concerns were there when they were looking at the budget, and therefore that was the reason for the override.

The floor consideration of this bill has been delayed because of concerns by the Committee on the Budget that it was not paid for as required under the pay-go rules, as the gentleman

from California [Mr. THOMAS] has suggested and the Member from the Committee on the Budget has suggested do not, in fact, exist.

The bill now contains two noncontroversial spending cuts to pay for the tax provisions. I do not object to the financing mechanism contained in the bill, but I do believe that the waiver of the pay-go requirement contained in the bill as reported by the Committee on Ways and Means was the better way to go. But to be on the safe said, they do have two places to pay for it here today, and on which the Member of the Committee on the Budget has said that these are good ways to have it happen.

One of these two provisions, as I said, would provide fair and, I have not used this word in a long time, but a level playing field for our companies who are doing business in foreign countries. Generally U.S. companies with active businesses overseas are allowed to defer U.S. tax on the income from their businesses until that income comes back to the United States.

Unfortunately, U.S. financial service companies, like a large number of insurance companies headquartered in my district of Connecticut, and the many securities dealers represented from all over these States, as well as our own banking industry, have not been eligible to benefit from the general rules because they derive much of their income, as I said, from dividends, interest, and capital gains.

Even though many foreign countries exempt income earned abroad from tax altogether, and our companies are forced to compete with these companies that are not taxed, they not only are not taxed, many of these companies are subsidized. I have been interested in the whole situation of us being able to compete abroad in these financial industries of banking, insurance, securities.

Over the years I have seen things develop. We are making some progress. I remember 1 year going to talk about trade in a country, and it was a very lovely meeting, and everybody was being very polite to each other in a diplomatic manner. We were told, do not worry about it, of course we want your insurance companies to come in and compete. Of course we know you have some of the best products. Do not think too much about it, we want to open up our business to you.

That night I went back to the hotel where we were staying, not having enough reading material with me, there was a copy of the Constitution of that country in the hotel room, and I happened to take the time to read it. Now this was called really bored, but I did this. And in the Constitution of that country, I looked, and I could not believe my eyes, having heard this discussion during the meeting during the day. I read right there, anybody who tries to sell insurance from another country and not from this country will be criminally prosecuted.

So we have come a long way in our financial services in competition. Of course, as now we are in the midst of fast-track debate and all the things that many of us are concerned about on both sides of the question, one thing we have to say, not only that we can be proud of our financial services, not only can we be proud of our regulation of our securities, of the fine products we sell in insurance, of our banking that is renowned around the world for its regulation, honesty, and good business practices, but we can say if we are over there competing, there is no question about the environment or there is no question about not paying properly, because you have to be well-educated to do these services in the proper fashion that we do it. Really, this is an area that we should be very proud of, that we can compete in internationally.

Mr. Speaker, I hope soon we can find a permanent solution to this financial service industry so we can compete more effectively overseas. But in the meantime I say, Mr. Speaker, that this is an issue that has been before us for a number of years. It is an issue that a number of us have worked on.

Each time when we try to get a little ways, then we find something else that is in our way. I think what has happened in the presentation of this bill today, coming up in the fashion that it has, is that we have all parties having studied this very carefully, really sanitized it, then having it go to the President and to the White House and to the administration, and once again being looked at in a very proper and wonderful fashion, in a bipartisan fashion, and we are here today to finally say to our financial industries, we do not want to handicap you. We do not want to have you deal abroad with one hand tied behind your back. We are proud of our financial industries, and we are very delighted today that we have this bill on the floor before us.

Mr. Speaker, I reserve the balance of my time.

Mr. THOMAS. Mr. Speaker, it is my pleasure and privilege, actually, to yield 7 minutes to the gentleman from Missouri [Mr. HULSHOF], a freshman on the Committee on Ways and Means, who has now run the virtual gamut of emotions, as he was the original author of the provision which was line-item vetoed by the President, an historical point he probably does not wish to remember, and then worked diligently and, quite frankly, brilliantly to produce the compromise that now stands before us, moving from triumph to tragedy and soon to triumph.

Mr. HULSHOF. Mr. Speaker, I thank the gentleman for yielding me the time. I thank him for that reminder of how it is we came to this point.

In fact, if the gentleman will indulge me as a point of personal privilege, when I was sworn in on this floor on January 7, my parents were here, of course, and proud Papa remarked to one of the newspaper people that his son was going to be in the history books someday.

And I had to call him in that first week in August and say, Dad, you were right, your prophecy has come true. I have made it in the history books. I am the first ever victim of the line item veto. I just thought history would taste a little sweeter than this.

We have come full circle, hopefully. I certainly support H.R. 2513, the new and improved version. I know that there are colleagues of mine that will be speaking to the subpart F, and in support. So what I want to do is focus primarily on the farmer cooperative provision.

I would be remiss unless I provided kudos to the gentleman from Texas [Mr. STENHOLM], who coauthored this provision with me. I am happy to have worked with the gentleman from Texas [Mr. STENHOLM] in trying to resurrect this provision. I think we have a good provision.

As the gentleman pointed out, this was part of the Taxpayer Relief Act of 1997. We made it through the House, through the Senate, back through conference, and ultimately to the President's desk, and when the President actually vetoed this provision, he said that it was a well-intentioned provision, but that it was overbroad, that it was vague, and looked forward to working with the gentleman from Texas [Mr. STENHOLM] and myself in trying to craft a measure that could pass muster. So we have been able to do that. We stayed the course, and I think again have a good bill.

Let me briefly talk about the goal of the legislation as far as it relates to the farmer co-ops. With the enactment of the farm bill in the last Congress, and as we move toward a balanced budget, toward the year 2002, Federal spending for agriculture programs will be unable to stay at the same level that they have been in decades past.

Having come from a family farm, I think I know firsthand that if our Nation's farmers and our rural communities are to remain economically viable, if they are going to remain self-reliant, then we in Congress have a duty to reach out to them as we can to help them remain self-sufficient.

I do not think there is any controversy that a company, a U.S. company, is more profitable as it vertically integrates. The same is true in agriculture. It is widely acknowledged that the most profitable sector of agriculture is in the refining and processing of agriculture products.

If Members will allow me to demonstrate, this is a chart, a blowup that we used back in Missouri's Ninth Congressional District, but it is applicable to all American farmers. But just a couple of quick examples.

In the State of Missouri, from 1 acre of corn you can generally count on about 135 bushels of corn from that single acre. If you take that corn to the grain elevator, the average price you will receive is about $405 from that single acre of corn.

But if you take that raw product of corn and you add value to it, if you turn corn into ethanol, which is a corn-based fuel, there are about 378 gallons of ethanol and ethanol by-products that come forth from the processing of the corn from 1 acre, which is about $800, which is about twice the amount, as you add value to the corn.

Obviously, corn going into cereal, over 6,700 boxes of corn flakes come from 1 acre of corn, with a profit margin of about $13,000. The same thing is true with soybeans. An acre of soybeans in Missouri will generally yield about 40 bushels per acre; again, about $350 per bushel. But if you take that acre of soybeans and turn it into vegetable oil or to soybean meal or to soy diesel or to any other value-added product, you are allowing farmers to reap the profits and the rewards of the value-added side of the processing of this raw product.

□ 1700

Now, some of my colleagues talk about trying to complicate the Tax Code, and I want to briefly talk to those individuals, because what we want to do is try to make sure we have a fairer code.

Why do we need this particular provision? Right now, if we were a corporation and we wanted to acquire a processing facility owned by another corporation, we would look to the Internal Revenue code, section 368. And assuming that we were selling this processing plant at $100 million, the amount of capital gains would be approximately $35 million. Well, under section 368, that amount of gain can be deferred. That amount of gain would be deferred.

Similarly, an ESOP provision, employee stock ownership plan; section 1042 of the code would allow a deferral of that $35 million in gains, so that there would be no gain. A section of the code is available for those that participate in employee stock ownership plans, such that they would not have any gain, that the gain would be deferred. Even foreign corporations have a section of the code whereby they get some preferential treatment.

And then we have farmer cooperatives. What we are trying to do is allow farmers who belong to farmer cooperatives to participate on the same level playing field. And right now they are not there. So what we have done through this section of the code is to allow the seller of a processing facility to defer that gain as long as that gain is reinvested as long as that gain is not reinvested in other assets that are owned by the seller.

We want to make sure, and the White House told us that they want to the make sure, that this provision would not be used for sham transactions or the avoidance of tax liability. That was not the intent of the legislation. So we have cracked down and tightened up, and we put restrictions in to accomplish the goal, and that is to help those farmers who participate and our members of farmer cooperatives to allow them to reap the benefits of value-added agriculture.

Again, we took the President up on his offer to work with the White House. And I commend those with Treasury and the White House. I also, again, commend the gentleman from Texas [Mr. STENHOLM] for his steadfastness in working out this provision. I think it is a good bill, and I would urge my colleagues to support H.R. 2513.

I thank the gentleman from California [Mr. THOMAS] for yielding me the time.

Mr. THOMAS. Mr. Speaker, I once again congratulate the gentleman from Missouri [Mr. HULSHOF].

Mrs. KENNELLY of Connecticut. Mr. Speaker, I yield such time as he may consume to the gentleman from Texas [Mr. STENHOLM]. My colleague has, of course, worked very hard with the gentleman from Missouri [Mr. HULSHOF] on this bill, and we are all pleased at the outcome.

(Mr. STENHOLM asked and was given permission to revise and extend his remarks.)

Mr. STENHOLM. Mr. Speaker, I thank the gentlewoman from Connecticut [Mrs. KENNELLY] for yielding me the time and appreciate her efforts and the gentleman from California (Mr. THOMAS], the gentleman from Texas [Mr. ARCHER], and ranking member, the gentleman from New York [Mr. RANGEL], who have worked very hard to bring this legislation to the point in which we have it today.

I, too, commend my colleague from Missouri [Mr. HULSHOF] for his tenacity on the Committee on Ways and Means, which had the jurisdiction over this, what started out to be noncontroversial but got to be somewhat controversial.

When President Clinton announced his decision to veto the provision providing a tax deferral to sales of agricultural processing facilities to farmer cooperatives, I was extremely disappointed. But at the same time, he indicated a willingness to continue to work for legislation to help farmer cooperatives become vertically integrated.

I continue to believe that the original provision was effectively structured and that the veto was based on misinformation and a misunderstanding of the challenges facing farmers in the current world market. I do not believe for a moment that the original provision was a narrow tax benefit that should have been subject to the line item veto, and I believe the fact that we are here today indicates that there is now a general consensus of all that that was true.

I want to make it clear that this legislation before us is not my preferred position or my preferred option. The gentleman from Missouri [Mr. HULSHOF] and I agreed, though, that this compromised language because it was the only way to enact the provision after the veto was used on the original language which was included in the Taxpayer Relief Act.

The compromise legislation which is before us does not include all the improvements I would have liked or Mr. HULSHOF would have liked and falls short of our original legislation. I am concerned that it places several restrictions on sales of agricultural processing facilities to farmer cooperatives that do not apply to transactions with corporate agribusinesses. These restrictions also continue to leave cooperatives at a competitive disadvantage against corporate agribusinesses.

However, as I have said, we were forced to add these restrictions to go after the administration's and others' objections to the original legislation. These reservations notwithstanding, I am very pleased that this compromise offers significant opportunities over current law for cooperatives comprised of individual family farmers to compete with corporate agriculture in the ever growing world marketplace. In that regard, I believe that a good deal. The original intent of the legislation has now been restored.

It is important for all of us in this body and for others to remember that even the largest cooperatives are comprised of thousands of small and midsized farmers who have come together to farm these cooperatives. In an effort to be competitive with the phaseout of Federal farm programs, it is imperative that farmers develop new strategies for remaining financially viable. Strengthening cooperatives grants individual farmers the opportunity to increase their income, provide better risk management, capitalize on new market opportunities, and compete more effectively in a changing global economy.

While not as thorough as our original legislation, this compromise begins the process of leveling the playing field by giving farmers and their cooperatives tax treatments similar to that for other types of corporate business, employee stock ownership plans, and worker cooperatives, when it comes to the purchase of processing and refining facilities.

I am pleased that the administration has moved from the original line-item veto to a position of greater understanding for the needs of small farmers and their cooperatives. We have a victory in compromise. Farmers will gain admission into markets they were excluded from absent this agreement. It is not as sweet a victory as we had hoped, but it is a testament to our democratic government which reinforces balance and compromise.

I have appreciated the support and advice and counsel of the National Council of Farmer Cooperatives, which has endorsed this compromise as a significant improvement over current law. Based on the advice of the National Council and other agricultural groups who have concluded that half a loaf offered by this bill is better than no loaf at all, I intend to vote for this bill and

continue to work toward greater equity for family farmers and their cooperatives and encourage my colleagues on both sides of the aisle to do the same.

Mrs. KENNELLY of Connecticut. Mr. Speaker, I have no further speakers, and I yield back the balance of my time.

Mr. THOMAS. Mr. Speaker, I yield myself such time as I may consume.

I want to congratulate my friend, the gentleman from Texas [Mr. STENHOLM], on his comments. We began our legislative careers together. We were both Members of the 96th Congress and shared Committee on Agriculture seats together. I believe his analysis is absolutely correct.

My hope is that the process that produced this compromise also created a learning curve so that the need to be as innovative as possible in a market that has removed subsidies need not be hindered by the kind of activity that was engaged in by this administration and, indeed, any administration who now has the ability to go in and specifically make changes. That is a significant new power. I hope they understand it takes significant new knowledge and, hopefully, extensive consultation as well.

Mr. Speaker, it is my pleasure to yield 4 minutes to the gentleman from Illinois [Mr. WELLER], a member of the Committee on Ways and Means, for the other portion of this combined bill dealing with financial services in companies that have income earned abroad.

(Mr. WELLER asked and was given permission to revise and extend his remarks.)

Mr. WELLER. Mr. Speaker, I stand here in strong support of H.R. 2513. First let me begin my remarks just by commending the gentleman from Texas [Mr. ARCHER] and his staff for their tireless efforts to resolve the challenges that we faced with this first ever line-item veto of a tax provision.

I also want to commend my colleagues on both sides of the aisle that are members of this committee for their bipartisan effort to make this a successful effort, as well, because as my friend, the gentleman from Texas [Mr. STENHOLM], says, this is a victory. It is a victory for agriculture, It is a victory for the financial sector, and it is also an effort to bring about some tax fairness for agriculture and for the financial services sector.

Particularly, I also want to commend my friend, the gentleman from Missouri [Mr. HULSHOF], in his freshman year, who has shown his tenacity and also his ability as a first-term legislator to be able to get his job done. I know he serves as president of the freshman class. And maybe he should be freshman legislator of the year for what he achieved and for what is happening today, because my colleague has done a terrific job, working in a bipartisan way, to get the job done and helping bring this legislation to the floor.

I also know the portion of legislation that he and the gentleman from Texas [Mr. STENHOLM] have worked tirelessly to move forward is important to Illinois agriculture as well as agriculture throughout the country.

It is my understanding that portion of the legislation will benefit 4,000 cooperatives throughout the country, benefiting 2 million farmer owners of these 4,000 cooperatives. We know that when we add value-added to agriculture, that creates jobs not just on the farm but in town as well. And that is an important piece of legislation.

I would like to speak briefly to the other half of this legislation, an issue that is important to Chicago and important to the Chicago south suburbs, because it addresses the taxation of the financial services sector, insurance, securities, and banking.

If we look, as we now recognize, we are in a global economy, we looked at how our institutions here in the United States are able to compete overseas, we have seen some of the challenges that we have been facing. If we look at banks alone 20 years ago, there were many American institutions in the top 20 institutions in the world. Today we are lucky to have one American bank in the top 20 in assets worldwide.

This legislation is so very, very important. And I have enjoyed working with my friend, the gentlewoman from Connecticut [Mrs. KENNELLY], who has been a real leader on this issue over the years, and I have enjoyed working with her in a bipartisan way to bring about tax fairness and an issue of treating our financial services sector the same way we do others.

What this legislation does is, it puts financial services on parity with other sectors of our economy, puts financial services at parity when it comes to tax treatment with manufacturing, for example, and will allow us to create more jobs here at home while our financial services sector sells services overseas. That is what this is all about, creating jobs in Illinois and throughout this country as we work to give our financial services sector a better way of competing by bringing them to parity with our manufacturing sector as well.

Most importantly, though, is I want to point out that this has been a bipartisan effort. It has been an effort where Republicans and Democrats have worked together, where the administration has worked with the Congress. We have been able to address all concerns, and we produced a good bill, a bipartisan bill, a bill that helps agriculture, that creates jobs in towns and rural communities, but also gives the same advantages to compete overseas that our manufacturers have to our financial services sector as well. And that is what it is all about, creating jobs here at home as we sell products and services overseas.

Mr. Chairman, I thank you for the opportunity to speak to this bill. I do ask for bipartisan support for H.R. 2513.

Mr. NEAL of Massachusetts. Mr. Speaker, I rise in support of H.R. 2513. I commend Chairman ARCHER of the Committee on Ways and Means and the ranking member of the committee, Mr. RANGEL, for bringing this important measure to the floor today. This bill would promote the international competitiveness of the U.S. financial services industry by conforming its tax treatment to that of all other U.S. industries, and even more significantly to that of foreign competitors operating throughout the world.

Title I of this measure is intended to replace the provision of the Taxpayers Relief Act of 1997 vetoed by the President on August 11 that was designed to change the antideferral rules of subpart F of the Internal Code that discriminates against the U.S. financial services industry by requiring current taxation of active financing income by foreign affiliates of U.S. banks, securities firms, and insurance and finance companies. I am pleased that the Committee on Ways and Means has been able to bring some rationality to the international taxation of U.S. financial service firms. Financial service companies are real businesses that deserve a fair international tax regime every bit as much as U.S. manufacturers. This bill begins the process of treating the two equally.

This bill is just a 1-year solution, but I hope it will form the basis of a permanent resolution of these issues. In order to pass a bill in such a short time period, Treasury had to restrict some classes of income so that the bill would not be susceptible to abuse. I hope that in the year to come the Treasury will study international operations of financial services firms and review some of the provisions that were excluded from this bill.

Finally, I am concerned by the Treasury's insistence that securities firms and banks forfeit some of their foreign tax credits in order to qualify for this new income-deferral provision. Foreign tax credits and income deferral have always coexisted because each serves a different purpose.

I believe that an effective foreign tax credit system is the U.S. industry's defense against international double taxation. I believe that foreign income taxes incurred in the conduct of an active business abroad should be credited in the United States. As we work towards a permanent income-deferral provision for financial services firms, I urge the Treasury to recognize the dealer exception from section 901(k) as a necessary and appropriate part of our tax system.

I urge my colleagues to support H.R. 2531. The enactment of this measure will move us toward the goal of eliminating the inequitable treatment of the financial services industry under current laws and enhance the ability of a vital sector of our economy to compete in the global marketplace.

Mr. POMEROY. Mr. Speaker, I rise today in support of H.R. 2513, which will provide farmer cooperatives with a tool to help them compete in the industrializing world of agriculture.

Cooperatives play a vital role in helping farmers market and process their crops and livestock and in securing farm supplies and other services at reasonable costs. The cooperative way of doing business in rural America simply makes sense.

North Dakota has a long history with cooperatives, reaching back to the early part of this century. In the past 5 years, farmers and communities have worked together to create 20 new farmer cooperatives in North Dakota.

Last year, Congress decided to eliminate the farm program which will leave fathers without a mechanism to recoup losses when the growing season is poor. One of the self-help mechanisms available to assist farmers in maintaining and increasing their incomes in farming is through the development and success of farmer cooperatives.

The success of agriculture ebbs and flows according to many circumstances outside the control of farmers. For instance, weather, disease, global market prices, and the economy all influence a producer's decisions. However, even with these influences on agriculture, the quality of the producer's goods increase and prices for consumers generally stay the same. Cooperatives benefit the farming community by allowing members to amass capital and maximize economic returns by enhancing the value of what farmers produce.

Farmers need bargaining tools in order to regain some influence over the prices they receive. With market concentration increasing, agricultural producers are finding fewer and fewer buyers for their products. Many farmers can only sell their product to a single processing company, and are forced to accept the price the company offers them. With empowered bargaining or vertical integration, farmers would have a greater opportunity to prosper and to share in the end-use profits their goods sometimes bring to others.

H.R. 2513 will provide for the nonrecognition of gain on the sale of stock in agricultural processors to eligible farmers' cooperatives. This provision will have the effect of encouraging agricultural processing facilities to work cooperatively with farmer cooperatives to maximize the work and profits of producers. The price paid to farmers for farm commodities represents less than 25 percent of the cost of the final product purchased by the consumer. It is imperative for the American farmer to increase his ownership stake in processing and refining in order to survive in an increasingly competitive market. Allowing farmers to become vertically integrated in their products will enable them to better adjust to fluctuations in commodity prices.

Mr. CRANE. Mr. Speaker, today, I want to express my support for H.R. 2513, legislation containing two important tax provisions, versions of which were contained in the landmark Taxpayer Relief Act of 1997. The provisions in question were line item vetoed by President Clinton on August 11, and today, we are endeavoring to pass slightly modified versions of the original proposals.

One provisions of the bill relates to the sale of stock of a corporation that owns a processing facility of any cooperative which is engaged in marketing agriculture or horticultural products. This matter is of great concern and interest to the farm community in this country and it is hoped this version of the proposal can now be enacted.

The other item in this legislation, and the provision to which I would like to devote the bulk of my remarks, relates to foreign affiliates of U.S. financial services companies. Under the language contained in H.R. 2513, these affiliates including banks, securities firms, and insurance and finance companies would not be taxed by the United States on their active trade or business income until that income is repatriated to the U.S. parent company or shareholders. In other words, this bill would equalize the treatment of income earned by U.S.-based financial services companies operating abroad with the active income earned by most other U.S.-based companies operating in international markets. As chairman of the Ways and Means Subcommittee on Trade, even more important to me is the fact that the bill will level the playing field for the U.S. financial services industry vis a vis their foreign competitors.

As one of the Members who worked to include this provision in the Taxpayer Relief Act, I was disappointed with the President's line item veto. Therefore, I very much would like to make progress in this effort to remove a competitive obstacle imposed by our international tax rules on the overseas operations of U.S. financial services firms. Language in H.R. 2513 is intended to replace the vetoed provision of the Taxpayers Relief Act that was designed to reform the antideferral rules of subpart F of the Internal Revenue Code. In vetoing this measure, the President stated that the ''primary purpose of the provision was proper,'' but the manner in which it was written would have left room for abuses.

Although I disagree with the decision of the President to veto this important provision, I am pleased he recognized that reform of the antideferral rules of subpart F represents sound and prudent tax policy. Subsequent to the veto, the financial services firms affected by this bill have worked intensely and closely with the Treasury and the Committee on Ways and Means to address the concerns raised, and I applaud the cooperative effort to come up with an interim solution.

However, I must express my disappointment and concern that the bill, at the Treasury's insistence, unjustly singles our securities dealers. As currently drafted H.R. 2513 will force securities dealers to forfeit tax credits on foreign withholding taxes to which they are entitled under current law in order to obtain the benefits granted to other sectors of the financial services industry. These foreign tax credits are crucial to the role U.S. securities firms and banks play as global equities dealers, without which such dealers will not be able to remain competitive overseas.

When we adopted section 901(k) of the code in 1997, we did so to forestall abusive trafficking in credits for foreign withholding taxes. We excluded some securities dealers from section 901(k) because those dealers, in the legitimate, ordinary course of their businesses, would almost by necessity run afoul of the simple rules for identifying transactions with trafficking potential. At the same time, we gave the Treasury authority to deal with any abuses by dealers. I have not heard of any evidence that Treasury has in fact identified any problems with section 901(k) to date. Therefore, I frankly must conclude that Treasury's insistence on this trade-off in the current bill reflects an ulterior motive to overturn the dealer exception in section 901(k), although we recently approved that exception by enacting it.

Foreign tax credits and tax deferral for certain active overseas income have coexisted and should continue to do so, because each serves a different purpose. Foreign tax credits provide essential protection against double taxation of overseas income for U.S. businesses. Deferral does not provide such protection, but rather treats active overseas income of financial services firms consistently with such income of U.S. industrial firms, and helps to level the playing field with respect to their foreign competitors. It is my firm belief that foreign tax credits and deferral are independent provisions of our international tax regime, and their co-existence is consistent with sound international tax policy.

Since the bill before us today would be effective for only 1 year, I strongly urge the Treasury to continue to work together with the securities and banking industries to reach a fair and lasting agreement on a permanent solution that can be enacted next year.

Mr. Speaker, I urge my colleagues to vote for H.R. 2513. This legislation represents sound policy that will enhance the ability of the financial services industry to compete in the global marketplace.

Mr. THOMAS. Mr. Speaker, I yield myself such time as I may consume to simply ask Members for their support on this bipartisan effort on H.R. 2513.

Mr. Speaker, I yield back the balance of my time.

The SPEAKER pro tempore. The question is on the motion offered by the gentleman from California [Mr. THOMAS] that the House suspend the rules and pass the bill, H.R. 2513, as amended, and lay on the table H.R. 2444.

The question was taken; and (two-thirds having voted in favor thereof) the rules were suspended, the bill, H.R. 2513, as amended, was passed.

H.R. 2444 was laid on the table.

The title of the bill, H.R. 2513, was amended so as to read: ''A bill to amend the Internal Revenue Code of 1986 to restore and modify the provision of the Taxpayer Relief Act of 1997 relating to exempting active financing income from foreign personal holding company income and to provide for the nonrecognition of gain on the sale of stock in agricultural processors to certain farmers' cooperatives, and for other purposes.''

A motion to reconsider was laid on the table.

GENERAL LEAVE

Mr. THOMAS. Mr. Speaker, I ask unanimous consent that Members may have 5 legislative days in which to revise and extend their remarks and include extraneous material on H.R. 2513.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from California?

There was no objection.

WAIVING TIME LIMITATION ON AWARDING MEDAL OF HONOR TO ROBERT R. INGRAM

Mrs. FOWLER. Mr. Speaker, I move to suspend the rules and pass the bill (H.R. 2813) to waive time limitations specified by law in order to allow the Medal of Honor to be awarded to Robert R. Ingram of Jacksonville, FL, for acts of valor while a Navy Hospital Corpsman in the Republic of Vietnam during the Vietnam conflict.

The Clerk read as follows:

H.R. 2813

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,