NOT VOTING—7

Engel	Mollohan	Sabo
Kennedy	Peterson (PA)	
McDermott	Pickett	

☐ 0012

So the resolution, as amended, was agreed to.

The result of the vote was announced as above recorded.

A motion to reconsider was laid on the table.

GENERAL LEAVE

Ms. PRYCE of Ohio. Mr. Speaker, I ask unanimous consent that all Members may have 5 legislative days within which to revise and extend their remarks and to include extraneous material on H. Res. 256.

The SPEAKER pro tempore (Mr. COMBEST). Is there objection to the request of the gentlewoman from Ohio?

There was no objection.

FINANCIAL FREEDOM ACT OF 1999

Mr. ARCHER. Mr. Speaker, pursuant to House Resolution 256, I call up the bill (H.R. 2488) to amend the Internal Revenue Code of 1986 to reduce individual income tax rates, to provide marriage penalty relief, to reduce taxes on savings and investments, to provide estate and gift tax relief, to provide incentives for education savings and health care, and for other purposes, and ask for its immediate consideration in the House.

The Clerk read the title of the bill.

The SPEAKER pro tempore (Mr. COMBEST). Pursuant to House Resolution 256, the bill is considered read for amendment.

The text of H.R. 2488 is as follows:

H.R. 2488

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

SECTION 1. SHORT TITLE; ETC.

(a) SHORT TITLE.—This Act may be cited as the ''Financial Freedom Act of 1999''.

(b) AMENDMENT OF 1986 CODE.—Except as otherwise expressly provided, whenever in this Act an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference shall be considered to be made to a section or other provision of the Internal Revenue Code of 1986.

(c) SECTION 15 NOT TO APPLY.—No amendment made by this Act shall be treated as a change in a rate of tax for purposes of section 15 of the Internal Revenue Code of 1986.

(d) TABLE OF CONTENTS.—The table of contents for this Act is as follows:

TITLE I—BROAD-BASED TAX RELIEF

Subtitle A—10-Percent Reduction in Individual Income Tax Rates

SEC. 101. 10-PERCENT REDUCTION IN INDIVIDUAL INCOME TAX RATES.

(a) REGULAR INCOME TAX RATES.—

(1) IN GENERAL.—Subsection (f) of section 1 is amended by adding at the end the following new paragraph:

''(8) RATE REDUCTIONS.—In prescribing the tables under paragraph (1) which apply with respect to taxable years beginning in a calendar year after 2000, each rate in such tables (without regard to this paragraph) shall be reduced by the number of percentage points (rounded to the next lowest tenth) equal to the applicable percentage (determined in accordance with the following table) of such rate:

''For taxable years beginning in calendar year—	**The applicable percentage is—**
2001 through 2004	2.5
2005 through 2007	5.0
2008	7.5
2009 and thereafter	10.0.''

(2) TECHNICAL AMENDMENTS.—

(A) Subparagraph (B) of section 1(f)(2) is amended by inserting ''except as provided in paragraph (8),'' before ''by not changing''.

(B) Subparagraph (C) of section 1(f)(2) is amended by inserting ''and the reductions under paragraph (8) in the rates of tax'' before the period.

(C) The heading for subsection (f) of section 1 is amended by inserting ''RATE REDUCTIONS;'' before ''ADJUSTMENTS''.

(D) Section 1(g)(7)(B)(ii)(II) is amended by striking ''15 percent'' and inserting ''the percentage applicable to the lowest income bracket in subsection (c)''.

(E) Subparagraphs (A)(ii)(I) and (B)(i) of section 1(h)(1) are each amended by striking ''28 percent'' and inserting ''25.2 percent''.

(F) Section 531 is amended by striking ''39.6 percent of the accumulated taxable income'' and inserting ''the product of the accumulated taxable income and the percentage applicable to the highest income bracket in section 1(c)''.

(G) Section 541 is amended by striking ''39.6 percent of the undistributed personal holding company income'' and inserting ''the product of the undistributed personal holding company income and the percentage applicable to the highest income bracket in section 1(c)''.

(H) Section 3402(p)(1)(B) is amended by striking ''specified is 7, 15, 28, or 31 percent'' and all that follows and inserting ''specified is—

''(i) 7 percent,

''(ii) a percentage applicable to 1 of the 3 lowest income brackets in section 1(c), or

''(iii) such other percentage as is permitted under regulations prescribed by the Secretary.''

(I) Section 3402(p)(2) is amended by striking ''15 percent of such payment'' and inserting ''the product of such payment and the percentage applicable to the lowest income bracket in section 1(c)''.

(J) Section 3402(q)(1) is amended by striking ''28 percent of such payment'' and inserting ''the product of such payment and the percentage applicable to the next to the lowest income bracket in section 1(c)''.

(K) Section 3402(r)(3) is amended by striking ''31 percent'' and inserting ''the rate applicable to the third income bracket in such section''.

(L) Section 3406(a)(1) is amended by striking ''31 percent of such payment'' and inserting ''the product of such payment and the percentage applicable to the third income bracket in section 1(c)''.

(b) MINIMUM TAX RATES.—Subparagraph (A) of section 55(b)(1) is amended by adding at the end the following new clause:

''(iv) RATE REDUCTION.—In the case of taxable years beginning after 2000, each rate in clause (i) (without regard to this clause) shall be reduced by the number of percentage points (rounded to the next lowest tenth) equal to the applicable percentage (determined in accordance with section 1(f)(8)) of such rate.''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2000.

Subtitle B—Marriage Penalty Tax Relief

SEC. 111. ELIMINATION OF MARRIAGE PENALTY IN STANDARD DEDUCTION.

(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).

(b) PHASE-IN.—Subsection (c) of section 63 is amended by adding at the end the following new paragraph:

''(7) PHASE-IN OF INCREASE IN BASIC STANDARD DEDUCTION.—In the case of taxable years beginning before January 1, 2003—

''(A) paragraph (2)(A) shall be applied by substituting for 'twice'—

''(i) '1.778 times' in the case of taxable years beginning during 2001, and

''(ii) '1.889 times' in the case of taxable years beginning during 2002, and

''(B) the basic standard deduction for a married individual filing a separate return shall be one-half of the amount applicable under paragraph (2)(A).

If any amount determined under subparagraph (A) is not a multiple of $50, such amount shall be rounded to the next lowest multiple of $50.''.

(c) TECHNICAL AMENDMENTS.—

(1) Subparagraph (B) of section 1(f)(6) is amended by striking ''(other than with'' and all that follows through ''shall be applied'' and inserting ''(other than with respect to sections 63(c)(4) and 151(d)(4)(A)) shall be applied''.

(2) Paragraph (4) of section 63(c) is amended by adding at the end the following flush sentence:

''The preceding sentence shall not apply to the amount referred to in paragraph (2)(A).''.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2000.

SEC. 112. ELIMINATION OF MARRIAGE PENALTY IN DEDUCTION FOR INTEREST ON EDUCATION LOANS.

(a) IN GENERAL.—Subparagraph (B) of section 221(b)(2) (relating to limitation based on modified adjusted gross income) is amended—

(1) by striking ''$60,000'' in clause (i)(II) and inserting ''twice such amount'', and

(2) by inserting ''($30,000 in the case of a joint return)'' after ''$15,000'' in clause (ii).

(b) CONFORMING AMENDMENT.—Paragraph (1) of section 221(g) is amended by striking ''and $60,000 amounts in subsection (b)(2) shall each'' and inserting ''amount in subsection (b)(2) shall''.

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

SEC. 113. ROLLOVER FROM REGULAR IRA TO ROTH IRA.

(a) IN GENERAL.—Clause (i) of section 408A(c)(3)(B) is amended by inserting ''($160,000 in the case of a joint return)'' after ''$100,000''.

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

Subtitle C—Repeal of Alternative Minimum Tax on Individuals

SEC. 121. REPEAL OF ALTERNATIVE MINIMUM TAX ON INDIVIDUALS.

(a) IN GENERAL.—Subsection (a) of section 55 is amended by adding at the end the following new flush sentence:

''For purposes of this title, the tentative minimum tax on any taxpayer other than a corporation for any taxable year beginning after December 31, 2007, shall be zero.''

(b) REDUCTION OF TAX ON INDIVIDUALS PRIOR TO REPEAL.—Section 55 is amended by adding at the end the following new subsection:

''(f) PHASEOUT OF TAX ON INDIVIDUALS.—

''(1) IN GENERAL.—The tax imposed by this section on a taxpayer other than a corporation for any taxable year beginning after December 31, 2002, and before January 1, 2008, shall be the applicable percentage of the tax which would be imposed but for this subsection.

''(2) APPLICABLE PERCENTAGE.—For purposes of paragraph (1), the applicable percentage shall be determined in accordance with the following table:

''For taxable years beginning in calendar year—	**The applicable percentage is—**
2003	80
2004	70
2005	60
2006 or 2007	50.''

(c) NONREFUNDABLE PERSONAL CREDITS FULLY ALLOWED AGAINST REGULAR TAX LIABILITY.—

(1) IN GENERAL.—Subsection (a) of section 26 (relating to limitation based on amount of tax) is amended to read as follows:

''(a) LIMITATION BASED ON AMOUNT OF TAX.—The aggregate amount of credits allowed by this subpart for the taxable year shall not exceed the taxpayer's regular tax liability for the taxable year.''

(2) CHILD CREDIT.—Subsection (d) of section 24 is amended by striking paragraph (2) and by redesignating paragraph (3) as paragraph (2).

(d) LIMITATION ON USE OF CREDIT FOR PRIOR YEAR MINIMUM TAX LIABILITY.—Subsection (c) of section 53 is amended to read as follows:

''(c) LIMITATION.—

''(1) IN GENERAL.—Except as otherwise provided in this subsection, the credit allowable under subsection (a) for any taxable year shall not exceed the excess (if any) of—

''(A) the regular tax liability of the taxpayer for such taxable year reduced by the sum of the credits allowable under subparts A, B, D, E, and F of this part, over

''(B) the tentative minimum tax for the taxable year.

''(2) TAXABLE YEARS BEGINNING AFTER 2007.—In the case of any taxable year beginning after 2007, the credit allowable under subsection (a) to a taxpayer other than a corporation for any taxable year shall not exceed 90 percent of the excess (if any) of—

''(A) regular tax liability of the taxpayer for such taxable year, over

''(B) the sum of the credits allowable under subparts A, B, D, E, and F of this part.''

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 1998.

TITLE II—RELIEF FROM TAXATION ON SAVINGS AND INVESTMENTS

SEC. 201. EXEMPTION OF CERTAIN INTEREST AND DIVIDEND INCOME FROM TAX.

(a) IN GENERAL.—Part III of subchapter B of chapter 1 (relating to amounts specifically excluded from gross income) is amended by inserting after section 115 the following new section:

''SEC. 116. PARTIAL EXCLUSION OF DIVIDENDS AND INTEREST RECEIVED BY INDIVIDUALS.

''(a) EXCLUSION FROM GROSS INCOME.—Gross income does not include dividends and interest otherwise includible in gross income which are received during the taxable year by an individual.

''(b) LIMITATIONS.—

''(1) MAXIMUM AMOUNT.—The aggregate amount excluded under subsection (a) for any taxable year shall not exceed—

''(A) in the case of any taxable year beginning in 2001 or 2002, $100 ($200 in the case of a joint return), and

''(B) in the case of any taxable year beginning after 2002, $200 ($400 in the case of a joint return).

''(2) CERTAIN DIVIDENDS EXCLUDED.—Subsection (a) shall not apply to any dividend from a corporation which for the taxable year of the corporation in which the distribution is made is a corporation exempt from tax under section 521 (relating to farmers' cooperative associations).

''(c) SPECIAL RULES.—For purposes of this section—

''(1) EXCLUSION NOT TO APPLY TO CAPITAL GAIN DIVIDENDS FROM REGULATED INVESTMENT COMPANIES AND REAL ESTATE INVESTMENT TRUSTS.—

''For treatment of capital gain dividends, see sections 854(a) and 857(c).

''(2) CERTAIN NONRESIDENT ALIENS INELIGIBLE FOR EXCLUSION.—In the case of a nonresident alien individual, subsection (a) shall apply only in determining the taxes imposed for the taxable year pursuant to sections 871(b)(1) and 877(b).

''(3) DIVIDENDS FROM EMPLOYEE STOCK OWNERSHIP PLANS.—Subsection (a) shall not apply to any dividend described in section 404(k).''.

(b) CONFORMING AMENDMENTS.—

(1) Subparagraph (C) of section 32(c)(5) is amended by striking ''or'' at the end of clause (i), by striking the period at the end of clause (ii) and inserting ''; or'', and by inserting after clause (ii) the following new clause:

''(iii) interest and dividends received during the taxable year which are excluded from gross income under section 116.''.

(2) Subparagraph (A) of section 32(i)(2) is amended by inserting ''(determined without regard to section 116)'' before the comma.

(3) Subparagraph (B) of section 86(b)(2) is amended to read as follows:

''(B) increased by the sum of—

''(i) the amount of interest received or accrued by the taxpayer during the taxable year which is exempt from tax, and

''(ii) the amount of interest and dividends received during the taxable year which are excluded from gross income under section 116.''.

(4) Subsection (d) of section 135 is amended by redesignating paragraph (4) as paragraph (5) and by inserting after paragraph (3) the following new paragraph:

''(4) COORDINATION WITH SECTION 116.—This section shall be applied before section 116.''.

(5) Paragraph (2) of section 265(a) is amended by inserting before the period '', or to purchase or carry obligations or shares, or to make deposits, to the extent the interest thereon is excludable from gross income under section 116''.

(6) Subsection (c) of section 584 is amended by adding at the end the following new flush sentence:

''The proportionate share of each participant in the amount of dividends or interest received by the common trust fund and to which section 116 applies shall be considered for purposes of such section as having been received by such participant.''.

(7) Subsection (a) of section 643 is amended by redesignating paragraph (7) as paragraph (8) and by inserting after paragraph (6) the following new paragraph:

''(7) DIVIDENDS OR INTEREST.—There shall be included the amount of any dividends or interest excluded from gross income pursuant to section 116.''.

(8) Section 854(a) is amended by inserting ''section 116 (relating to partial exclusion of dividends and interest received by individuals) and'' after ''For purposes of''.

(9) Section 857(c) is amended to read as follows:

''(c) RESTRICTIONS APPLICABLE TO DIVIDENDS RECEIVED FROM REAL ESTATE INVESTMENT TRUSTS.—

''(1) TREATMENT FOR SECTION 116.—For purposes of section 116 (relating to partial exclusion of dividends and interest received by individuals), a capital gain dividend (as defined in subsection (b)(3)(C)) received from a real estate investment trust which meets the requirements of this part shall not be considered as a dividend.

''(2) TREATMENT FOR SECTION 243.—For purposes of section 243 (relating to deductions for dividends received by corporations), a dividend received from a real estate investment trust which meets the requirements of this part shall not be considered as a dividend.''.

(10) The table of sections for part III of subchapter B of chapter 1 is amended by inserting after the item relating to section 115 the following new item:

''Sec. 116. Partial exclusion of dividends and interest received by individuals.''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2000.

SEC. 202. REDUCTION IN INDIVIDUAL CAPITAL GAIN TAX RATES.

(a) IN GENERAL.—

(1) Sections 1(h)(1)(B) and 55(b)(3)(B) are each amended by striking ''10 percent'' and inserting ''7.5 percent''.

(2) The following sections are each amended by striking ''20 percent'' and inserting ''15 percent'':

(A) Section 1(h)(1)(C).

(B) Section 55(b)(3)(C).

(C) Section 1445(e)(1).

(D) The second sentence of section 7518(g)(6)(A).

(E) The second sentence of section 607(h)(6)(A) of the Merchant Marine Act, 1936.

(3) Sections 1(h)(1)(D) and 55(b)(3)(D) are each amended by striking ''25 percent'' and inserting ''20 percent''.

(b) CONFORMING AMENDMENTS.—

(1) Section 311 of the Taxpayer Relief Act of 1997 is amended by striking subsection (e).

(2) Section 1(h) is amended—

(A) by striking paragraphs (2), (9), and (13),

(B) by redesignating paragraphs (3) through (8) as paragraphs (2) through (7), respectively, and

(C) by redesignating paragraphs (10), (11), and (12) as paragraphs (8), (9), and (10), respectively.

(3) Paragraph (3) of section 55(b) is amended by striking ''In the case of taxable years beginning after December 31, 2000, rules similar to the rules of section 1(h)(2) shall apply for purposes of subparagraphs (B) and (C).''.

(4) Paragraph (7) of section 57(a) is amended—

(A) by striking ''42 percent'' and inserting ''6 percent'', and

(B) by striking the last sentence.

(c) TRANSITIONAL RULES FOR TAXABLE YEARS WHICH INCLUDE JULY 1, 1999.—For purposes of applying section 1(h) of the Internal Revenue Code of 1986 in the case of a taxable year which includes July 1, 1999—

(1) The amount of tax determined under subparagraph (B) of section 1(h)(1) of such Code shall be the sum of—

(A) 7.5 percent of the lesser of—

(i) the net capital gain taking into account only gain or loss properly taken into account for the portion of the taxable year on or after such date (determined without regard to collectibles gain or loss, gain described in section (1)(h)(6)(A)(i) of such Code, and section 1202 gain), or

(ii) the amount on which a tax is determined under such subparagraph (without regard to this subsection), plus

(B) 10 percent of the excess (if any) of—

(i) the amount on which a tax is determined under such subparagraph (without regard to this subsection), over

(ii) the amount on which a tax is determined under subparagraph (A).

(2) The amount of tax determined under subparagraph (C) of section (1)(h)(1) of such Code shall be the sum of—

(A) 15 percent of the lesser of—

(i) the excess (if any) of the amount of net capital gain determined under subparagraph (A)(i) of paragraph (1) of this subsection over the amount on which a tax is determined under subparagraph (A) of paragraph (1) of this subsection, or

(ii) the amount on which a tax is determined under such subparagraph (C) (without regard to this subsection), plus

(B) 20 percent of the excess (if any) of—

(i) the amount on which a tax is determined under such subparagraph (C) (without regard to this subsection), over

(ii) the amount on which a tax is determined under subparagraph (A) of this paragraph.

(3) The amount of tax determined under subparagraph (D) of section (1)(h)(1) of such Code shall be the sum of—

(A) 20 percent of the lesser of—

(i) the amount which would be determined under section 1(h)(6)(A)(i) of such Code taking into account only gain properly taken into account for the portion of the taxable year on or after such date, or

(ii) the amount on which a tax is determined under such subparagraph (D) (without regard to this subsection), plus

(B) 25 percent of the excess (if any) of—

(i) the amount on which a tax is determined under such subparagraph (D) (without regard to this subsection), over

(ii) the amount on which a tax is determined under subparagraph (A) of this paragraph.

(4) For purposes of applying section 55(b)(3) of such Code, rules similar to the rules of paragraphs (1), (2), and (3) of this subsection shall apply.

(5) In applying this subsection with respect to any pass-thru entity, the determination of when gains and loss are properly taken into account shall be made at the entity level.

(6) Terms used in this subsection which are also used in section 1(h) of such Code shall have the respective meanings that such terms have in such section.

(d) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as otherwise provided by this subsection, the amendments made by this section shall apply to taxable years ending after June 30, 1999.

(2) WITHHOLDING.—The amendment made by subsection (a)(2)(C) shall apply to amounts paid after the date of the enactment of this Act.

(3) SMALL BUSINESS STOCK.—The amendments made by subsection (b)(4) shall apply to dispositions on or after July 1, 1999.

SEC. 203. CAPITAL GAINS TAX RATES APPLIED TO CAPITAL GAINS OF DESIGNATED SETTLEMENT FUNDS.

(a) IN GENERAL.—Paragraph (1) of section 468B(b) (relating to taxation of designated settlement funds) is amended by inserting ''(subject to section 1(h))'' after ''maximum rate''.

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

SEC. 204. SPECIAL RULE FOR MEMBERS OF UNIFORMED SERVICES AND FOREIGN SERVICE, AND OTHER EMPLOYEES, IN DETERMINING EXCLUSION OF GAIN FROM SALE OF PRINCIPAL RESIDENCE.

(a) IN GENERAL.—Subsection (d) of section 121 (relating to exclusion of gain from sale of principal residence) is amended by adding at the end the following new paragraphs:

''(9) MEMBERS OF UNIFORMED SERVICES AND FOREIGN SERVICE.—

''(A) IN GENERAL.—The running of the 5-year period described in subsection (a) shall be suspended with respect to an individual during any time that such individual or such individual's spouse is serving on qualified official extended duty as a member of the uniformed services or of the Foreign Service.

''(B) QUALIFIED OFFICIAL EXTENDED DUTY.—For purposes of this paragraph—

''(i) IN GENERAL.—The term 'qualified official extended duty' means any period of extended duty as a member of the uniformed services or a member of the Foreign Service during which the member serves at a duty station which is at least 50 miles from such property or is under Government orders to reside in Government quarters.

''(ii) UNIFORMED SERVICES.—The term 'uniformed services' has the meaning given such term by section 101(a)(5) of title 10, United States Code, as in effect on the date of the enactment of the Financial Freedom Act of 1999.

''(iii) FOREIGN SERVICE OF THE UNITED STATES.—The term 'member of the Foreign Service' has the meaning given the term 'member of the Service' by paragraph (1), (2), (3), (4), or (5) of section 103 of the Foreign Service Act of 1980, as in effect on the date of the enactment of the Financial Freedom Act of 1999.

''(iv) EXTENDED DUTY.—The term 'extended duty' means any period of active duty pursuant to a call or order to such duty for a period in excess of 90 days or for an indefinite period.

''(10) OTHER EMPLOYEES.—

''(A) IN GENERAL.—The running of the 5-year period described in subsection (a) shall be suspended with respect to an individual during any time that such individual or such individual's spouse is serving as an employee for a period in excess of 90 days in an assignment by the such employee's employer outside the United States.

''(B) LIMITATIONS AND SPECIAL RULES.—

''(i) MAXIMUM PERIOD OF SUSPENSION.—The suspension under subparagraph (A) with respect to a principal residence shall not exceed (in the aggregate) 5 years.

''(ii) MEMBERS OF UNIFORMED SERVICES AND FOREIGN SERVICE.—Subparagraph (A) shall not apply to an individual to whom paragraph (9) applies.

''(iii) SELF-EMPLOYED INDIVIDUAL NOT CONSIDERED AN EMPLOYEE.—For purposes of this paragraph, the term 'employee' does not include an individual who is an employee within the meaning of section 401(c)(1) (relating to self-employed individuals).''.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to sales and exchanges after the date of the enactment of this Act.

SEC. 205. TREATMENT OF CERTAIN DEALER DERIVATIVE FINANCIAL INSTRUMENTS, HEDGING TRANSACTIONS, AND SUPPLIES AS ORDINARY ASSETS.

(a) IN GENERAL.—Section 1221 (defining capital assets) is amended—

(1) by striking ''For purposes'' and inserting the following:

''(a) IN GENERAL.—For purposes'',

(2) by striking the period at the end of paragraph (5) and inserting a semicolon, and

(3) by adding at the end the following:

''(6) any commodities derivative financial instrument held by a commodities derivatives dealer, unless—

''(A) it is established to the satisfaction of the Secretary that such instrument has no connection to the activities of such dealer as a dealer, and

''(B) such instrument is clearly identified in such dealer's records as being described in subparagraph (A) before the close of the day on which it was acquired, originated, or entered into (or such other time as the Secretary may by regulations prescribe);

''(7) any hedging transaction which is clearly identified as such before the close of the day on which it was acquired, originated, or entered into (or such other time as the Secretary may by regulations prescribe); or

''(8) supplies of a type regularly used or consumed by the taxpayer in the ordinary course of a trade or business of the taxpayer.

''(b) DEFINITIONS AND SPECIAL RULES.—

''(1) COMMODITIES DERIVATIVE FINANCIAL INSTRUMENTS.—For purposes of subsection (a)(6)—

''(A) COMMODITIES DERIVATIVES DEALER.—The term 'commodities derivatives dealer' means a person which regularly offers to enter into, assume, offset, assign, or terminate positions in commodities derivative financial instruments with customers in the ordinary course of a trade or business.

''(B) COMMODITIES DERIVATIVE FINANCIAL INSTRUMENT.—

''(i) IN GENERAL.—The term 'commodities derivative financial instrument' means any contract or financial instrument with respect to commodities (other than a share of stock in a corporation, a beneficial interest in a partnership or trust, a note, bond, debenture, or other evidence of indebtedness, or a section 1256 contract (as defined in section 1256(b)) the value or settlement price of which is calculated by or determined by reference to a specified index.

''(ii) SPECIFIED INDEX.—The term 'specified index' means any one or more or any combination of—

''(I) a fixed rate, price, or amount, or

''(II) a variable rate, price, or amount,

which is based on any current, objectively determinable financial or economic information which is not within the control of any of the parties to the contract or instrument and is not unique to any of the parties' circumstances.

''(2) HEDGING TRANSACTION.—

''(A) IN GENERAL.—For purposes of this section, the term 'hedging transaction' means any transaction entered into by the taxpayer in the normal course of the taxpayer's trade or business primarily—

''(i) to manage risk of price changes or currency fluctuations with respect to ordinary property which is held or to be held by the taxpayer, or

''(ii) to manage risk of interest rate or price changes or currency fluctuations with respect to borrowings made or to be made, or ordinary obligations incurred or to be incurred, by the taxpayer.

''(B) TREATMENT OF NONIDENTIFICATION OR IMPROPER IDENTIFICATION OF HEDGING TRANSACTIONS.—Notwithstanding subsection (a)(7), the Secretary shall prescribe regulations to properly characterize of any income, gain, expense, or loss arising from a transaction—

''(i) which is a hedging transaction but which was not identified as such in accordance with subsection (a)(7), or

''(ii) which was so identified but is not a hedging transaction.

''(3) REGULATIONS.—The Secretary shall prescribe such regulations as are appropriate to carry out the purposes of paragraph (6) and (7) of subsection (a) in the case of transactions involving related parties.''.

(b) MANAGEMENT OF RISK.—

(1) Section 475(c)(3) is amended by striking ''reduces'' and inserting ''manages''.

(2) Section 871(h)(4)(C)(iv) is amended by striking ''to reduce'' and inserting ''to manage''.

(3) Clauses (i) and (ii) of section 988(d)(2)(A) are each amended by striking ''to reduce'' and inserting ''to manage''.

(4) Paragraph (2) of section 1256(e) is amended to read as follows:

''(2) DEFINITION OF HEDGING TRANSACTION.—For purposes of this subsection, the term 'hedging transaction' means any hedging transaction (as defined in section 1221(b)(2)(A)) if, before the close of the day on which such transaction was entered into (or such earlier time as the Secretary may prescribe by regulations), the taxpayer clearly identifies such transaction as being a hedging transaction.''

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to any instrument held, acquired, or entered into, any transaction entered into, and supplies held or acquired on or after the date of enactment of this Act.

SEC. 206. WORTHLESS SECURITIES OF FINANCIAL INSTITUTIONS.

(a) IN GENERAL.—The first sentence following section 165(g)(3)(B) (relating to securities of affiliated corporation) is amended to read as follows: ''In computing gross receipts for purposes of the preceding sentence, (i) gross receipts from sales or exchanges of stocks and securities shall be taken into account only to the extent of gains therefrom, and (ii) gross receipts from royalties, rents, dividends, interest, annuities, and gains from sales or exchanges of stocks and securities derived from (or directly related to) the conduct of an active trade or business of an insurance company subject to tax under subchapter L or a qualified financial institution (as defined in subsection (l)(3)) shall be treated as from such sources other than royalties, rents, dividends, interest, annuities, and gains.''.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to securities which become worthless in taxable years beginning after December 31, 1999.

TITLE III—INCENTIVES FOR BUSINESS INVESTMENT AND JOB CREATION

SEC. 301. REDUCTION IN CORPORATE CAPITAL GAIN TAX RATE.

(a) IN GENERAL.—Section 1201 is amended to read as follows:

"SEC. 1201. ALTERNATIVE TAX FOR CORPORATIONS.

''(a) GENERAL RULE.—If for any taxable year a corporation has a net capital gain, then, in lieu of the tax imposed by sections 11, 511, or 831(a) or (b), there is hereby imposed a tax (if such tax is less than the tax imposed by such sections) which shall consist of the sum of—

''(1) a tax computed on the taxable income reduced by the net capital gain, at the rates and in the manner as if this subsection had not been enacted, plus

''(2) the applicable percentage of the net capital gain (or, if less, taxable income).

''(b) APPLICABLE PERCENTAGE.—For purposes of subsection (a), the applicable percentage shall be determined in accordance with the following table:

"For taxable years beginning in calendar year—	**The applicable percentage is—**
2000	34
2001	33
2002	32
2003	31
2004	30
2005	29
2006	28
2007	27
2008	26
2009 and thereafter	25.

''(c) CROSS REFERENCES.—For computation of the alternative tax—

''(1) in the case of life insurance companies, see section 801(a)(2),

''(2) in the case of regulated investment companies and their shareholders, see section 852(b)(3)(A) and (D), and

''(3) in the case of real estate investment trusts, see section 857(b)(3)(A).''

(b) TECHNICAL AMENDMENTS.—

(1) Paragraphs (1) and (2) of section 1445(e) are each amended by striking ''35 percent'' and inserting ''the applicable percentage determined under section 1201(b) for the calendar year in which the payment is made''.

(2)(A) The second sentence of section 7518(g)(6)(A) is amended by striking ''34 percent'' and inserting ''the applicable percentage (within the meaning of section 1201(b))''.

(B) The second sentence of section 607(h)(6)(A) of the Merchant Marine Act, 1936, is amended by striking ''34 percent'' and inserting ''the applicable percentage (within the meaning of section 1201(b) of the Internal Revenue Code of 1986)''.

(c) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to taxable years beginning after December 31, 1999.

(2) WITHHOLDING.—The amendment made by subsection (b)(1) shall apply to amounts paid after December 31, 1999.

SEC. 302. REPEAL OF ALTERNATIVE MINIMUM TAX ON CORPORATIONS.

(a) IN GENERAL.—The last sentence of section 55(a), as amended by section 121, is amended by striking ''on any taxpayer other than a corporation''.

(b) REPEAL OF 90 PERCENT LIMITATION ON FOREIGN TAX CREDIT.—

(1) IN GENERAL.—Section 59(a) (relating to alternative minimum tax foreign tax credit) is amended by striking paragraph (2) and by redesignating paragraphs (3) and (4) as paragraphs (2) and (3), respectively.

(2) CONFORMING AMENDMENT.—Section 53(d)(1)(B)(i)(II) is amended by striking ''and if section 59(a)(2) did not apply''.

(c) LIMITATION ON USE OF CREDIT FOR PRIOR YEAR MINIMUM TAX LIABILITY.—

(1) IN GENERAL.—Subsection (c) of section 53, as amended by section 121, is amended by redesignating paragraph (2) as paragraph (3) and by inserting after paragraph (1) the following new paragraph:

''(2) CORPORATIONS FOR TAXABLE YEARS BEGINNING AFTER 2002.—In the case of corporation for any taxable year beginning after 2002 and before 2008, the limitation under paragraph (1) shall be increased by the applicable percentage (determined in accordance with the following table) of the tentative minimum tax for the taxable year.

"For taxable years beginning in calendar year—	**The applicable percentage is—**
2003	20
2004	30
2005	40
2006 or 2007	50.

In no event shall the limitation determined under this paragraph be greater than the sum of the tax imposed by section 55 and the regular tax reduced by the sum of the credits allowed under subparts A, B, D, E, and F of this part.''

(2) CONFORMING AMENDMENT.—Section 55(e) is amended by striking paragraph (5).

(d) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in paragraphs (2) and (3), the amendments made by this section shall apply to taxable years beginning after December 31, 2002.

(2) REPEAL OF 90 PERCENT LIMITATION ON FOREIGN TAX CREDIT.—The amendments made by subsection (b) shall apply to taxable years beginning after December 31, 2001.

(3) SUBSECTION (c)(2).—The amendment made by subsection (c)(2) shall apply to taxable years beginning after December 31, 2007.

TITLE IV—EDUCATION SAVINGS INCENTIVES

SEC. 401. MODIFICATIONS TO EDUCATION INDIVIDUAL RETIREMENT ACCOUNTS.

(a) MAXIMUM ANNUAL CONTRIBUTIONS.—

(1) IN GENERAL.—Section 530(b)(1)(A)(iii) (defining education individual retirement account) is amended by striking ''$500'' and inserting ''$2,000''.

(2) CONFORMING AMENDMENT.—Section 4973(e)(1)(A) is amended by striking ''$500'' and inserting ''$2,000''.

(b) TAX-FREE EXPENDITURES FOR ELEMENTARY AND SECONDARY SCHOOL EXPENSES.—

(1) IN GENERAL.—Section 530(b)(2) (defining qualified higher education expenses) is amended to read as follows:

''(2) QUALIFIED EDUCATION EXPENSES.—

''(A) IN GENERAL.—The term 'qualified education expenses' means—

''(i) qualified higher education expenses (as defined in section 529(e)(3)), and

''(ii) qualified elementary and secondary education expenses (as defined in paragraph (4)).

''(B) QUALIFIED STATE TUITION PROGRAMS.—Such term shall include any contribution to a qualified State tuition program (as defined in section 529(b)) on behalf of the designated beneficiary (as defined in section 529(e)(1)); but there shall be no increase in the investment in the contract for purposes of applying section 72 by reason of any portion of such contribution which is not includible in gross income by reason of subsection (d)(2).''

(2) QUALIFIED ELEMENTARY AND SECONDARY EDUCATION EXPENSES.—Section 530(b) (relating to definitions and special rules) is amended by adding at the end the following new paragraph:

''(4) QUALIFIED ELEMENTARY AND SECONDARY EDUCATION EXPENSES.—

''(A) IN GENERAL.—The term 'qualified elementary and secondary education expenses' means—

''(i) expenses for tuition, fees, academic tutoring, special needs services, books, supplies, computer equipment (including related software and services), and other equipment which are incurred in connection with the enrollment or attendance of the designated beneficiary of the trust as an elementary or secondary school student at a public, private, or religious school, and

''(ii) expenses for room and board, uniforms, transportation, and supplementary items and services (including extended day programs) which are required or provided by a public, private, or religious school in connection with such enrollment or attendance.

''(B) SPECIAL RULE FOR HOMESCHOOLING.—Such term shall include expenses described in subparagraph (A)(i) in connection with education provided by homeschooling if the requirements of any applicable State or local law are met with respect to such education.

''(C) SCHOOL.—The term 'school' means any school which provides elementary education or secondary education (kindergarten through grade 12), as determined under State law.''

(3) CONFORMING AMENDMENTS.—Section 530 is amended—

(A) by striking ''higher'' each place it appears in subsections (b)(1) and (d)(2), and

(B) by striking ''HIGHER'' in the heading for subsection (d)(2).

(c) WAIVER OF AGE LIMITATIONS FOR CHILDREN WITH SPECIAL NEEDS.—Section 530(b)(1) (defining education individual retirement account) is amended by adding at the end the following flush sentence:

''The age limitations in subparagraphs (A)(ii) and (E) and paragraphs (5) and (6) of subsection (d) shall not apply to any designated beneficiary with special needs (as determined under regulations prescribed by the Secretary).''

(d) ENTITIES PERMITTED TO CONTRIBUTE TO ACCOUNTS.—Section 530(c)(1) (relating to reduction in permitted contributions based on adjusted gross income) is amended by striking ''The maximum amount which a contributor'' and inserting ''In the case of a contributor who is an individual, the maximum amount the contributor''.

(e) TIME WHEN CONTRIBUTIONS DEEMED MADE.—

(1) IN GENERAL.—Section 530(b) (relating to definitions and special rules), as amended by subsection (b)(2), is amended by adding at the end the following new paragraph:

''(5) TIME WHEN CONTRIBUTIONS DEEMED MADE.—An individual shall be deemed to have made a contribution to an education individual retirement account on the last day of the preceding taxable year if the contribution is made on account of such taxable year and is made not later than the time prescribed by law for filing the return for such taxable year (not including extensions thereof).''

(2) EXTENSION OF TIME TO RETURN EXCESS CONTRIBUTIONS.—Subparagraph (C) of section 530(d)(4) (relating to additional tax for distributions not used for educational expenses) is amended—

(A) by striking clause (i) and inserting the following new clause:

''(i) such distribution is made before the 1st day of the 6th month of the taxable year following the taxable year, and'', and

(B) by striking ''DUE DATE OF RETURN'' in the heading and inserting ''CERTAIN DATE''.

(f) COORDINATION WITH HOPE AND LIFETIME LEARNING CREDITS AND QUALIFIED TUITION PROGRAMS.—

(1) IN GENERAL.—Section 530(d)(2)(C) is amended to read as follows:

''(C) COORDINATION WITH HOPE AND LIFETIME LEARNING CREDITS AND QUALIFIED TUITION PROGRAMS.—For purposes of subparagraph (A)—

''(i) CREDIT COORDINATION.—The total amount of qualified higher education expenses with respect to an individual for the taxable year shall be reduced—

''(I) as provided in section 25A(g)(2), and

''(II) by the amount of such expenses which were taken into account in determining the credit allowed to the taxpayer or any other person under section 25A.

''(ii) COORDINATION WITH QUALIFIED TUITION PROGRAMS.—If, with respect to an individual for any taxable year—

''(I) the aggregate distributions during such year to which subparagraph (A) and section 529(c)(3)(B) apply, exceed

''(II) the total amount of qualified education expenses (after the application of clause (i)) for such year,

the taxpayer shall allocate such expenses among such distributions for purposes of determining the amount of the exclusion under subparagraph (A) and section 529(c)(3)(B).''

(2) CONFORMING AMENDMENTS.—

(A) Subsection (e) of section 25A is amended to read as follows:

''(e) ELECTION NOT TO HAVE SECTION APPLY.—A taxpayer may elect not to have this section apply with respect to the qualified tuition and related expenses of an individual for any taxable year.''

(B) Section 135(d)(2)(A) is amended by striking ''allowable'' and inserting ''allowed''.

(C) Section 530(d)(2)(D) is amended—

(i) by striking ''or credit'', and

(ii) by striking ''CREDIT OR'' in the heading.

(D) Section 4973(e)(1) is amended by adding ''and'' at the end of subparagraph (A), by striking subparagraph (B), and by redesignating subparagraph (C) as subparagraph (B).

(g) RENAMING EDUCATION INDIVIDUAL RETIREMENT ACCOUNTS AS EDUCATION SAVINGS ACCOUNTS.—

(1) IN GENERAL.—

(A) Section 530 (as amended by the preceding provisions of this section) is amended by striking ''education individual retirement account'' each place it appears and inserting ''education savings account''.

(B) The heading for paragraph (1) of section 530(b) is amended by striking ''EDUCATION INDIVIDUAL RETIREMENT ACCOUNT'' and inserting ''EDUCATION SAVINGS ACCOUNT''.

(C) The heading for section 530 is amended to read as follows:

''SEC. 530. EDUCATION SAVINGS ACCOUNTS.''.

(D) The item in the table of contents for part VII of subchapter F of chapter 1 relating to section 530 is amended to read as follows:

''Sec. 530. Education savings accounts.''.

(2) CONFORMING AMENDMENTS.—

(A) The following provisions are each amended by striking ''education individual retirement'' each place it appears and inserting ''education savings'':

(i) Section 25A(e)(2).

(ii) Section 26(b)(2)(E).

(iii) Section 72(e)(9).

(iv) Section 135(c)(2)(C).

(v) Subsections (a) and (e) of section 4973.

(vi) Subsections (c) and (e) of section 4975.

(vii) Section 6693(a)(2)(D).

(B) The headings for each of the following provisions are amended by striking ''EDUCATION INDIVIDUAL RETIREMENT ACCOUNTS'' each place it appears and inserting ''EDUCATION SAVINGS ACCOUNTS''.

(i) Section 72(e)(9).

(ii) Section 135(c)(2)(C).

(iii) Section 4973(e).

(iv) Section 4975(c)(5).

(h) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to taxable years beginning after December 31, 2000.

(2) SUBSECTION (g).—The amendments made by subsection (g) shall take effect on the date of the enactment of this Act.

SEC. 402. MODIFICATIONS TO QUALIFIED TUITION PROGRAMS.

(a) ELIGIBLE EDUCATIONAL INSTITUTIONS PERMITTED TO MAINTAIN QUALIFIED TUITION PROGRAMS.—

(1) IN GENERAL.—Section 529(b)(1) (defining qualified State tuition program) is amended by inserting ''or by 1 or more eligible educational institutions'' after ''maintained by a State or agency or instrumentality thereof''.

(2) PRIVATE QUALIFIED TUITION PROGRAMS LIMITED TO BENEFIT PLANS.—Clause (ii) of section 529(b)(1)(A) is amended by inserting ''in the case of a program established and maintained by a State or agency or instrumentality thereof,'' before ''may make''.

(3) CONFORMING AMENDMENTS.—

(A) Sections 72(e)(9), 135(c)(2)(C), 135(d)(1)(D), 529, 530(b)(2)(B), 4973(e), and 6693(a)(2)(C) are each amended by striking ''qualified State tuition'' each place it appears and inserting ''qualified tuition''.

(B) The headings for sections 72(e)(9) and 135(c)(2)(C) are each amended by striking ''QUALIFIED STATE TUITION'' and inserting ''QUALIFIED TUITION''.

(C) The headings for sections 529(b) and 530(b)(2)(B) are each amended by striking ''QUALIFIED STATE TUITION'' and inserting ''QUALIFIED TUITION''.

(D) The heading for section 529 is amended by striking ''state''.

(E) The item relating to section 529 in the table of sections for part VIII of subchapter F of chapter 1 is amended by striking ''State''.

(b) EXCLUSION FROM GROSS INCOME OF EDUCATION DISTRIBUTIONS FROM QUALIFIED TUITION PROGRAMS.—

(1) IN GENERAL.—Section 529(c)(3)(B) (relating to distributions) is amended to read as follows:

''(B) DISTRIBUTIONS FOR QUALIFIED HIGHER EDUCATION EXPENSES.—

''(i) IN GENERAL.—For purposes of this paragraph—

''(I) no amount shall be includible in gross income under subparagraph (A) by reason of a distribution which consists of providing a benefit to the distributee which, if paid for by the distributee, would constitute payment of a qualified higher education expense, and

''(II) in the case of distributions not described in subclause (I), the amount otherwise includible in gross income under subparagraph (A) shall be reduced by an amount which bears the same ratio to the otherwise includible amount as the qualified higher education expenses (other than expenses paid by distributions described in subclause (I)) bear to the aggregate of such distributions.

''(ii) EXCEPTION FOR INSTITUTIONAL PROGRAMS.—In the case of any taxable year beginning before January 1, 2004, clause (i) shall not apply with respect to any distribution during such taxable year under a qualified tuition program established and maintained by 1 or more eligible educational institutions.

''(iii) IN-KIND DISTRIBUTIONS.—Any benefit furnished to a designated beneficiary under a qualified tuition program shall be treated as a distribution to the beneficiary for purposes of this paragraph.

''(iv) COORDINATION WITH HOPE AND LIFETIME LEARNING CREDITS.—The total amount of qualified higher education expenses with respect to an individual for the taxable year shall be reduced—

''(I) as provided in section 25A(g)(2), and

''(II) by the amount of such expenses which were taken into account in determining the credit allowed to the taxpayer or any other person under section 25A.

''(v) COORDINATION WITH EDUCATION SAVINGS ACCOUNTS.—If, with respect to an individual for any taxable year—

''(I) the aggregate distributions to which clause (i) and section 530(d)(2)(A) apply, exceed

''(II) the total amount of qualified higher education expenses otherwise taken into account under clause (i) (after the application of clause (iv)) for such year,

the taxpayer shall allocate such expenses among such distributions for purposes of determining the amount of the exclusion under clause (i) and section 530(d)(2)(A).''

(2) CONFORMING AMENDMENTS.—

(A) Section 135(d)(2)(B) is amended by striking ''the exclusion under section 530(d)(2)'' and inserting ''the exclusions under sections 529(c)(3)(B)(i) and 530(d)(2)''.

(B) Section 221(e)(2)(A) is amended by inserting ''529,'' after ''135,''.

(c) ROLLOVER TO DIFFERENT PROGRAM FOR BENEFIT OF SAME DESIGNATED BENEFICIARY.—Section 529(c)(3)(C) (relating to change in beneficiaries) is amended—

(1) by striking ''transferred to the credit'' in clause (i) and inserting ''transferred—

''(I) to another qualified tuition program for the benefit of the designated beneficiary, or

''(II) to the credit'',

(2) by adding at the end the following new clause:

''(iii) LIMITATION ON CERTAIN ROLLOVERS.—Clause (i)(I) shall not apply to any amount transferred with respect to a designated beneficiary if, at any time during the 1-year period ending on the day of such transfer, any other amount was transferred which was not includible in gross income by reason of clause (i)(I).'', and

(3) by inserting ''OR PROGRAMS'' after ''BENEFICIARIES'' in the heading.

(d) MEMBER OF FAMILY INCLUDES FIRST COUSIN.—Section 529(e)(2) (defining member of family) is amended by striking ''and'' at the end of subparagraph (B), by striking the period at the end of subparagraph (C) and by inserting ''; and'', and by adding at the end the following new subparagraph:

''(D) any first cousin of such beneficiary.''

(e) DEFINITION OF QUALIFIED HIGHER EDUCATION EXPENSES.—

(1) IN GENERAL.—Subparagraph (A) of section 529(e)(3) (relating to definition of qualified higher education expenses) is amended to read as follows:

''(A) IN GENERAL.—The term 'qualified higher education expenses' means—

''(i) tuition and fees required for the enrollment or attendance of a designated beneficiary at an eligible educational institution for courses of instruction of such beneficiary at such institution, and

''(ii) expenses for books, supplies, and equipment which are incurred in connection with such enrollment or attendance, but not to exceed the allowance for books and supplies included in the cost of attendance (as defined in section 472 of the Higher Education Act of 1965 (20 U.S.C. 1087ll), as in effect on the date of enactment of the Financial Freedom Act of 1999) as determined by the eligible educational institution.''.

(2) EXCEPTION FOR EDUCATION INVOLVING SPORTS, ETC..—Paragraph (3) of section 529(e) (relating to qualified higher education expenses) is amended by adding at the end the following new subparagraph:

''(C) EXCEPTION FOR EDUCATION INVOLVING SPORTS, ETC..—The term 'qualified higher education expenses' shall not include expenses with respect to any course or other

education involving sports, games, or hobbies unless such course or other education is part of the beneficiary's degree program or is taken to acquire or improve job skills of the beneficiary.''.

(f) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to taxable years beginning after December 31, 2000.

(2) QUALIFIED HIGHER EDUCATION EXPENSES.—The amendments made by subsection (e) shall apply to amounts paid for education furnished after December 31, 1999.

SEC. 403. EXCLUSION OF CERTAIN AMOUNTS RECEIVED UNDER THE NATIONAL HEALTH SERVICE CORPS SCHOLARSHIP PROGRAM, THE F. EDWARD HEBERT ARMED FORCES HEALTH PROFESSIONS SCHOLARSHIP AND FINANCIAL ASSISTANCE PROGRAM, AND CERTAIN OTHER PROGRAMS.

(a) IN GENERAL.—Section 117(c) (relating to the exclusion from gross income amounts received as a qualified scholarship) is amended—

(1) by striking ''Subsections (a)'' and inserting the following:

''(1) IN GENERAL.—Except as provided in paragraph (2), subsections (a)'', and

(2) by adding at the end the following new paragraph:

''(2) EXCEPTIONS.—Paragraph (1) shall not apply to any amount received by an individual under—

''(A) the National Health Service Corps Scholarship program under section 338A(g)(1)(A) of the Public Health Service Act,

''(B) the Armed Forces Health Professions Scholarship and Financial Assistance program under subchapter I of chapter 105 of title 10, United States Code,

''(C) the National Institutes of Health Undergraduate Scholarship program under section 487D of the Public Health Service Act, or

''(D) any State program determined by the Secretary to have substantially similar objectives as such programs.''

(b) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by subsection (a) shall apply to amounts received in taxable years beginning after December 31, 1993.

(2) STATE PROGRAMS.—Section 117(c)(2)(D) of the Internal Revenue Code of 1986 (as added by the amendments made by subsection (a)) shall apply to amounts received in taxable years beginning after December 31, 1999.

SEC. 404. ADDITIONAL INCREASE IN ARBITRAGE REBATE EXCEPTION FOR GOVERNMENTAL BONDS USED TO FINANCE EDUCATIONAL FACILITIES.

(a) IN GENERAL.—Section 148(f)(4)(D)(vii) (relating to increase in exception for bonds financing public school capital expenditures) is amended by striking ''$5,000,000'' the second place it appears and inserting ''$10,000,000''.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to obligations issued in calendar years beginning after December 31, 1999.

SEC. 405. MODIFICATION OF ARBITRAGE REBATE RULES APPLICABLE TO PUBLIC SCHOOL CONSTRUCTION BONDS.

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

''(xviii) 4-YEAR SPENDING REQUIREMENT FOR PUBLIC SCHOOL CONSTRUCTION ISSUE.—

''(I) IN GENERAL.—In the case of a public school construction issue, the spending requirements of clause (ii) shall be treated as met if at least 10 percent of the available construction proceeds of the construction issue are spent for the governmental purposes of the issue within the 1-year period beginning on the date the bonds are issued, 30 percent of such proceeds are spent for such purposes within the 2-year period beginning on such date, 60 percent of such proceeds are spent for such purposes within the 3-year period beginning on such date, and 100 percent of such proceeds are spent for such purposes within the 4-year period beginning on such date.

''(II) PUBLIC SCHOOL CONSTRUCTION ISSUE.—For purposes of this clause, the term 'public school construction issue' means any construction issue if no bond which is part of such issue is a private activity bond and all of the available construction proceeds of such issue are to be used for the construction (as defined in clause (iv)) of public school facilities to provide education or training below the postsecondary level or for the acquisition of land that is functionally related and subordinate to such facilities.

''(III) OTHER RULES TO APPLY.—Rules similar to the rules of the preceding provisions of this subparagraph which apply to clause (ii) also apply to this clause.''.

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

SEC. 406. REPEAL OF 60-MONTH LIMITATION ON DEDUCTION FOR INTEREST ON EDUCATION LOANS.

(a) IN GENERAL.—Section 221 (relating to interest on education loans) is amended by striking subsection (d) and by redesignating subsections (e), (f), and (g) as subsections (d), (e), and (f), respectively.

(b) CONFORMING AMENDMENT.—Subsection (e) of section 6050S is amended by striking ''section 221(e)(1)'' and inserting ''section 221(d)(1)''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to loan interest payments made after December 31, 1999, in taxable years ending after such date.

TITLE V—HEALTH CARE PROVISIONS

SEC. 501. DEDUCTION FOR HEALTH AND LONG-TERM CARE INSURANCE COSTS OF INDIVIDUALS NOT PARTICIPATING IN EMPLOYER-SUBSIDIZED HEALTH PLANS.

(a) IN GENERAL.—Part VII of subchapter B of chapter 1 is amended by redesignating section 222 as section 223 and by inserting after section 221 the following new section:

''SEC. 222. HEALTH AND LONG-TERM CARE INSURANCE COSTS.

''(a) IN GENERAL.—In the case of an individual, there shall be allowed as a deduction an amount equal to the applicable percentage of the amount paid during the taxable year for insurance which constitutes medical care for the taxpayer, the taxpayer's spouse, and dependents.

''(b) APPLICABLE PERCENTAGE.—For purposes of subsection (a), the applicable percentage shall be determined in accordance with the following table:

''For taxable years beginning in calendar year—	The applicable percentage is—
2001	25
2002	40
2003, 2004, 2005, and 2006	50
2007	75
2008 and thereafter	100.

''(c) LIMITATION BASED ON OTHER COVERAGE.—

''(1) COVERAGE UNDER CERTAIN SUBSIDIZED EMPLOYER PLANS.—

''(A) IN GENERAL.—Subsection (a) shall not apply to any taxpayer for any calendar month for which the taxpayer participates in any health plan maintained by any employer of the taxpayer or of the spouse of the taxpayer if 50 percent or more of the cost of coverage under such plan (determined under section 4980B) is paid or incurred by the employer.

''(B) EMPLOYER CONTRIBUTIONS TO CAFETERIA PLANS, FLEXIBLE SPENDING ARRANGEMENTS, AND MEDICAL SAVINGS ACCOUNTS.—Employer contributions to a cafeteria plan, a flexible spending or similar arrangement, or a medical savings account which are excluded from gross income under section 106 shall be treated for purposes of subparagraph (A) as paid by the employer.

''(C) AGGREGATION OF PLANS OF EMPLOYER.—A health plan which is not otherwise described in subparagraph (A) shall be treated as described in such subparagraph if such plan would be so described if all health plans of persons treated as a single employer under subsections (b), (c), (m), or (o) of section 414 were treated as one health plan.

''(D) SEPARATE APPLICATION TO HEALTH INSURANCE AND LONG-TERM CARE INSURANCE.—Subparagraphs (A) and (C) shall be applied separately with respect to—

''(i) plans which include primarily coverage for qualified long-term care services or are qualified long-term care insurance contracts, and

''(ii) plans which do not include such coverage and are not such contracts.

''(2) COVERAGE UNDER CERTAIN FEDERAL PROGRAMS.—

''(A) IN GENERAL.—Subsection (a) shall not apply to any amount paid for any coverage for an individual for any calendar month if, as of the first day of such month, the individual is covered under any medical care program described in—

''(i) title XVIII, XIX, or XXI of the Social Security Act,

''(ii) chapter 55 of title 10, United States Code,

''(iii) chapter 17 of title 38, United States Code,

''(iv) chapter 89 of title 5, United States Code, or

''(v) the Indian Health Care Improvement Act.

''(B) EXCEPTIONS.—

''(i) QUALIFIED LONG-TERM CARE.—Subparagraph (A) shall not apply to amounts paid for coverage under a qualified long-term care insurance contract.

''(ii) CONTINUATION COVERAGE OF FEHBP.—Subparagraph (A)(iv) shall not apply to coverage which is comparable to continuation coverage under section 4980B.

''(d) LONG-TERM CARE DEDUCTION LIMITED TO QUALIFIED LONG-TERM CARE INSURANCE CONTRACTS.—In the case of a qualified long-term care insurance contract, only eligible long-term care premiums (as defined in section 213(d)(10)) may be taken into account under subsection (a).

''(e) SPECIAL RULES.—

''(1) COORDINATION WITH DEDUCTION FOR HEALTH INSURANCE COSTS OF SELF-EMPLOYED INDIVIDUALS.—The amount taken into account by the taxpayer in computing the deduction under section 162(l) shall not be taken into account under this section.

''(2) COORDINATION WITH MEDICAL EXPENSE DEDUCTION.—The amount taken into account by the taxpayer in computing the deduction under this section shall not be taken into account under section 213.''

(b) DEDUCTION ALLOWED WHETHER OR NOT TAXPAYER ITEMIZES OTHER DEDUCTIONS.—Subsection (a) of section 62 is amended by inserting after paragraph (17) the following new item:

''(18) HEALTH AND LONG-TERM CARE INSURANCE COSTS.—The deduction allowed by section 222.''

(c) CLERICAL AMENDMENT.—The table of sections for part VII of subchapter B of chapter 1 is amended by striking the last item and inserting the following new items:

''Sec. 222. Health and long-term care insurance costs.

''Sec. 223. Cross reference.''

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2000.

SEC. 502. LONG-TERM CARE INSURANCE PERMITTED TO BE OFFERED UNDER CAFETERIA PLANS AND FLEXIBLE SPENDING ARRANGEMENTS.

(a) CAFETERIA PLANS.—Subsection (f) of section 125 (defining qualified benefits) is amended by inserting before the period at the end ''unless such product is a qualified long-term care insurance contract (as defined in section 7702B)''.

(b) FLEXIBLE SPENDING ARRANGEMENTS.—Section 106 (relating to contributions by employer to accident and health plans) is amended by striking subsection (c).

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2000.

SEC. 503. EXPANSION OF AVAILABILITY OF MEDICAL SAVINGS ACCOUNTS.

(a) REPEAL OF LIMITATIONS ON NUMBER OF MEDICAL SAVINGS ACCOUNTS.—

(1) IN GENERAL.—Subsections (i) and (j) of section 220 are hereby repealed.

(2) CONFORMING AMENDMENT.—Paragraph (1) of section 220(c) is amended by striking subparagraph (D).

(b) ALL EMPLOYERS MAY OFFER MEDICAL SAVINGS ACCOUNTS.—

(1) IN GENERAL.—Subclause (I) of section 220(c)(1)(A)(iii) (defining eligible individual) is amended by striking ''and such employer is a small employer''.

(2) CONFORMING AMENDMENTS.—

(A) Paragraph (1) of section 220(c) is amended by striking subparagraph (C).

(B) Subsection (c) of section 220 is amended by striking paragraph (4) and by redesignating paragraph (5) as paragraph (4).

(c) INCREASE IN AMOUNT OF DEDUCTION ALLOWED FOR CONTRIBUTIONS TO MEDICAL SAVINGS ACCOUNTS.—

(1) IN GENERAL.—Paragraph (2) of section 220(b) is amended to read as follows:

''(2) MONTHLY LIMITATION.—The monthly limitation for any month is the amount equal to ½12 of the annual deductible (as of the first day of such month) of the individual's coverage under the high deductible health plan.''.

(2) CONFORMING AMENDMENT.—Clause (ii) of section 220(d)(1)(A) is amended by striking ''75 percent of''.

(d) BOTH EMPLOYERS AND EMPLOYEES MAY CONTRIBUTE TO MEDICAL SAVINGS ACCOUNTS.—Paragraph (5) of section 220(b) is amended to read as follows:

''(5) COORDINATION WITH EXCLUSION FOR EMPLOYER CONTRIBUTIONS.—The limitation which would (but for this paragraph) apply under this subsection to the taxpayer for any taxable year shall be reduced (but not below zero) by the amount which would (but for section 106(b)) be includible in the taxpayer's gross income for such taxable year.''.

(e) REDUCTION OF PERMITTED DEDUCTIBLES UNDER HIGH DEDUCTIBLE HEALTH PLANS.—

(1) IN GENERAL.—Subparagraph (A) of section 220(c)(2) (defining high deductible health plan) is amended—

(A) by striking ''$1,500'' in clause (i) and inserting ''$1,000'', and

(B) by striking ''$3,000'' in clause (ii) and inserting ''$2,000''.

(2) CONFORMING AMENDMENT.—Subsection (g) of section 220 is amended to read as follows:

''(g) COST-OF-LIVING ADJUSTMENT.—

''(1) IN GENERAL.—In the case of any taxable year beginning in a calendar year after 1998, each dollar amount in subsection (c)(2) shall be increased by an amount equal to—

''(A) such dollar amount, multiplied by

''(B) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which such taxable year begins by substituting 'calendar year 1997' for 'calendar year 1992' in subparagraph (B) thereof.

''(2) SPECIAL RULES.—In the case of the $1,000 amount in subsection (c)(2)(A)(i) and the $2,000 amount in subsection (c)(2)(A)(ii), paragraph (1)(B) shall be applied by substituting 'calendar year 1999' for 'calendar year 1997'.

''(3) ROUNDING.—If any increase under paragraph (1) or (2) is not a multiple of $50, such increase shall be rounded to the nearest multiple of $50.

(f) MEDICAL SAVINGS ACCOUNTS MAY BE OFFERED UNDER CAFETERIA PLANS.—Subsection (f) of section 125 is amended by striking ''106(b),''.

(g) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2000.

SEC. 504. ADDITIONAL PERSONAL EXEMPTION FOR TAXPAYER CARING FOR ELDERLY FAMILY MEMBER IN TAXPAYER'S HOME.

(a) IN GENERAL.—Section 151 (relating to allowance of deductions for personal exemptions) is amended by adding at the end redesignating subsection (e) as subsection (f) and by inserting after subsection (d) the following new subsection:

''(e) ADDITIONAL EXEMPTION FOR CERTAIN ELDERLY FAMILY MEMBERS RESIDING WITH TAXPAYER.—

''(1) IN GENERAL.—An exemption of the exemption amount for each qualified family member of the taxpayer.

''(2) QUALIFIED FAMILY MEMBER.—For purposes of this subsection, the term 'qualified family member' means, with respect to any taxable year, any individual—

''(A) who is an ancestor of the taxpayer or of the taxpayer's spouse or who is the spouse of any such ancestor,

''(B) who is a member for the entire taxable year of a household maintained by the taxpayer, and

''(C) who has been certified, before the due date for filing the return of tax for the taxable year (without extensions), by a physician (as defined in section 1861(r)(1) of the Social Security Act) as being an individual with long-term care needs described in paragraph (3) for a period—

''(i) which is at least 180 consecutive days, and

''(ii) a portion of which occurs within the taxable year.

Such term shall not include any individual otherwise meeting the requirements of the preceding sentence unless within the 39½ month period ending on such due date (or such other period as the Secretary prescribes) a physician (as so defined) has certified that such individual meets such requirements.

''(3) INDIVIDUALS WITH LONG-TERM CARE NEEDS.—An individual is described in this paragraph if the individual—

''(A) is unable to perform (without substantial assistance from another individual) at least 2 activities of daily living (as defined in section 7702B(c)(2)(B)) due to a loss of functional capacity, or

''(B) requires substantial supervision to protect such individual from threats to health and safety due to severe cognitive impairment and is unable to perform, without reminding or cuing assistance, at least 1 activity of at least 1 activity of daily living (as so defined) or to the extent provided in regulations prescribed by the Secretary (in consultation with the Secretary of Health and Human Services), is unable to engage in age appropriate activities.

''(4) SPECIAL RULES.—Rules similar to the rules of paragraphs (1), (2), (3), (4), and (5) of section 21(e) shall apply for purposes of this subsection.''

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

SEC. 505. EXPANDED HUMAN CLINICAL TRIALS QUALIFYING FOR ORPHAN DRUG CREDIT.

(a) IN GENERAL.—Subclause (I) of section 45C(b)(2)(A)(ii) is amended to read as follows:

''(I) after the date that the application is filed for designation under such section 526, and''.

(b) CONFORMING AMENDMENT.—Clause (i) of section 45C(b)(2)(A) is amended by inserting ''which is'' before ''being'' and by inserting before the comma at the end ''and which is designated under section 526 of such Act''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to amounts paid or incurred after December 31, 1999.

SEC. 506. INCLUSION OF CERTAIN VACCINES AGAINST STREPTOCOCCUS PNEUMONIAE TO LIST OF TAXABLE VACCINES.

(a) IN GENERAL.—Section 4132(a)(1) (defining taxable vaccine) is amended by adding at the end the following new subparagraph:

''(L) Any conjugate vaccine against streptococcus pneumoniae.''

(b) EFFECTIVE DATE.—

(1) SALES.—The amendment made by this section shall apply to vaccine sales beginning on the day after the date on which the Centers for Disease Control makes a final recommendation for routine administration to children of any conjugate vaccine against streptococcus pneumoniae.

(2) DELIVERIES.—For purposes of paragraph (1), in the case of sales on or before the date described in such paragraph for which delivery is made after such date, the delivery date shall be considered the sale date.

(c) REPORT.—Not later than 1 year after the date of the enactment of this Act, the Comptroller General of the United States shall prepare and submit a report to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate on the operation of the Vaccine Injury Compensation Trust Fund and on the adequacy of such Fund to meet future claims made under the Vaccine Injury Compensation Program.

TITLE VI—ESTATE TAX RELIEF

Subtitle A—Repeal of Estate, Gift, and Generation-Skipping Taxes; Repeal of Step Up in Basis At Death

SEC. 601. REPEAL OF ESTATE, GIFT, AND GENERATION-SKIPPING TAXES.

(a) IN GENERAL.—Subtitle B is hereby repealed.

(b) EFFECTIVE DATE.—The repeal made by subsection (a) shall apply to the estates of decedents dying, and gifts and generation-skipping transfers made, after December 31, 2008.

SEC. 602. TERMINATION OF STEP UP IN BASIS AT DEATH.

(a) TERMINATION OF APPLICATION OF SECTION 1014.—Section 1014 (relating to basis of property acquired from a decedent) is amended by adding at the end the following:

''(f) TERMINATION.—In the case of a decedent dying after December 31, 2008, this section shall not apply to property for which basis is provided by section 1022.''

(b) CONFORMING AMENDMENT.—Subsection (a) of section 1016 (relating to adjustments to basis) is amended by striking ''and'' at the end of paragraph (26), by striking the period at the end of paragraph (27) and inserting ''; and'', and by adding at the end the following:

''(28) to the extent provided in section 1022 (relating to basis for certain property acquired from a decedent dying after December 31, 2008).''

SEC. 603. CARRYOVER BASIS AT DEATH.

(a) GENERAL RULE.—Part II of subchapter O of chapter 1 (relating to basis rules of general application) is amended by inserting after section 1021 the following:

"SEC. 1022. CARRYOVER BASIS FOR CERTAIN PROPERTY ACQUIRED FROM A DECEDENT DYING AFTER DECEMBER 31, 2008.

''(a) CARRYOVER BASIS.—Except as otherwise provided in this section, the basis of carryover basis property in the hands of a person acquiring such property from a decedent shall be determined under section 1015.

''(b) CARRYOVER BASIS PROPERTY DEFINED.—

''(1) IN GENERAL.—For purposes of this section, the term 'carryover basis property' means any property—

''(A) which is acquired from or passed from a decedent who died after December 31, 2008, and

''(B) which is not excluded pursuant to paragraph (2).

The property taken into account under subparagraph (A) shall be determined under section 1014(b) without regard to subparagraph (A) of the last sentence of paragraph (9) thereof.

''(2) CERTAIN PROPERTY NOT CARRYOVER BASIS PROPERTY.—The term 'carryover basis property' does not include—

''(A) any item of gross income in respect of a decedent described in section 691,

''(B) property which was acquired from the decedent by the surviving spouse of the decedent, the value of which would have been deductible from the value of the taxable estate of the decedent under section 2056, as in effect on the day before the date of enactment of the Financial Freedom Act of 1999, and

''(C) any includible property of the decedent if the aggregate adjusted fair market value of such property does not exceed $2,000,000.

For purposes of this paragraph and paragraph (3), the term 'adjusted fair market value' means, with respect to any property, fair market value reduced by any indebtedness secured by such property.

''(3) PHASEIN OF CARRYOVER BASIS IF INCLUDIBLE PROPERTY EXCEEDS $1,300,000.—

''(A) IN GENERAL.—If the adjusted fair market value of the includible property of the decedent exceeds $1,300,000, but does not exceed $2,000,000, the amount of the increase in the basis of such property which would (but for this paragraph) result under section 1014 shall be reduced by the amount which bears the same ratio to such increase as such excess bears to $700,000.

''(B) ALLOCATION OF REDUCTION.—The reduction under subparagraph (A) shall be allocated among only the includible property having net appreciation and shall be allocated in proportion to the respective amounts of such net appreciation. For purposes of the preceding sentence, the term 'net appreciation' means the excess of the adjusted fair market value over the decedent's adjusted basis immediately before such decedent's death.

''(4) INCLUDIBLE PROPERTY.—

''(A) IN GENERAL.—For purposes of this subsection, the term 'includible property' means property which would be included in the gross estate of the decedent under any of the following provisions as in effect on the day before the date of the enactment of the Financial Freedom Act of 1999:

''(i) Section 2033.

''(ii) Section 2038.

''(iii) Section 2040.

''(iv) Section 2041.

''(v) Section 2042(a)(1).

''(B) EXCLUSION OF PROPERTY ACQUIRED BY SPOUSE.—Such term shall not include property described in paragraph (2)(B).

''(c) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary to carry out the purposes of this section.''

(b) MISCELLANEOUS AMENDMENTS RELATED TO CARRYOVER BASIS.—

(1) CAPITAL GAIN TREATMENT FOR INHERITED ART WORK OR SIMILAR PROPERTY.—

(A) IN GENERAL.—Subparagraph (C) of section 1221(3) (defining capital asset) is amended by inserting ''(other than by reason of section 1022)'' after ''is determined''.

(B) COORDINATION WITH SECTION 170.—Paragraph (1) of section 170(e) (relating to certain contributions of ordinary income and capital gain property) is amended by adding at the end the following: ''For purposes of this paragraph, the determination of whether property is a capital asset shall be made without regard to the exception contained in section 1221(3)(C) for basis determined under section 1022.''

(2) DEFINITION OF EXECUTOR.—Section 7701(a) (relating to definitions) is amended by adding at the end the following:

''(47) EXECUTOR.—The term 'executor' means the executor or administrator of the decedent, or, if there is no executor or administrator appointed, qualified, and acting within the United States, then any person in actual or constructive possession of any property of the decedent.''

(3) CLERICAL AMENDMENT.—The table of sections for part II of subchapter O of chapter 1 is amended by adding at the end the following new item:

''Sec. 1022. Carryover basis for certain property acquired from a decedent dying after December 31, 2008.''

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to estates of decedents dying after December 31, 2008.

Subtitle B—Reductions of Estate and Gift Tax Rates Prior to Repeal

SEC. 611. ADDITIONAL REDUCTIONS OF ESTATE AND GIFT TAX RATES.

(a) MAXIMUM RATE OF TAX REDUCED TO 50 PERCENT.—The table contained in section 2001(c)(1) is amended by striking the 2 highest brackets and inserting the following:

Over $2,500,000	$1,025,800, plus 50% of the excess over $2,500,000.''

(b) REPEAL OF PHASEOUT OF GRADUATED RATES.—Subsection (c) of section 2001 is amended by striking paragraph (2).

(c) ADDITIONAL REDUCTIONS OF RATES OF TAX.—Subsection (c) of section 2001, as amended by subsection (b), is amended by adding at the end the following new paragraph:

''(2) PHASEDOWN OF TAX.—In the case of estates of decedents dying, and gifts made, during any calendar year after 2001 and before 2009—

''(A) IN GENERAL.—Except as provided in subparagraph (C), the tentative tax under this subsection shall be determined by using a table prescribed by the Secretary (in lieu of using the table contained in paragraph (1)) which is the same as such table; except that—

''(i) each of the rates of tax shall be reduced by the number of percentage points determined under subparagraph (B), and

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

''(B) PERCENTAGE POINTS OF REDUCTION.—

"For calendar year:	The number of percentage points is:
2002	1
2003	2
2004	3
2005	5
2006	7
2007	9
2008	11.

''(C) COORDINATION WITH INCOME TAX RATES.—The reductions under subparagraph (A)—

''(i) shall not reduce any rate under paragraph (1) below the lowest rate in section 1(c), and

''(ii) shall not reduce the highest rate under paragraph (1) below the highest rate in section 1(c).

''(D) COORDINATION WITH CREDIT FOR STATE DEATH TAXES.—Rules similar to the rules of subparagraph (A) shall apply to the table contained in section 2011(b) except that the Secretary shall prescribe percentage point reductions which maintain the proportionate relationship (as in effect before any reduction under this paragraph) between the credit under section 2011 and the tax rates under subsection (c).''

(d) EFFECTIVE DATES.—

(1) SUBSECTIONS (a) AND (b).—The amendments made by subsections (a) and (b) shall apply to estates of decedents dying, and gifts made, after December 31, 2000.

(2) SUBSECTION (c).—The amendment made by subsection (c) shall apply to estates of decedents dying, and gifts made, after December 31, 2001.

Subtitle C—Unified Credit Replaced With Unified Exemption Amount

SEC. 621. UNIFIED CREDIT AGAINST ESTATE AND GIFT TAXES REPLACED WITH UNIFIED EXEMPTION AMOUNT.

(a) IN GENERAL.—

(1) ESTATE TAX.—Part IV of subchapter A of chapter 11 is amended by inserting after section 2051 the following new section:

"SEC. 2052. EXEMPTION.

''(a) IN GENERAL.—For purposes of the tax imposed by section 2001, the value of the taxable estate shall be determined by deducting from the value of the gross estate an amount equal to the excess (if any) of—

''(1) the exemption amount for the calendar year in which the decedent died, over

''(2) the sum of—

''(A) the aggregate amount allowed as an exemption under section 2521 with respect to gifts made by the decedent after December 31, 2000, and

''(B) the aggregate amount of gifts made by the decedent for which credit was allowed by section 2505 (as in effect on the day before the date of the enactment of the Financial Freedom Act of 1999).

Gifts which are includible in the gross estate of the decedent shall not be taken into account in determining the amounts under paragraph (2).

''(b) EXEMPTION AMOUNT.—For purposes of subsection (a), the term 'exemption amount' means the amount determined in accordance with the following table:

"In the case of calendar year:	The exemption amount is:
2001	$675,000
2002 and 2003	$700,000
2004	$850,000
2005	$950,000
2006 or thereafter	$1,000,000.''

(2) GIFT TAX.—Subchapter C of chapter 12 (relating to deductions) is amended by inserting before section 2522 the following new section:

"SEC. 2521. EXEMPTION.

''(a) IN GENERAL.—In computing taxable gifts for any calendar year, there shall be allowed as a deduction in the case of a citizen or resident of the United States an amount equal to the excess of—

''(1) the exemption amount determined under section 2052 for such calendar year, over

''(2) the sum of—

''(A) the aggregate amount allowed as an exemption under this section for all preceding calendar years after 2000, and

''(B) the aggregate amount of gifts for which credit was allowed by section 2505 (as in effect on the day before the date of the enactment of the Financial Freedom Act of 1999).''

(b) REPEAL OF UNIFIED CREDITS.—

(1) Section 2010 (relating to unified credit against estate tax) is hereby repealed.

(2) Section 2505 (relating to unified credit against gift tax) is hereby repealed.

(c) CONFORMING AMENDMENTS.—

(1)(A) Subparagraph (B) of section 2001(b)(1) is amended by inserting before the comma ''reduced by the amount of described in section 2052(a)(2)''.

(B) Subsection (b) of section 2001 is amended by adding at the end the following new sentence: ''For purposes of paragraph (2), the amount of the tax payable under chapter 12 shall be determined without regard to the credit provided by section 2505 (as in effect on the day before the date of the enactment of the Financial Freedom Act of 1999).''

(2) Subsection (f) of section 2011 is amended by striking '', reduced by the amount of the unified credit provided by section 2010''.

(3) Subsection (a) of section 2012 is amended by striking ''and the unified credit provided by section 2010''.

(4) Subsection (b) of section 2013 is amended by inserting before the period at the end of the first sentence ''and increased by the exemption allowed under section 2052 or 2106(a)(4) (or the corresponding provisions of prior law) in determining the taxable estate of the transferor for purposes of the estate tax''.

(5) Subparagraph (A) of section 2013(c)(1) is amended by striking ''2010,''.

(6) Paragraph (2) of section 2014(b) is amended by striking ''2010,''.

(7) Clause (ii) of section 2056A(b)(12)(C) is amended to read as follows:

''(ii) to treat any reduction in the tax imposed by paragraph (1)(A) by reason of the credit allowable under section 2010 (as in effect on the day before the date of the enactment of the Financial Freedom Act of 1999) or the exemption allowable under section 2052 with respect to the decedent as such a credit or exemption (as the case may be) allowable to such surviving spouse for purposes of determining the amount of the exemption allowable under section 2521 with respect to taxable gifts made by the surviving spouse during the year in which the spouse becomes a citizen or any subsequent year,''.

(8) Section 2102 is amended by striking subsection (c).

(9) Subsection (a) of section 2106 is amended by adding at the end the following new paragraph:

''(4) EXEMPTION.—

''(A) IN GENERAL.—An exemption of $60,000.

''(B) RESIDENTS OF POSSESSIONS OF THE UNITED STATES.—In the case of a decedent who is considered to be a nonresident not a citizen of the United States under section 2209, the exemption under this paragraph shall be the greater of—

''(i) $60,000, or

''(ii) that proportion of $175,000 which the value of that part of the decedent's gross estate which at the time of his death is situated in the United States bears to the value of his entire gross estate wherever situated.

''(C) SPECIAL RULES.—

''(i) COORDINATION WITH TREATIES.—To the extent required under any treaty obligation of the United States, the exemption allowed under this paragraph shall be equal to the amount which bears the same ratio to the exemption amount under section 2052 (for the calendar year in which the decedent died) as the value of the part of the decedent's gross estate which at the time of his death is situated in the United States bears to the value of his entire gross estate wherever situated. For purposes of the preceding sentence, property shall not be treated as situated in the United States if such property is exempt from the tax imposed by this subchapter under any treaty obligation of the United States.

''(ii) COORDINATION WITH GIFT TAX EXEMPTION AND UNIFIED CREDIT.—If an exemption has been allowed under section 2521 (or a credit has been allowed under section 2505 as in effect on the day before the date of the enactment of the Financial Freedom Act of 1999) with respect to any gift made by the decedent, each dollar amount contained in subparagraph (A) or (B) or the exemption amount applicable under clause (i) of this subparagraph (whichever applies) shall be reduced by the exemption so allowed under 2521 (or, in the case of such a credit, by the amount of the gift for which the credit was so allowed).''

(10) Subsection (c) of section 2107 is amended—

(A) by striking paragraph (1) and by redesignating paragraphs (2) and (3) as paragraphs (1) and (2), respectively, and

(B) by striking the second sentence of paragraph (2) (as so redesignated).

(11) Section 2206 is amended by striking ''the taxable estate'' in the first sentence and inserting ''the sum of the taxable estate and the amount of the exemption allowed under section 2052 or 2106(a)(4) in computing the taxable estate''.

(12) Section 2207 is amended by striking ''the taxable estate'' in the first sentence and inserting ''the sum of the taxable estate and the amount of the exemption allowed under section 2052 or 2106(a)(4) in computing the taxable estate''.

(13) Subparagraph (B) of section 2207B(a)(1) is amended to read as follows:

''(B) the sum of the taxable estate and the amount of the exemption allowed under section 2052 or 2106(a)(4) in computing the taxable estate.''

(14) Subsection (a) of section 2503 is amended by striking ''section 2522'' and inserting ''section 2521''.

(15) Paragraph (1) of section 6018(a) is amended by striking ''$600,000'' and inserting ''the exemption amount under section 2052 for the calendar year which includes the date of death''.

(16) Subparagraph (A) of section 6601(j)(2) is amended to read as follows:

''(A) the amount of the tax which would be imposed by chapter 11 on an amount of taxable estate equal to the excess of $1,000,000 over the exemption amount allowable under section 2052, or''.

(17) The table of sections for part II of subchapter A of chapter 11 is amended by striking the item relating to section 2010.

(18) The table of sections for subchapter A of chapter 12 is amended by striking the item relating to section 2505.

(d) EFFECTIVE DATE.—The amendments made by this section—

(1) insofar as they relate to the tax imposed by chapter 11 of the Internal Revenue Code of 1986, shall apply to estates of decedents dying after December 31, 2000, and

(2) insofar as they relate to the tax imposed by chapter 12 of such Code, shall apply to gifts made after December 31, 2000.

Subtitle D—Modifications of Generation-Skipping Transfer Tax

SEC. 631. DEEMED ALLOCATION OF GST EXEMPTION TO LIFETIME TRANSFERS TO TRUSTS; RETROACTIVE ALLOCATIONS.

(a) IN GENERAL.—Section 2632 (relating to special rules for allocation of GST exemption) is amended by redesignating subsection (c) as subsection (e) and by inserting after subsection (b) the following new subsections:

''(c) DEEMED ALLOCATION TO CERTAIN LIFETIME TRANSFERS TO GST TRUSTS.—

''(1) IN GENERAL.—If any individual makes an indirect skip during such individual's lifetime, any unused portion of such individual's GST exemption shall be allocated to the property transferred to the extent necessary to make the inclusion ratio for such property zero. If the amount of the indirect skip exceeds such unused portion, the entire unused portion shall be allocated to the property transferred.

''(2) UNUSED PORTION.—For purposes of paragraph (1), the unused portion of an individual's GST exemption is that portion of such exemption which has not previously been—

''(A) allocated by such individual,

''(B) treated as allocated under subsection (b) with respect to a direct skip occurring during or before the calendar year in which the indirect skip is made, or

''(C) treated as allocated under paragraph (1) with respect to a prior indirect skip.

''(3) DEFINITIONS.—

''(A) INDIRECT SKIP.—For purposes of this subsection, the term 'indirect skip' means any transfer of property (other than a direct skip) subject to the tax imposed by chapter 12 made to a GST trust.

''(B) GST TRUST.—The term 'GST trust' means a trust that could have a generation-skipping transfer with respect to the transferor unless—

''(i) the trust instrument provides that more than 25 percent of the trust corpus must be distributed to or may be withdrawn by 1 or more individuals who are non-skip persons—

''(I) before the date that the individual attains age 46,

''(II) on or before 1 or more dates specified in the trust instrument that will occur before the date that such individual attains age 46, or

''(III) upon the occurrence of an event that, in accordance with regulations prescribed by the Secretary, may reasonably be expected to occur before the date that such individual attains age 46;

''(ii) the trust instrument provides that more than 25 percent of the trust corpus must be distributed to or may be withdrawn by 1 or more individuals who are non-skip persons and who are living on the date of death of another person identified in the instrument (by name or by class) who is more than 10 years older than such individuals;

''(iii) the trust instrument provides that, if 1 or more individuals who are non-skip persons die on or before a date or event described in clause (i) or (ii), more than 25 percent of the trust corpus either must be distributed to the estate or estates of 1 or more of such individuals or is subject to a general power of appointment exercisable by 1 or more of such individuals;

''(iv) the trust is a trust any portion of which would be included in the gross estate of a non-skip person (other than the transferor) if such person died immediately after the transfer;

''(v) the trust is a charitable lead annuity trust (within the meaning of section 2642(e)(3)(A)) or a charitable remainder annuity trust or a charitable remainder unitrust (within the meaning of section 664(d)); or

''(vi) the trust is a trust with respect to which a deduction was allowed under section 2522 for the amount of an interest in the form of the right to receive annual payments of a fixed percentage of the net fair market value of the trust property (determined yearly) and which is required to pay principal to a non-skip person if such person is alive when the yearly payments for which the deduction was allowed terminate.

For purposes of this subparagraph, the value of transferred property shall not be considered to be includible in the gross estate of a non-skip person or subject to a right of withdrawal by reason of such person holding a right to withdraw so much of such property as does not exceed the amount referred to in section 2503(b) with respect to any transferor, and it shall be assumed that powers of appointment held by non-skip persons will not be exercised.

''(4) AUTOMATIC ALLOCATIONS TO CERTAIN GST TRUSTS.—For purposes of this subsection, an indirect skip to which section 2642(f) applies shall be deemed to have been made only at the close of the estate tax inclusion period. The fair market value of such transfer shall be the fair market value of the trust property at the close of the estate tax inclusion period.

''(5) APPLICABILITY AND EFFECT.—

''(A) IN GENERAL.—An individual—

''(i) may elect to have this subsection not apply to—

''(I) an indirect skip, or

''(II) any or all transfers made by such individual to a particular trust, and

''(ii) may elect to treat any trust as a GST trust for purposes of this subsection with respect to any or all transfers made by such individual to such trust.

''(B) ELECTIONS.—

''(i) ELECTIONS WITH RESPECT TO INDIRECT SKIPS.—An election under subparagraph (A)(i)(I) shall be deemed to be timely if filed on a timely filed gift tax return for the calendar year in which the transfer was made or deemed to have been made pursuant to paragraph (4) or on such later date or dates as may be prescribed by the Secretary.

''(ii) OTHER ELECTIONS.—An election under clause (i)(II) or (ii) of subparagraph (A) may be made on a timely filed gift tax return for the calendar year for which the election is to become effective.

''(d) RETROACTIVE ALLOCATIONS.—

''(1) IN GENERAL.—If—

''(A) a non-skip person has an interest or a future interest in a trust to which any transfer has been made,

''(B) such person—

''(i) is a lineal descendant of a grandparent of the transferor or of a grandparent of the transferor's spouse or former spouse, and

''(ii) is assigned to a generation below the generation assignment of the transferor, and

''(C) such person predeceases the transferor,

then the transferor may make an allocation of any of such transferor's unused GST exemption to any previous transfer or transfers to the trust on a chronological basis.

''(2) SPECIAL RULES.—If the allocation under paragraph (1) by the transferor is made on a gift tax return filed on or before the date prescribed by section 6075(b) for gifts made within the calendar year within which the non-skip person's death occurred—

''(A) the value of such transfer or transfers for purposes of section 2642(a) shall be determined as if such allocation had been made on a timely filed gift tax return for each calendar year within which each transfer was made,

''(B) such allocation shall be effective immediately before such death, and

''(C) the amount of the transferor's unused GST exemption available to be allocated shall be determined immediately before such death.

''(3) FUTURE INTEREST.—For purposes of this subsection, a person has a future interest in a trust if the trust may permit income or corpus to be paid to such person on a date or dates in the future.''.

(b) CONFORMING AMENDMENT.—Paragraph (2) of section 2632(b) is amended by striking ''with respect to a direct skip'' and inserting ''or subsection (c)(1)''.

(c) EFFECTIVE DATES.—

(1) DEEMED ALLOCATION.—Section 2632(c) of the Internal Revenue Code of 1986 (as added by subsection (a)), and the amendment made by subsection (b), shall apply to transfers subject to chapter 11 or 12 made after December 31, 1999, and to estate tax inclusion periods ending after December 31, 1999.

(2) RETROACTIVE ALLOCATIONS.—Section 2632(d) of the Internal Revenue Code of 1986 (as added by subsection (a)) shall apply to deaths of non-skip persons occurring after the date of the enactment of this Act.

SEC. 632. SEVERING OF TRUSTS.

(a) IN GENERAL.—Subsection (a) of section 2642 (relating to inclusion ratio) is amended by adding at the end the following new paragraph:

''(3) SEVERING OF TRUSTS.—

''(A) IN GENERAL.—If a trust is severed in a qualified severance, the trusts resulting from such severance shall be treated as separate trusts thereafter for purposes of this chapter.

''(B) QUALIFIED SEVERANCE.—For purposes of subparagraph (A)—

''(i) IN GENERAL.—The term 'qualified severance' means the division of a single trust and the creation (by any means available under the governing instrument or under local law) of 2 or more trusts if—

''(I) the single trust was divided on a fractional basis, and

''(II) the terms of the new trusts, in the aggregate, provide for the same succession of interests of beneficiaries as are provided in the original trust.

''(ii) TRUSTS WITH INCLUSION RATIO GREATER THAN ZERO.—If a trust has an inclusion ratio of greater than zero and less than 1, a severance is a qualified severance only if the single trust is divided into 2 trusts, one of which receives a fractional share of the total value of all trust assets equal to the applicable fraction of the single trust immediately before the severance. In such case, the trust receiving such fractional share shall have an inclusion ratio of zero and the other trust shall have an inclusion ratio of 1.

''(iii) REGULATIONS.—The term 'qualified severance' includes any other severance permitted under regulations prescribed by the Secretary.

''(C) TIMING AND MANNER OF SEVERANCES.—A severance pursuant to this paragraph may be made at any time. The Secretary shall prescribe by forms or regulations the manner in which the qualified severance shall be reported to the Secretary.''.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to severances after the date of the enactment of this Act.

SEC. 633. MODIFICATION OF CERTAIN VALUATION RULES.

(a) GIFTS FOR WHICH GIFT TAX RETURN FILED OR DEEMED ALLOCATION MADE.—Paragraph (1) of section 2642(b) (relating to valuation rules, etc.) is amended to read as follows:

''(1) GIFTS FOR WHICH GIFT TAX RETURN FILED OR DEEMED ALLOCATION MADE.—If the allocation of the GST exemption to any transfers of property is made on a gift tax return filed on or before the date prescribed by section 6075(b) for such transfer or is deemed to be made under section 2632 (b)(1) or (c)(1)—

''(A) the value of such property for purposes of subsection (a) shall be its value as finally determined for purposes of chapter 12 (within the meaning of section 2001(f)(2)), or, in the case of an allocation deemed to have been made at the close of an estate tax inclusion period, its value at the time of the close of the estate tax inclusion period, and

''(B) such allocation shall be effective on and after the date of such transfer, or, in the case of an allocation deemed to have been made at the close of an estate tax inclusion period, on and after the close of such estate tax inclusion period.''.

(b) TRANSFERS AT DEATH.—Subparagraph (A) of section 2642(b)(2) is amended to read as follows:

''(A) TRANSFERS AT DEATH.—If property is transferred as a result of the death of the transferor, the value of such property for purposes of subsection (a) shall be its value as finally determined for purposes of chapter 11; except that, if the requirements prescribed by the Secretary respecting allocation of post-death changes in value are not met, the value of such property shall be determined as of the time of the distribution concerned.''.

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect as if included in the amendments made by section 1431 of the Tax Reform Act of 1986.

SEC. 634. RELIEF PROVISIONS.

(a) IN GENERAL.—Section 2642 is amended by adding at the end the following new subsection:

''(g) RELIEF PROVISIONS.—

''(1) RELIEF FOR LATE ELECTIONS.—

''(A) IN GENERAL.—The Secretary shall by regulation prescribe such circumstances and procedures under which extensions of time will be granted to make—

''(i) an allocation of GST exemption described in paragraph (1) or (2) of subsection (b), and

''(ii) an election under subsection (b)(3) or (c)(5) of section 2632.

Such regulations shall include procedures for requesting comparable relief with respect to transfers made before the date of enactment of this paragraph.

''(B) BASIS FOR DETERMINATIONS.—In determining whether to grant relief under this paragraph, the Secretary shall take into account all relevant circumstances, including evidence of intent contained in the trust instrument or instrument of transfer and such other factors as the Secretary deems relevant. For purposes of determining whether to grant relief under this paragraph, the time for making the allocation (or election) shall be treated as if not expressly prescribed by statute.

''(2) SUBSTANTIAL COMPLIANCE.—An allocation of GST exemption under section 2632 that demonstrates an intent to have the lowest possible inclusion ratio with respect to a transfer or a trust shall be deemed to be an allocation of so much of the transferor's unused GST exemption as produces the lowest possible inclusion ratio. In determining whether there has been substantial compliance, all relevant circumstances shall be taken into account, including evidence of intent contained in the trust instrument or instrument of transfer and such other factors as the Secretary deems relevant.''.

(b) EFFECTIVE DATES.—

(1) RELIEF FOR LATE ELECTIONS.—Section 2642(g)(1) of the Internal Revenue Code of 1986 (as added by subsection (a)) shall apply to requests pending on, or filed after, the date of the enactment of this Act.

(2) SUBSTANTIAL COMPLIANCE.—Section 2642(g)(2) of such Code (as so added) shall take effect on the date of the enactment of this Act and shall apply to allocations made prior to such date for purposes of determining the tax consequences of generation-skipping transfers with respect to which the period of time for filing claims for refund has not expired. No negative implication is intended with respect to the availability of relief for late elections or the application of a rule of substantial compliance prior to the enactment of this amendment.

TITLE VII—TAX RELIEF FOR DISTRESSED COMMUNITIES AND INDUSTRIES

Subtitle A—American Community Renewal Act of 1999

SEC. 701. SHORT TITLE.

This subtitle may be cited as the ''American Community Renewal Act of 1999''.

SEC. 702. DESIGNATION OF AND TAX INCENTIVES FOR RENEWAL COMMUNITIES.

(a) IN GENERAL.—Chapter 1 is amended by adding at the end the following new subchapter:

''Subchapter X—Renewal Communities

''PART I—DESIGNATION

''SEC. 1400E. DESIGNATION OF RENEWAL COMMUNITIES.

''(a) DESIGNATION.—

''(1) DEFINITIONS.—For purposes of this title, the term 'renewal community' means any area—

''(A) which is nominated by one or more local governments and the State or States in which it is located for designation as a renewal community (hereinafter in this section referred to as a 'nominated area'); and

''(B) which the Secretary of Housing and Urban Development designates as a renewal community, after consultation with—

''(i) the Secretaries of Agriculture, Commerce, Labor, and the Treasury; the Director of the Office of Management and Budget; and the Administrator of the Small Business Administration; and

''(ii) in the case of an area on an Indian reservation, the Secretary of the Interior.

''(2) NUMBER OF DESIGNATIONS.—

''(A) IN GENERAL.—The Secretary of Housing and Urban Development may designate not more than 20 nominated areas as renewal communities.

''(B) MINIMUM DESIGNATION IN RURAL AREAS.—Of the areas designated under paragraph (1), at least 4 must be areas—

''(i) which are within a local government jurisdiction or jurisdictions with a population of less than 50,000,

''(ii) which are outside of a metropolitan statistical area (within the meaning of section 143(k)(2)(B)), or

''(iii) which are determined by the Secretary of Housing and Urban Development, after consultation with the Secretary of Commerce, to be rural areas.

''(3) AREAS DESIGNATED BASED ON DEGREE OF POVERTY, ETC.—

''(A) IN GENERAL.—Except as otherwise provided in this section, the nominated areas designated as renewal communities under this subsection shall be those nominated areas with the highest average ranking with respect to the criteria described in subparagraphs (B), (C), and (D) of subsection (c)(3). For purposes of the preceding sentence, an area shall be ranked within each such criterion on the basis of the amount by which the area exceeds such criterion, with the area which exceeds such criterion by the greatest amount given the highest ranking.

''(B) EXCEPTION WHERE INADEQUATE COURSE OF ACTION, ETC.—An area shall not be designated under subparagraph (A) if the Secretary of Housing and Urban Development determines that the course of action described in subsection (d)(2) with respect to such area is inadequate.

''(C) PRIORITY FOR EMPOWERMENT ZONES AND ENTERPRISE COMMUNITIES WITH RESPECT TO FIRST HALF OF DESIGNATIONS.—With respect to the first 10 designations made under this section—

''(i) all shall be chosen from nominated areas which are empowerment zones or enterprise communities (and are otherwise eligible for designation under this section); and

''(ii) 2 shall be areas described in paragraph (2)(B).

''(4) LIMITATION ON DESIGNATIONS.—

''(A) PUBLICATION OF REGULATIONS.—The Secretary of Housing and Urban Development shall prescribe by regulation no later than 4 months after the date of the enactment of this section, after consultation with the officials described in paragraph (1)(B)—

''(i) the procedures for nominating an area under paragraph (1)(A);

''(ii) the parameters relating to the size and population characteristics of a renewal community; and

''(iii) the manner in which nominated areas will be evaluated based on the criteria specified in subsection (d).

''(B) TIME LIMITATIONS.—The Secretary of Housing and Urban Development may designate nominated areas as renewal communities only during the 24-month period beginning on the first day of the first month following the month in which the regulations described in subparagraph (A) are prescribed.

''(C) PROCEDURAL RULES.—The Secretary of Housing and Urban Development shall not make any designation of a nominated area as a renewal community under paragraph (2) unless—

''(i) the local governments and the States in which the nominated area is located have the authority—

''(I) to nominate such area for designation as a renewal community;

''(II) to make the State and local commitments described in subsection (d); and

''(III) to provide assurances satisfactory to the Secretary of Housing and Urban Development that such commitments will be fulfilled,

''(ii) a nomination regarding such area is submitted in such a manner and in such form, and contains such information, as the Secretary of Housing and Urban Development shall by regulation prescribe; and

''(iii) the Secretary of Housing and Urban Development determines that any information furnished is reasonably accurate.

''(5) NOMINATION PROCESS FOR INDIAN RESERVATIONS.—For purposes of this subchapter, in the case of a nominated area on an Indian reservation, the reservation governing body (as determined by the Secretary of the Interior) shall be treated as being both the State and local governments with respect to such area.

''(b) PERIOD FOR WHICH DESIGNATION IS IN EFFECT.—

''(1) IN GENERAL.—Any designation of an area as a renewal community shall remain in effect during the period beginning on the date of the designation and ending on the earliest of—

''(A) December 31, 2007,

''(B) the termination date designated by the State and local governments in their nomination, or

''(C) the date the Secretary of Housing and Urban Development revokes such designation.

''(2) REVOCATION OF DESIGNATION.—The Secretary of Housing and Urban Development may revoke the designation under this section of an area if such Secretary determines that the local government or the State in which the area is located—

''(A) has modified the boundaries of the area, or

''(B) is not complying substantially with, or fails to make progress in achieving, the State or local commitments, respectively, described in subsection (d).

''(c) AREA AND ELIGIBILITY REQUIREMENTS.—

''(1) IN GENERAL.—The Secretary of Housing and Urban Development may designate a nominated area as a renewal community under subsection (a) only if the area meets the requirements of paragraphs (2) and (3) of this subsection.

''(2) AREA REQUIREMENTS.—A nominated area meets the requirements of this paragraph if—

''(A) the area is within the jurisdiction of one or more local governments;

''(B) the boundary of the area is continuous; and

''(C) the area—

''(i) has a population, of at least—

''(I) 4,000 if any portion of such area (other than a rural area described in subsection (a)(2)(B)(i)) is located within a metropolitan statistical area (within the meaning of section 143(k)(2)(B)) which has a population of 50,000 or greater; or

''(II) 1,000 in any other case; or

''(ii) is entirely within an Indian reservation (as determined by the Secretary of the Interior).

''(3) ELIGIBILITY REQUIREMENTS.—A nominated area meets the requirements of this paragraph if the State and the local governments in which it is located certify (and the Secretary of Housing and Urban Development, after such review of supporting data as he deems appropriate, accepts such certification) that—

''(A) the area is one of pervasive poverty, unemployment, and general distress;

''(B) the unemployment rate in the area, as determined by the most recent available data, was at least 1½ times the national unemployment rate for the period to which such data relate;

''(C) the poverty rate for each population census tract within the nominated area is at least 20 percent; and

''(D) in the case of an urban area, at least 70 percent of the households living in the area have incomes below 80 percent of the median income of households within the jurisdiction of the local government (determined in the same manner as under section 119(b)(2) of the Housing and Community Development Act of 1974).

''(4) CONSIDERATION OF HIGH INCIDENCE OF CRIME.—The Secretary of Housing and Urban Development shall take into account, in selecting nominated areas for designation as renewal communities under this section, the extent to which such areas have a high incidence of crime.

''(5) CONSIDERATION OF COMMUNITIES IDENTIFIED IN GAO STUDY.—The Secretary of Housing and Urban Development shall take into account, in selecting nominated areas for designation as renewal communities under this section, if the area has census tracts identified in the May 12, 1998, report of the Government Accounting Office regarding the identification of economically distressed areas.

''(d) REQUIRED STATE AND LOCAL COMMITMENTS.—

''(1) IN GENERAL.—The Secretary of Housing and Urban Development may designate any nominated area as a renewal community under subsection (a) only if—

''(A) the local government and the State in which the area is located agree in writing that, during any period during which the area is a renewal community, such governments will follow a specified course of action which meets the requirements of paragraph (2) and is designed to reduce the various burdens borne by employers or employees in such area; and

''(B) the economic growth promotion requirements of paragraph (3) are met.

''(2) COURSE OF ACTION.—

''(A) IN GENERAL.—A course of action meets the requirements of this paragraph if such course of action is a written document, signed by a State (or local government) and neighborhood organizations, which evidences a partnership between such State or government and community-based organizations and which commits each signatory to specific and measurable goals, actions, and timetables. Such course of action shall include at least five of the following:

''(i) A reduction of tax rates or fees applying within the renewal community.

''(ii) An increase in the level of efficiency of local services within the renewal community.

''(iii) Crime reduction strategies, such as crime prevention (including the provision of such services by nongovernmental entities).

''(iv) Actions to reduce, remove, simplify, or streamline governmental requirements applying within the renewal community.

''(v) Involvement in the program by private entities, organizations, neighborhood organizations, and community groups, particularly those in the renewal community, including a commitment from such private entities to provide jobs and job training for, and technical, financial, or other assistance to, employers, employees, and residents from the renewal community.

''(vi) State or local income tax benefits for fees paid for services performed by a nongovernmental entity which were formerly performed by a governmental entity.

''(vii) The gift (or sale at below fair market value) of surplus real property (such as land, homes, and commercial or industrial structures) in the renewal community to neighborhood organizations, community development corporations, or private companies.

''(B) RECOGNITION OF PAST EFFORTS.—For purposes of this section, in evaluating the course of action agreed to by any State or local government, the Secretary of Housing and Urban Development shall take into account the past efforts of such State or local government in reducing the various burdens borne by employers and employees in the area involved.

''(3) ECONOMIC GROWTH PROMOTION REQUIREMENTS.—The economic growth promotion requirements of this paragraph are met with respect to a nominated area if the local government and the State in which such area is located certify in writing that such government and State, respectively, have repealed or otherwise will not enforce within the area, if such area is designated as a renewal community—

''(A) licensing requirements for occupations that do not ordinarily require a professional degree;

''(B) zoning restrictions on home-based businesses which do not create a public nuisance;

''(C) permit requirements for street vendors who do not create a public nuisance;

''(D) zoning or other restrictions that impede the formation of schools or child care centers; and

''(E) franchises or other restrictions on competition for businesses providing public services, including but not limited to taxicabs, jitneys, cable television, or trash hauling,

except to the extent that such regulation of businesses and occupations is necessary for and well-tailored to the protection of health and safety.

''(e) COORDINATION WITH TREATMENT OF EMPOWERMENT ZONES AND ENTERPRISE COMMUNITIES.—For purposes of this title, if there are in effect with respect to the same area both—

''(1) a designation as a renewal community; and

''(2) a designation as an empowerment zone or enterprise community,

both of such designations shall be given full effect with respect to such area.

''(f) DEFINITIONS AND SPECIAL RULES.—For purposes of this subchapter—

''(1) GOVERNMENTS.—If more than one government seeks to nominate an area as a renewal community, any reference to, or requirement of, this section shall apply to all such governments.

''(2) STATE.—The term 'State' includes Puerto Rico, the Virgin Islands of the United States, Guam, American Samoa, the Northern Mariana Islands, and any other possession of the United States.

''(3) LOCAL GOVERNMENT.—The term 'local government' means—

''(A) any county, city, town, township, parish, village, or other general purpose political subdivision of a State;

''(B) any combination of political subdivisions described in subparagraph (A) recognized by the Secretary of Housing and Urban Development; and

''(C) the District of Columbia.

''(4) APPLICATION OF RULES RELATING TO CENSUS TRACTS AND CENSUS DATA.—The rules of sections 1392(b)(4) and 1393(a)(9) shall apply.

''PART II—RENEWAL COMMUNITY CAPITAL GAIN; RENEWAL COMMUNITY BUSINESS

''SEC. 1400F. RENEWAL COMMUNITY CAPITAL GAIN.

''(a) GENERAL RULE.—Gross income does not include any qualified capital gain recognized on the sale or exchange of a qualified community asset held for more than 5 years.

''(b) QUALIFIED COMMUNITY ASSET.—For purposes of this section—

''(1) IN GENERAL.—The term 'qualified community asset' means—

''(A) any qualified community stock;

''(B) any qualified community partnership interest; and

''(C) any qualified community business property.

''(2) QUALIFIED COMMUNITY STOCK.—

''(A) IN GENERAL.—Except as provided in subparagraph (B), the term 'qualified community stock' means any stock in a domestic corporation if—

''(i) such stock is acquired by the taxpayer after December 31, 2000, and before January 1, 2008, at its original issue (directly or through an underwriter) from the corporation solely in exchange for cash;

''(ii) as of the time such stock was issued, such corporation was a renewal community business (or, in the case of a new corporation, such corporation was being organized for purposes of being a renewal community business); and

''(iii) during substantially all of the taxpayer's holding period for such stock, such corporation qualified as a renewal community business.

''(B) REDEMPTIONS.—A rule similar to the rule of section 1202(c)(3) shall apply for purposes of this paragraph.

''(3) QUALIFIED COMMUNITY PARTNERSHIP INTEREST.—The term 'qualified community partnership interest' means any capital or profits interest in a domestic partnership if—

''(A) such interest is acquired by the taxpayer after December 31, 2000, and before January 1, 2008;

''(B) as of the time such interest was acquired, such partnership was a renewal community business (or, in the case of a new partnership, such partnership was being organized for purposes of being a renewal community business); and

''(C) during substantially all of the taxpayer's holding period for such interest, such partnership qualified as a renewal community business.

A rule similar to the rule of paragraph (2)(B) shall apply for purposes of this paragraph.

''(4) QUALIFIED COMMUNITY BUSINESS PROPERTY.—

''(A) IN GENERAL.—The term 'qualified community business property' means tangible property if—

''(i) such property was acquired by the taxpayer by purchase (as defined in section 179(d)(2)) after December 31, 2000, and before January 1, 2008;

''(ii) the original use of such property in the renewal community commences with the taxpayer; and

''(iii) during substantially all of the taxpayer's holding period for such property, substantially all of the use of such property was in a renewal community business of the taxpayer.

''(B) SPECIAL RULE FOR SUBSTANTIAL IMPROVEMENTS.—The requirements of clauses (i) and (ii) of subparagraph (A) shall be treated as satisfied with respect to—

''(i) property which is substantially improved (within the meaning of section 1400B(b)(4)(B)(ii)) by the taxpayer before January 1, 2008; and

''(ii) any land on which such property is located.

''(c) CERTAIN RULES TO APPLY.—Rules similar to the rules of paragraphs (5), (6), and (7) of subsection (b), and subsections (e), (f), and (g), of section 1400B shall apply for purposes of this section.

''SEC. 1400G. RENEWAL COMMUNITY BUSINESS DEFINED.

''For purposes of this part, the term 'renewal community business' means any entity or proprietorship which would be a qualified business entity or qualified proprietorship under section 1397B if—

''(1) references to renewal communities were substituted for references to empowerment zones in such section; and

''(2) '80 percent' were substituted for '50 percent' in subsections (b)(2) and (c)(1) of such section.

''PART III—FAMILY DEVELOPMENT ACCOUNTS

''SEC. 1400H. FAMILY DEVELOPMENT ACCOUNTS FOR RENEWAL COMMUNITY EITC RECIPIENTS.

''(a) ALLOWANCE OF DEDUCTION.—

''(1) IN GENERAL.—There shall be allowed as a deduction—

''(A) in the case of a qualified individual, the amount paid in cash for the taxable year by such individual to any family development account for such individual's benefit; and

''(B) in the case of any person other than a qualified individual, the amount paid in cash for the taxable year by such person to any family development account for the benefit of a qualified individual but only if the amount so paid is designated for purposes of this section by such individual.

No deduction shall be allowed under this paragraph for any amount deposited in a family development account under section 1400I (relating to demonstration program to

provide matching amounts in renewal communities).

''(2) LIMITATION.—

''(A) IN GENERAL.—The amount allowable as a deduction to any individual for any taxable year by reason of paragraph (1)(A) shall not exceed the lesser of—

''(i) $2,000, or

''(ii) an amount equal to the compensation includible in the individual's gross income for such taxable year.

''(B) PERSONS DONATING TO FAMILY DEVELOPMENT ACCOUNTS OF OTHERS.—The amount which may be designated under paragraph (1)(B) by any qualified individual for any taxable year of such individual shall not exceed $1,000.

''(3) SPECIAL RULES FOR CERTAIN MARRIED INDIVIDUALS.—Rules similar to rules of section 219(c) shall apply to the limitation in paragraph (2)(A).

''(4) COORDINATION WITH IRAS.—No deduction shall be allowed under this section for any taxable year to any person by reason of a payment to an account for the benefit of a qualified individual if any amount is paid for such taxable year into an individual retirement account (including a Roth IRA) for the benefit of such individual.

''(5) ROLLOVERS.—No deduction shall be allowed under this section with respect to any rollover contribution.

''(b) TAX TREATMENT OF DISTRIBUTIONS.—

''(1) INCLUSION OF AMOUNTS IN GROSS INCOME.—Except as otherwise provided in this subsection, any amount paid or distributed out of a family development account shall be included in gross income by the payee or distributee, as the case may be.

''(2) EXCLUSION OF QUALIFIED FAMILY DEVELOPMENT DISTRIBUTIONS.—Paragraph (1) shall not apply to any qualified family development distribution.

''(c) QUALIFIED FAMILY DEVELOPMENT DISTRIBUTION.—For purposes of this section—

''(1) IN GENERAL.—The term 'qualified family development distribution' means any amount paid or distributed out of a family development account which would otherwise be includible in gross income, to the extent that such payment or distribution is used exclusively to pay qualified family development expenses for the holder of the account or the spouse or dependent (as defined in section 152) of such holder.

''(2) QUALIFIED FAMILY DEVELOPMENT EXPENSES.—The term 'qualified family development expenses' means any of the following:

''(A) Qualified higher education expenses.

''(B) Qualified first-time homebuyer costs.

''(C) Qualified business capitalization costs.

''(D) Qualified medical expenses.

''(E) Qualified rollovers.

''(3) QUALIFIED HIGHER EDUCATION EXPENSES.—

''(A) IN GENERAL.—The term 'qualified higher education expenses' has the meaning given such term by section 72(t)(7), determined by treating postsecondary vocational educational schools as eligible educational institutions.

''(B) POSTSECONDARY VOCATIONAL EDUCATION SCHOOL.—The term 'postsecondary vocational educational school' means an area vocational education school (as defined in subparagraph (C) or (D) of section 521(4) of the Carl D. Perkins Vocational and Applied Technology Education Act (20 U.S.C. 2471(4))) which is in any State (as defined in section 521(33) of such Act), as such sections are in effect on the date of the enactment of this section.

''(C) COORDINATION WITH OTHER BENEFITS.—The amount of qualified higher education expenses for any taxable year shall be reduced as provided in section 25A(g)(2).

''(4) QUALIFIED FIRST-TIME HOMEBUYER COSTS.—The term 'qualified first-time homebuyer costs' means qualified acquisition costs (as defined in section 72(t)(8) without regard to subparagraph (B) thereof) with respect to a principal residence (within the meaning of section 121) for a qualified first-time homebuyer (as defined in section 72(t)(8)).

''(5) QUALIFIED BUSINESS CAPITALIZATION COSTS.—

''(A) IN GENERAL.—The term 'qualified business capitalization costs' means qualified expenditures for the capitalization of a qualified business pursuant to a qualified plan.

''(B) QUALIFIED EXPENDITURES.—The term 'qualified expenditures' means expenditures included in a qualified plan, including capital, plant, equipment, working capital, and inventory expenses.

''(C) QUALIFIED BUSINESS.—The term 'qualified business' means any trade or business other than any trade or business—

''(i) which consists of the operation of any facility described in section 144(c)(6)(B), or

''(ii) which contravenes any law.

''(D) QUALIFIED PLAN.—The term 'qualified plan' means a business plan which meets such requirements as the Secretary may specify.

''(6) QUALIFIED MEDICAL EXPENSES.—The term 'qualified medical expenses' means any amount paid during the taxable year, not compensated for by insurance or otherwise, for medical care (as defined in section 213(d)) of the taxpayer, his spouse, or his dependent (as defined in section 152).

''(7) QUALIFIED ROLLOVERS.—The term 'qualified rollover' means any amount paid from a family development account of a taxpayer into another such account established for the benefit of—

''(A) such taxpayer, or

''(B) any qualified individual who is—

''(i) the spouse of such taxpayer, or

''(ii) any dependent (as defined in section 152) of the taxpayer.

Rules similar to the rules of section 408(d)(3) shall apply for purposes of this paragraph.

''(d) TAX TREATMENT OF ACCOUNTS.—

''(1) IN GENERAL.—Any family development account is exempt from taxation under this subtitle unless such account has ceased to be a family development account by reason of paragraph (2). Notwithstanding the preceding sentence, any such account is subject to the taxes imposed by section 511 (relating to imposition of tax on unrelated business income of charitable, etc., organizations). Notwithstanding any other provision of this title (including chapters 11 and 12), the basis of any person in such an account is zero.

''(2) LOSS OF EXEMPTION IN CASE OF PROHIBITED TRANSACTIONS.—For purposes of this section, rules similar to the rules of section 408(e) shall apply.

''(3) OTHER RULES TO APPLY.—Rules similar to the rules of paragraphs (4), (5), and (6) of section 408(d) shall apply for purposes of this section.

''(e) FAMILY DEVELOPMENT ACCOUNT.—For purposes of this title, the term 'family development account' means a trust created or organized in the United States for the exclusive benefit of a qualified individual or his beneficiaries, but only if the written governing instrument creating the trust meets the following requirements:

''(1) Except in the case of a qualified rollover (as defined in subsection (c)(7))—

''(A) no contribution will be accepted unless it is in cash; and

''(B) contributions will not be accepted for the taxable year in excess of $3,000 (determined without regard to any contribution made under section 1400I (relating to demonstration program to provide matching amounts in renewal communities)).

''(2) The requirements of paragraphs (2) through (6) of section 408(a) are met.

''(f) QUALIFIED INDIVIDUAL.—For purposes of this section, the term 'qualified individual' means, for any taxable year, an individual—

''(1) who is a bona fide resident of a renewal community throughout the taxable year; and

''(2) to whom a credit was allowed under section 32 for the preceding taxable year.

''(g) OTHER DEFINITIONS AND SPECIAL RULES.—

''(1) COMPENSATION.—The term 'compensation' has the meaning given such term by section 219(f)(1).

''(2) MARRIED INDIVIDUALS.—The maximum deduction under subsection (a) shall be computed separately for each individual, and this section shall be applied without regard to any community property laws.

''(3) TIME WHEN CONTRIBUTIONS DEEMED MADE.—For purposes of this section, a taxpayer shall be deemed to have made a contribution to a family development account on the last day of the preceding taxable year if the contribution is made on account of such taxable year and is made not later than the time prescribed by law for filing the return for such taxable year (not including extensions thereof).

''(4) EMPLOYER PAYMENTS; CUSTODIAL ACCOUNTS.—Rules similar to the rules of sections 219(f)(5) and 408(h) shall apply for purposes of this section.

''(5) REPORTS.—The trustee of a family development account shall make such reports regarding such account to the Secretary and to the individual for whom the account is maintained with respect to contributions (and the years to which they relate), distributions, and such other matters as the Secretary may require under regulations. The reports required by this paragraph—

''(A) shall be filed at such time and in such manner as the Secretary prescribes in such regulations; and

''(B) shall be furnished to individuals—

''(i) not later than January 31 of the calendar year following the calendar year to which such reports relate; and

''(ii) in such manner as the Secretary prescribes in such regulations.

''(6) INVESTMENT IN COLLECTIBLES TREATED AS DISTRIBUTIONS.—Rules similar to the rules of section 408(m) shall apply for purposes of this section.

''(h) PENALTY FOR DISTRIBUTIONS NOT USED FOR QUALIFIED FAMILY DEVELOPMENT EXPENSES.—

''(1) IN GENERAL.—If any amount is distributed from a family development account and is not used exclusively to pay qualified family development expenses for the holder of the account or the spouse or dependent (as defined in section 152) of such holder, the tax imposed by this chapter for the taxable year of such distribution shall be increased by the sum of—

''(A) 100 percent of the portion of such amount which is includible in gross income and is attributable to amounts contributed under section 1400I (relating to demonstration program to provide matching amounts in renewal communities); and

''(B) 10 percent of the portion of such amount which is includible in gross income and is not described in subparagraph (A).

For purposes of this subsection, distributions which are includable in gross income shall be treated as attributable to amounts contributed under section 1400I to the extent thereof. For purposes of the preceding sentence, all family development accounts of an individual shall be treated as one account.

''(2) EXCEPTION FOR CERTAIN DISTRIBUTIONS.—Paragraph (1) shall not apply to distributions which are—

''(A) made on or after the date on which the account holder attains age 59½,

''(B) made to a beneficiary (or the estate of the account holder) on or after the death of the account holder, or

''(C) attributable to the account holder's being disabled within the meaning of section 72(m)(7).

''(i) APPLICATION OF SECTION.—This section shall apply to amounts paid to a family development account for any taxable year beginning after December 31, 2000, and before January 1, 2008.

"SEC. 1400I. DEMONSTRATION PROGRAM TO PROVIDE MATCHING CONTRIBUTIONS TO FAMILY DEVELOPMENT ACCOUNTS IN CERTAIN RENEWAL COMMUNITIES.

''(a) DESIGNATION.—

''(1) DEFINITIONS.—For purposes of this section, the term 'FDA matching demonstration area' means any renewal community—

''(A) which is nominated under this section by each of the local governments and States which nominated such community for designation as a renewal community under section 1400E(a)(1)(A); and

''(B) which the Secretary of Housing and Urban Development designates as an FDA matching demonstration area after consultation with—

''(i) the Secretaries of Agriculture, Commerce, Labor, and the Treasury, the Director of the Office of Management and Budget, and the Administrator of the Small Business Administration; and

''(ii) in the case of a community on an Indian reservation, the Secretary of the Interior.

''(2) NUMBER OF DESIGNATIONS.—

''(A) IN GENERAL.—The Secretary of Housing and Urban Development may designate not more than 5 renewal communities as FDA matching demonstration areas.

''(B) MINIMUM DESIGNATION IN RURAL AREAS.—Of the areas designated under subparagraph (A), at least 2 must be areas described in section 1400E(a)(2)(B).

''(3) LIMITATIONS ON DESIGNATIONS.—

''(A) PUBLICATION OF REGULATIONS.—The Secretary of Housing and Urban Development shall prescribe by regulation no later than 4 months after the date of the enactment of this section, after consultation with the officials described in paragraph (1)(B)—

''(i) the procedures for nominating a renewal community under paragraph (1)(A) (including procedures for coordinating such nomination with the nomination of an area for designation as a renewal community under section 1400E); and

''(ii) the manner in which nominated renewal communities will be evaluated for purposes of this section.

''(B) TIME LIMITATIONS.—The Secretary of Housing and Urban Development may designate renewal communities as FDA matching demonstration areas only during the 24-month period beginning on the first day of the first month following the month in which the regulations described in subparagraph (A) are prescribed.

''(4) DESIGNATION BASED ON DEGREE OF POVERTY, ETC.—The rules of section 1400E(a)(3) shall apply for purposes of designations of FDA matching demonstration areas under this section.

''(b) PERIOD FOR WHICH DESIGNATION IS IN EFFECT.—Any designation of a renewal community as an FDA matching demonstration area shall remain in effect during the period beginning on the date of such designation and ending on the date on which such area ceases to be a renewal community.

''(c) MATCHING CONTRIBUTIONS TO FAMILY DEVELOPMENT ACCOUNTS.—

''(1) IN GENERAL.—Not less than once each taxable year, the Secretary shall deposit (to the extent provided in appropriation Acts) into a family development account of each qualified individual (as defined in section 1400H(f))—

''(A) who is a resident throughout the taxable year of an FDA matching demonstration area; and

''(B) who requests (in such form and manner as the Secretary prescribes) such deposit for the taxable year,

an amount equal to the sum of the amounts deposited into all of the family development accounts of such individual during such taxable year (determined without regard to any amount contributed under this section).

''(2) LIMITATIONS.—

''(A) ANNUAL LIMIT.—The Secretary shall not deposit more than $1000 under paragraph (1) with respect to any individual for any taxable year.

''(B) AGGREGATE LIMIT.—The Secretary shall not deposit more than $2000 under paragraph (1) with respect to any individual for all taxable years.

''(3) EXCLUSION FROM INCOME.—Except as provided in section 1400H, gross income shall not include any amount deposited into a family development account under paragraph (1).

''(d) NOTICE OF PROGRAM.—The Secretary shall provide appropriate notice to residents of FDA matching demonstration areas of the availability of the benefits under this section.

''(e) TERMINATION.—No amount may be deposited under this section for any taxable year beginning after December 31, 2007.

"SEC. 1400J. DESIGNATION OF EARNED INCOME TAX CREDIT PAYMENTS FOR DEPOSIT TO FAMILY DEVELOPMENT ACCOUNT.

''(a) IN GENERAL.—With respect to the return of any qualified individual (as defined in section 1400H(f)) for the taxable year of the tax imposed by this chapter, such individual may designate that a specified portion (not less than $1) of any overpayment of tax for such taxable year which is attributable to the earned income tax credit shall be deposited by the Secretary into a family development account of such individual. The Secretary shall so deposit such portion designated under this subsection.

''(b) MANNER AND TIME OF DESIGNATION.—A designation under subsection (a) may be made with respect to any taxable year—

''(1) at the time of filing the return of the tax imposed by this chapter for such taxable year, or

''(2) at any other time (after the time of filing the return of the tax imposed by this chapter for such taxable year) specified in regulations prescribed by the Secretary.

Such designation shall be made in such manner as the Secretary prescribes by regulations.

''(c) PORTION ATTRIBUTABLE TO EARNED INCOME TAX CREDIT.—For purposes of subsection (a), an overpayment for any taxable year shall be treated as attributable to the earned income tax credit to the extent that such overpayment does not exceed the credit allowed to the taxpayer under section 32 for such taxable year.

''(d) OVERPAYMENTS TREATED AS REFUNDED.—For purposes of this title, any portion of an overpayment of tax designated under subsection (a) shall be treated as being refunded to the taxpayer as of the last date prescribed for filing the return of tax imposed by this chapter (determined without regard to extensions) or, if later, the date the return is filed.

''(e) TERMINATION.—This section shall not apply to any taxable year beginning after December 31, 2007.

"PART IV—ADDITIONAL INCENTIVES

"SEC. 1400K. COMMERCIAL REVITALIZATION DEDUCTION.

''(a) GENERAL RULE.—At the election of the taxpayer, either—

''(1) one-half of any qualified revitalization expenditures chargeable to capital account with respect to any qualified revitalization building shall be allowable as a deduction for the taxable year in which the building is placed in service, or

''(2) a deduction for all such expenditures shall be allowable ratably over the 120-month period beginning with the month in which the building is placed in service.

The deduction provided by this section with respect to such expenditure shall be in lieu of any depreciation deduction otherwise allowable on account of such expenditure.

''(b) QUALIFIED REVITALIZATION BUILDINGS AND EXPENDITURES.—For purposes of this section—

''(1) QUALIFIED REVITALIZATION BUILDING.—The term 'qualified revitalization building' means any building (and its structural components) if—

''(A) such building is located in a renewal community and is placed in service after December 31, 2000;

''(B) a commercial revitalization deduction amount is allocated to the building under subsection (d); and

''(C) depreciation (or amortization in lieu of depreciation) is allowable with respect to the building (without regard to this section).

''(2) QUALIFIED REVITALIZATION EXPENDITURE.—

''(A) IN GENERAL.—The term 'qualified revitalization expenditure' means any amount properly chargeable to capital account—

''(i) for property for which depreciation is allowable under section 168 (without regard to this section) and which is—

''(I) nonresidential real property; or

''(II) an addition or improvement to property described in subclause (I);

''(ii) in connection with the construction of any qualified revitalization building which was not previously placed in service or in connection with the substantial rehabilitation (within the meaning of section 47(c)(1)(C)) of a building which was placed in service before the beginning of such rehabilitation; and

''(iii) for land (including land which is functionally related to such property and subordinate thereto).

''(B) DOLLAR LIMITATION.—The aggregate amount which may be treated as qualified revitalization expenditures with respect to any qualified revitalization building for any taxable year shall not exceed the excess of—

''(i) $10,000,000, reduced by

''(ii) any such expenditures with respect to the building taken into account by the taxpayer or any predecessor in determining the amount of the deduction under this section for all preceding taxable years.

''(C) CERTAIN EXPENDITURES NOT INCLUDED.—The term 'qualified revitalization expenditure' does not include—

''(i) ACQUISITION COSTS.—The costs of acquiring any building or interest therein and any land in connection with such building to the extent that such costs exceed 30 percent of the qualified revitalization expenditures determined without regard to this clause.

''(ii) CREDITS.—Any expenditure which the taxpayer may take into account in computing any credit allowable under this title unless the taxpayer elects to take the expenditure into account only for purposes of this section.

''(c) WHEN EXPENDITURES TAKEN INTO ACCOUNT.—Qualified revitalization expenditures with respect to any qualified revitalization building shall be taken into account for the taxable year in which the qualified revitalization building is placed in service. For purposes of the preceding sentence, a substantial rehabilitation of a building shall be treated as a separate building.

''(d) LIMITATION ON AGGREGATE DEDUCTIONS ALLOWABLE WITH RESPECT TO BUILDINGS LOCATED IN A STATE.—

''(1) IN GENERAL.—The amount of the deduction determined under this section for any taxable year with respect to any building shall not exceed the commercial revitalization deduction amount (in the case of an amount determined under subsection (a)(2), the present value of such amount as determined under the rules of section 42(b)(2)(C) by substituting '100 percent' for '72 percent' in clause (ii) thereof) allocated to such building under this subsection by the commercial revitalization agency. Such allocation shall be made at the same time and in the same manner as under paragraphs (1) and (7) of section 42(h).

''(2) COMMERCIAL REVITALIZATION DEDUCTION AMOUNT FOR AGENCIES.—

''(A) IN GENERAL.—The aggregate commercial revitalization deduction amount which a commercial revitalization agency may allocate for any calendar year is the amount of the State commercial revitalization deduction ceiling determined under this paragraph for such calendar year for such agency.

''(B) STATE COMMERCIAL REVITALIZATION DEDUCTION CEILING.—The State commercial revitalization deduction ceiling applicable to any State—

''(i) for each calendar year after 2000 and before 2008 is $6,000,000 for each renewal community in the State; and

''(ii) zero for each calendar year thereafter.

''(C) COMMERCIAL REVITALIZATION AGENCY.—For purposes of this section, the term 'commercial revitalization agency' means any agency authorized by a State to carry out this section.

''(e) RESPONSIBILITIES OF COMMERCIAL REVITALIZATION AGENCIES.—

''(1) PLANS FOR ALLOCATION.—Notwithstanding any other provision of this section, the commercial revitalization deduction amount with respect to any building shall be zero unless—

''(A) such amount was allocated pursuant to a qualified allocation plan of the commercial revitalization agency which is approved (in accordance with rules similar to the rules of section 147(f)(2) (other than subparagraph (B)(ii) thereof)) by the governmental unit of which such agency is a part; and

''(B) such agency notifies the chief executive officer (or its equivalent) of the local jurisdiction within which the building is located of such allocation and provides such individual a reasonable opportunity to comment on the allocation.

''(2) QUALIFIED ALLOCATION PLAN.—For purposes of this subsection, the term 'qualified allocation plan' means any plan—

''(A) which sets forth selection criteria to be used to determine priorities of the commercial revitalization agency which are appropriate to local conditions;

''(B) which considers—

''(i) the degree to which a project contributes to the implementation of a strategic plan that is devised for a renewal community through a citizen participation process;

''(ii) the amount of any increase in permanent, full-time employment by reason of any project; and

''(iii) the active involvement of residents and nonprofit groups within the renewal community; and

''(C) which provides a procedure that the agency (or its agent) will follow in monitoring compliance with this section.

''(f) REGULATIONS.—For purposes of this section, the Secretary shall, by regulations, provide for the application of rules similar to the rules of section 49 and subsections (a) and (b) of section 50.

''(g) TERMINATION.—This section shall not apply to any building placed in service after December 31, 2007.

''SEC. 1400L. INCREASE IN EXPENSING UNDER SECTION 179.

''(a) GENERAL RULE.—In the case of a renewal community business (as defined in section 1400G), for purposes of section 179—

''(1) the limitation under section 179(b)(1) shall be increased by the lesser of—

''(A) $35,000; or

''(B) the cost of section 179 property which is qualified renewal property placed in service during the taxable year; and

''(2) the amount taken into account under section 179(b)(2) with respect to any section 179 property which is qualified renewal property shall be 50 percent of the cost thereof.

''(b) RECAPTURE.—Rules similar to the rules under section 179(d)(10) shall apply with respect to any qualified renewal property which ceases to be used in a renewal community by a renewal community business.

''(c) QUALIFIED RENEWAL PROPERTY.—For purposes of this section—

''(1) IN GENERAL.—The term 'qualified renewal property' means any property to which section 168 applies (or would apply but for section 179) if—

''(A) such property was acquired by the taxpayer by purchase (as defined in section 179(d)(2)) after December 31, 2000, and before January 1, 2008; and

''(B) such property would be qualified zone property (as defined in section 1397C) if references to renewal communities were substituted for references to empowerment zones in section 1397C.

''(2) CERTAIN RULES TO APPLY.—The rules of subsections (a)(2) and (b) of section 1397C shall apply for purposes of this section.''.

SEC. 703. EXTENSION OF EXPENSING OF ENVIRONMENTAL REMEDIATION COSTS TO RENEWAL COMMUNITIES.

(a) EXTENSION.—Paragraph (2) of section 198(c) (defining targeted area) is amended by redesignating subparagraph (C) as subparagraph (D) and by inserting after subparagraph (B) the following new subparagraph:

''(C) RENEWAL COMMUNITIES INCLUDED.—Except as provided in subparagraph (B), such term shall include a renewal community (as defined in section 1400E) with respect to expenditures paid or incurred after December 31, 2000.''.

(b) EXTENSION OF TERMINATION DATE FOR RENEWAL COMMUNITIES.—Subsection (h) of section 198 is amended by inserting before the period ''(December 31, 2007, in the case of a renewal community, as defined in section 1400E).''.

SEC. 704. EXTENSION OF WORK OPPORTUNITY TAX CREDIT FOR RENEWAL COMMUNITIES

(a) EXTENSION.—Subsection (c) of section 51 (relating to termination) is amended by adding at the end the following new paragraph:

''(5) EXTENSION OF CREDIT FOR RENEWAL COMMUNITIES.—

''(A) IN GENERAL.—In the case of an individual who begins work for the employer after the date contained in paragraph (4)(B), for purposes of section 38—

''(i) in lieu of applying subsection (a), the amount of the work opportunity credit determined under this section for the taxable year shall be equal to—

''(I) 15 percent of the qualified first-year wages for such year; and

''(II) 30 percent of the qualified second-year wages for such year;

''(ii) subsection (b)(3) shall be applied by substituting '$10,000' for '$6,000';

''(iii) paragraph (4)(B) shall be applied by substituting for the date contained therein the last day for which the designation under section 1400E of the renewal community referred to in subparagraph (B)(i) is in effect; and

''(iv) rules similar to the rules of section 51A(b)(5)(C) shall apply.

''(B) QUALIFIED FIRST- AND SECOND-YEAR WAGES.—For purposes of subparagraph (A)—

''(i) IN GENERAL.—The term 'qualified wages' means, with respect to each 1-year period referred to in clause (ii) or (iii), as the case may be, the wages paid or incurred by the employer during the taxable year to any individual but only if—

''(I) the employer is engaged in a trade or business in a renewal community throughout such 1-year period;

''(II) the principal place of abode of such individual is in such renewal community throughout such 1-year period; and

''(III) substantially all of the services which such individual performs for the employer during such 1-year period are performed in such renewal community.

''(ii) QUALIFIED FIRST-YEAR WAGES.—The term 'qualified first-year wages' means, with respect to any individual, qualified wages attributable to service rendered during the 1-year period beginning with the day the individual begins work for the employer.

''(iii) QUALIFIED SECOND-YEAR WAGES.—The term 'qualified second-year wages' means, with respect to any individual, qualified wages attributable to service rendered during the 1-year period beginning on the day after the last day of the 1-year period with respect to such individual determined under clause (ii).''.

(b) CONGRUENT TREATMENT OF RENEWAL COMMUNITIES AND ENTERPRISE ZONES FOR PURPOSES OF YOUTH RESIDENCE REQUIREMENTS.—

(1) HIGH-RISK YOUTH.—Subparagraphs (A)(ii) and (B) of section 51(d)(5) are each amended by striking ''empowerment zone or enterprise community'' and inserting ''empowerment zone, enterprise community, or renewal community''.

(2) QUALIFIED SUMMER YOUTH EMPLOYEE.—Clause (iv) of section 51(d)(7)(A) is amended by striking ''empowerment zone or enterprise community'' and inserting ''empowerment zone, enterprise community, or renewal community''.

(3) HEADINGS.—Paragraphs (5)(B) and (7)(C) of section 51(d) are each amended by inserting ''OR COMMUNITY'' in the heading after ''ZONE''.

(4) EFFECTIVE DATE.—The amendments made by this subsection shall apply to individuals who begin work for the employer after December 31, 2000.

SEC. 705. CONFORMING AND CLERICAL AMENDMENTS.

(a) DEDUCTION FOR CONTRIBUTIONS TO FAMILY DEVELOPMENT ACCOUNTS ALLOWABLE WHETHER OR NOT TAXPAYER ITEMIZES.—Subsection (a) of section 62 (relating to adjusted gross income defined) is amended by inserting after paragraph (18) the following new paragraph:

''(19) FAMILY DEVELOPMENT ACCOUNTS.—The deduction allowed by section 1400H(a)(1).''.

(b) TAX ON EXCESS CONTRIBUTIONS.—

(1) TAX IMPOSED.—Subsection (a) of section 4973 is amended by striking ''or'' at the end of paragraph (3), adding ''or'' at the end of paragraph (4), and inserting after paragraph (4) the following new paragraph:

''(5) a family development account (within the meaning of section 1400H(e)),''.

(2) EXCESS CONTRIBUTIONS.—Section 4973 is amended by adding at the end the following new subsection:

''(g) FAMILY DEVELOPMENT ACCOUNTS.—For purposes of this section, in the case of family development accounts, the term 'excess contributions' means the sum of—

''(1) the excess (if any) of—

''(A) the amount contributed for the taxable year to the accounts (other than a qualified rollover, as defined in section 1400H(c)(7), or a contribution under section 1400I), over

''(B) the amount allowable as a deduction under section 1400H for such contributions; and

''(2) the amount determined under this subsection for the preceding taxable year reduced by the sum of—

''(A) the distributions out of the accounts for the taxable year which were included in the gross income of the payee under section 1400H(b)(1);

''(B) the distributions out of the accounts for the taxable year to which rules similar to the rules of section 408(d)(5) apply by reason of section 1400H(d)(3); and

''(C) the excess (if any) of the maximum amount allowable as a deduction under section 1400H for the taxable year over the amount contributed to the account for the taxable year (other than a contribution under section 1400I).

For purposes of this subsection, any contribution which is distributed from the family development account in a distribution to which rules similar to the rules of section 408(d)(4) apply by reason of section 1400H(d)(3) shall be treated as an amount not contributed.''.

(c) TAX ON PROHIBITED TRANSACTIONS.—Section 4975 is amended—

(1) by adding at the end of subsection (c) the following new paragraph:

''(6) SPECIAL RULE FOR FAMILY DEVELOPMENT ACCOUNTS.—An individual for whose benefit a family development account is established and any contributor to such account shall be exempt from the tax imposed by this section with respect to any transaction concerning such account (which would otherwise be taxable under this section) if, with respect to such transaction, the account ceases to be a family development account by reason of the application of section 1400H(d)(2) to such account.''; and

(2) in subsection (e)(1), by striking ''or'' at the end of subparagraph (E), by redesignating subparagraph (F) as subparagraph (G), and by inserting after subparagraph (E) the following new subparagraph:

''(F) a family development account described in section 1400H(e), or''.

(d) INFORMATION RELATING TO CERTAIN TRUSTS AND ANNUITY PLANS.—Subsection (c) of section 6047 is amended—

(1) by inserting ''or section 1400H'' after ''section 219''; and

(2) by inserting '', of any family development account described in section 1400H(e),'', after ''section 408(a)''.

(e) INSPECTION OF APPLICATIONS FOR TAX EXEMPTION.—Clause (i) of section 6104(a)(1)(B) is amended by inserting ''a family development account described in section 1400H(e),'' after ''section 408(a),''.

(f) FAILURE TO PROVIDE REPORTS ON FAMILY DEVELOPMENT ACCOUNTS.—Paragraph (2) of section 6693(a) is amended by striking ''and'' at the end of subparagraph (C), by striking the period and inserting '', and'' at the end of subparagraph (D), and by adding at the end the following new subparagraph:

''(E) section 1400H(g)(6) (relating to family development accounts).''.

(g) CONFORMING AMENDMENTS REGARDING COMMERCIAL REVITALIZATION DEDUCTION.—

(1) Section 172 is amended by redesignating subsection (j) as subsection (k) and by inserting after subsection (i) the following new subsection:

''(j) NO CARRYBACK OF SECTION 1400K DEDUCTION BEFORE DATE OF ENACTMENT.—No portion of the net operating loss for any taxable year which is attributable to any commercial revitalization deduction determined under section 1400K may be carried back to a taxable year ending before the date of the enactment of section 1400K.''.

(2) Subparagraph (B) of section 48(a)(2) is amended by inserting ''or commercial revitalization'' after ''rehabilitation'' each place it appears in the text and heading.

(3) Subparagraph (C) of section 469(i)(3) is amended—

(A) by inserting ''or section 1400K'' after ''section 42''; and

(B) by inserting ''AND COMMERCIAL REVITALIZATION DEDUCTION'' after ''CREDIT'' in the heading.

(h) CLERICAL AMENDMENTS.—The table of subchapters for chapter 1 is amended by adding at the end the following new item:

''Subchapter X. Renewal Communities.''.

SEC. 706. EVALUATION AND REPORTING REQUIREMENTS.

Not later than the close of the fourth calendar year after the year in which the Secretary of Housing and Urban Development first designates an area as a renewal community under section 1400E of the Internal Revenue Code of 1986, and at the close of each fourth calendar year thereafter, such Secretary shall prepare and submit to the Congress a report on the effects of such designations in stimulating the creation of new jobs, particularly for disadvantaged workers and long-term unemployed individuals, and promoting the revitalization of economically distressed areas.

Subtitle B—Farming Incentive

SEC. 711. PRODUCTION FLEXIBILITY CONTRACT PAYMENTS.

Any option to accelerate the receipt of any payment under a production flexibility contract which is payable under the Federal Agriculture Improvement and Reform Act of 1996 (7 U.S.C. 7200 et seq.), as in effect on the date of the enactment of this Act, shall be disregarded in determining the taxable year for which such payment is properly includible in gross income for purposes of the Internal Revenue Code of 1986.

Subtitle C—Oil and Gas Incentive

SEC. 721. 5-YEAR NET OPERATING LOSS CARRYBACK FOR LOSSES ATTRIBUTABLE TO OPERATING MINERAL INTERESTS OF INDEPENDENT OIL AND GAS PRODUCERS.

(a) IN GENERAL.—Paragraph (1) of section 172(b) (relating to years to which loss may be carried) is amended by adding at the end the following new subparagraph:

''(H) LOSSES ON OPERATING MINERAL INTERESTS OF INDEPENDENT OIL AND GAS PRODUCERS.—In the case of a taxpayer—

''(i) which has an eligible oil and gas loss (as defined in subsection (j)) for a taxable year, and

''(ii) which is not an integrated oil company (as defined in section 291(b)(4)),

such eligible oil and gas loss shall be a net operating loss carryback to each of the 5 taxable years preceding the taxable year of such loss.''

(b) ELIGIBLE OIL AND GAS LOSS.—Section 172 is amended by redesignating subsection (j) as subsection (k) and by inserting after subsection (i) the following new subsection:

''(j) ELIGIBLE OIL AND GAS LOSS.—For purposes of this section—

''(1) IN GENERAL.—The term 'eligible oil and gas loss' means the lesser of—

''(A) the amount which would be the net operating loss for the taxable year if only income and deductions attributable to operating mineral interests (as defined in section 614(d)) in oil and gas wells are taken into account, or

''(B) the amount of the net operating loss for such taxable year.

''(2) COORDINATION WITH SUBSECTION (b)(2).—For purposes of applying subsection (b)(2), an eligible oil and gas loss for any taxable year shall be treated in a manner similar to the manner in which a specified liability loss is treated.

''(3) ELECTION.—Any taxpayer entitled to a 5-year carryback under subsection (b)(1)(H) from any loss year may elect to have the carryback period with respect to such loss year determined without regard to subsection (b)(1)(H).''

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to net operating losses for taxable years beginning after December 31, 1998.

Subtitle D—Timber Incentive

SEC. 731. INCREASE IN MAXIMUM PERMITTED AMORTIZATION OF REFORESTATION EXPENDITURES.

(a) IN GENERAL.—Paragraph (1) of section 194(b) (relating to amortization of reforestation expenditures) is amended by striking ''$10,000 ($5,000'' and inserting ''$25,000 ($12,500''.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to additions to capital account made in taxable years beginning after December 31, 1998.

Subtitle E—Steel Industry Incentive

SEC. 741. MINIMUM TAX RELIEF FOR STEEL INDUSTRY.

(a) IN GENERAL.—Subsection (c) of section 53 (as amended by section 302) is amended by adding at the end the following new paragraph:

''(4) STEEL COMPANIES.—In the case of a qualified corporation (as defined in section 212(g)(1) of the Tax Reform Act of 1986), in lieu of applying paragraph (2), the limitation under paragraph (1) for any taxable year beginning after December 31, 1998, shall be increased (subject to the rule of the last sentence of paragraph (2)) by 90 percent of the tentative minimum tax.''

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years beginning after December 31, 1998.

TITLE VIII—RELIEF FOR SMALL BUSINESSES

SEC. 801. DEDUCTION FOR 100 PERCENT OF HEALTH INSURANCE COSTS OF SELF-EMPLOYED INDIVIDUALS.

(a) IN GENERAL.—Paragraph (1) of section 162(l) is amended to read as follows:

''(1) ALLOWANCE OF DEDUCTION.—In the case of an individual who is an employee within the meaning of section 401(c)(1), there shall be allowed as a deduction under this section an amount equal to 100 percent of the amount paid during the taxable year for insurance which constitutes medical care for the taxpayer, his spouse, and dependents.''

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

SEC. 802. INCREASE IN EXPENSE TREATMENT FOR SMALL BUSINESSES.

(a) IN GENERAL.—Paragraph (1) of section 179(b) (relating to dollar limitation) is amended to read as follows:

''(1) DOLLAR LIMITATION.—The aggregate cost which may be taken into account under subsection (a) for any taxable year shall not exceed $30,000.''.

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

SEC. 803. REPEAL OF FEDERAL UNEMPLOYMENT SURTAX.

(a) IN GENERAL.—Section 3301 (relating to rate of Federal unemployment tax) is amended—

(1) by striking ''2007'' and inserting ''2004'', and

(2) by striking ''2008'' and inserting ''2005''.

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

SEC. 804. RESTORATION OF 80 PERCENT DEDUCTION FOR MEAL EXPENSES.

(a) IN GENERAL.—Paragraph (1) of section 274(n) (relating to only 50 percent of meal and entertainment expenses allowed as deduction) is amended by striking ''50 percent'' in the text and inserting ''the allowable percentage''.

(b) ALLOWABLE PERCENTAGES.—Subsection (n) of section 274 is amended by redesignating paragraphs (2) and (3) as paragraphs (3) and (4), respectively, and by inserting after paragraph (2) the following new paragraph:

''(2) ALLOWABLE PERCENTAGE.—For purposes of paragraph (1), the allowable percentage is—

''(A) in the case of amounts for items described in paragraph (1)(B), 50 percent, and

''(B) in the case of expenses for food or beverages, the percentage determined in accordance with the following table:

''For taxable years beginning in calendar year—	**The allowable percentage is—**
2000 through 2003	50
2004	55
2005	60
2006	65
2007	70
2008	75
2009 and thereafter	80.''

(b) CONFORMING AMENDMENTS.—

(1) The heading for subsection (n) of section 274 is amended by striking ''50 PERCENT'' and inserting ''LIMITED PERCENTAGES''.

(2) Subparagraph (A) of section 274(n)(4), as redesignated by subsection (a), is amended by striking ''50 percent'' and inserting ''the allowable percentage''.

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

TITLE IX—INTERNATIONAL TAX RELIEF

SEC. 901. INTEREST ALLOCATION RULES.

(a) ELECTION TO ALLOCATE INTEREST ON A WORLDWIDE BASIS.—Subsection (e) of section 864 (relating to rules for allocating interest, etc.) is amended by redesignating paragraphs (6) and (7) as paragraphs (7) and (8), respectively, and by inserting after paragraph (5) the following new paragraph:

''(6) ELECTION TO ALLOCATE INTEREST ON A WORLDWIDE BASIS.—

''(A) IN GENERAL.—Except as provided in this paragraph, this subsection (other than paragraph (7)) shall be applied by treating each worldwide affiliated group for which an election under this paragraph is in effect as an affiliated group.

''(B) WORLDWIDE AFFILIATED GROUP.—For purposes of this paragraph, the term 'worldwide affiliated group' means the group of corporations which consists of—

''(i) all corporations in an affiliated group (as defined in paragraph (5)), and

''(ii) all foreign corporations (other than a FSC, as defined in section 922(a)) with respect to which corporations described in clause (i) own stock meeting the ownership requirements of section 957(a) (without regard to stock considered as owned under section 958(b)).

''(C) ALLOCATION.—

''(i) IN GENERAL.—For purposes of paragraph (1), only the applicable percentage of the interest expense and assets of a foreign corporation described in subparagraph (B)(ii) shall be taken into account.

''(ii) APPLICABLE PERCENTAGE.—For purposes of this paragraph, the term 'applicable percentage' means, with respect to any foreign corporation, the percentage equal to the ratio which the value of the stock in such corporation taken into account under subparagraph (B)(ii) bears to the aggregate value of all stock in such corporation.

''(D) TREATMENT OF FOREIGN INTEREST EXPENSE.—Interest expense of members of an electing worldwide affiliated group which is allocated to foreign source income under this subsection shall be reduced (but not below zero) by the applicable percentage of the interest expense incurred by any foreign corporation in the electing worldwide affiliated group to the extent such interest would have been allocated and apportioned to foreign source income of such corporation if this subsection were applied to a group consisting of all the foreign corporations in such affiliated group.

''(E) ELECTION.—An election under this paragraph with respect to any worldwide affiliated group may be made only by the common parent of the affiliated group referred to in subparagraph (B)(i) and may be made only for the first taxable year beginning after December 31, 2001, in which a worldwide affiliated group exists which includes such affiliated group and at least 1 corporation described in subparagraph (B)(ii). Such an election, once made, shall apply to such parent and all other corporations which are included in such worldwide affiliated group for such taxable year and all subsequent years unless revoked with the consent of the Secretary.''.

(b) ELECTION TO ALLOCATE INTEREST WITHIN FINANCIAL INSTITUTION GROUPS AND SUBSIDIARY GROUPS.—Section 864 is amended by redesignating subsection (f) as subsection (g) and by inserting after subsection (e) the following new subsection:

''(f) ELECTION TO APPLY SUBSECTION (e) ON BASIS OF FINANCIAL INSTITUTION GROUP AND SUBSIDIARY GROUPS.—

''(1) IN GENERAL.—Subsection (e) (other than paragraph (7) thereof) shall be applied—

''(A) as if the electing financial institution group were a separate affiliated group, and

''(B) for purposes of allocating interest expense with respect to qualified indebtedness of members of an electing subsidiary group, as if each electing subsidiary group were a separate affiliated group.

Subsection (e) shall apply to any such electing group in the same manner as subsection (e) applies to the pre-election affiliated group of which such electing group is a part.

''(2) ELECTING FINANCIAL INSTITUTION GROUP.—For purposes of this subsection—

''(A) IN GENERAL.—The term 'electing financial institution group' means any group of corporations if—

''(i) such group consists only of all of the financial corporations in the pre-election affiliated group, and

''(ii) an election under this paragraph is in effect for such group of corporations.

''(B) FINANCIAL CORPORATION.—The term 'financial corporation' means any corporation if at least 80 percent of its gross income is income described in section 904(d)(2)(C)(ii) and the regulations thereunder. To the extent provided in regulations prescribed by the Secretary, such term includes a bank holding company (within the meaning of section 2(a) of the Bank Holding Company Act of 1956).

''(C) EFFECT OF CERTAIN TRANSACTIONS.—Rules similar to the rules of paragraph (3)(D) shall apply to transactions between any member of the electing financial institution group and any member of the pre-election affiliated group (other than a member of the electing financial institution group).

''(D) ELECTION.—An election under this paragraph with respect to any financial institution group may be made only by the common parent of the pre-election affiliated group. Such an election, once made, shall apply only to the taxable year for which made.

''(3) ELECTING SUBSIDIARY GROUPS.—

''(A) IN GENERAL.—The term 'electing subsidiary group' means any group of corporations if—

''(i) such group consists only of corporations in the pre-election affiliated group,

''(ii) such group includes—

''(I) a domestic corporation (which is not the common parent of the pre-election affiliated group or a member of an electing financial institution group) which incurs interest expense with respect to qualified indebtedness, and

''(II) every other corporation (other than a member of an electing financial institution group) which is in the pre-election affiliated group and which would be a member of an affiliated group having such domestic corporation as the common parent, and

''(iii) an election under this paragraph is in effect for such group.

''(B) EQUALIZATION RULE.—All interest expense of a pre-election affiliated group (other than subgroup interest expense) shall be treated as allocated to foreign source income to the extent such expense does not exceed the excess (if any) of—

''(i) the interest expense of the pre-election affiliated group (including subgroup interest expense) which would (but for any election under this paragraph) be allocated to foreign source income, over

''(ii) the subgroup interest expense allocated to foreign source income.

For purposes of the preceding sentence, the subgroup interest expense is the interest expense to which subsection (e) applies separately by reason of paragraph (1)(B).

''(C) QUALIFIED INDEBTEDNESS.—For purposes of this subsection, the term 'qualified indebtedness' means any indebtedness of a domestic corporation—

''(i) which is held by an unrelated person, and

''(ii) which is not guaranteed (or otherwise supported) by any corporation which is a member of the pre-election affiliated group other than a corporation which is a member of the electing subsidiary group.

For purposes of this subparagraph, the term 'unrelated person' means any person not bearing a relationship specified in section 267(b) or 707(b)(1) to the corporation.

''(D) EFFECT OF CERTAIN TRANSACTIONS ON QUALIFIED INDEBTEDNESS.—In the case of a corporation which is a member of an electing subsidiary group, to the extent that such corporation—

''(i) distributes dividends or makes other distributions with respect to its stock after the date of the enactment of this paragraph to any member of the pre-election affiliated group (other than to a member of the electing subsidiary group) in excess of the greater of—

''(I) its average annual dividend (expressed as a percentage of current earnings and profits) during the 5-taxable-year period ending with the taxable year preceding the taxable year, or

''(II) 25 percent of its average annual earnings and profits for such 5 taxable year period, or

''(ii) deals with any person in any manner not clearly reflecting the income of the corporation (as determined under principles similar to the principles of section 482),

an amount of qualified indebtedness equal to the excess distribution or the understatement or overstatement of income, as the case may be, shall be recharacterized (for the taxable year and subsequent taxable years) for purposes of this subsection as indebtedness which is not qualified indebtedness. If a

corporation has not been in existence for 5 taxable years, this subparagraph shall be applied with respect to the period it was in existence.

''(E) ELECTION.—An election under this paragraph with respect to any electing subsidiary group may be made only by the common parent of the pre-election affiliated group. Such an election, once made, shall apply only to the taxable year for which made. No election may be made under this paragraph if the effect of the election would be to have the same member of the pre-election affiliated group included in more than 1 electing subsidiary group.

''(4) PRE-ELECTION AFFILIATED GROUP.—For purposes of this subsection, the term 'pre-election affiliated group' means, with respect to a corporation, the affiliated group or electing worldwide affiliated group of which such corporation would (but for an election under this subsection) be a member for purposes of applying subsection (e).

''(5) REGULATIONS.—The Secretary shall prescribe such regulations as may be appropriate to carry out this subsection and subsection (e), including regulations—

''(A) providing for the direct allocation of interest expense in other circumstances where such allocation would be appropriate to carry out the purposes of this subsection,

''(B) preventing assets or interest expense from being taken into account more than once, and

''(C) dealing with changes in members of any group (through acquisitions or otherwise) treated under this subsection as an affiliated group for purposes of subsection (e).''

(c) INSURANCE COMPANIES INCLUDED IN AFFILIATED GROUPS.—Paragraph (5) of section 864(e) is amended to read as follows:

''(5) AFFILIATED GROUP.—The term 'affiliated group' has the meaning given such term by section 1504 (determined without regard to paragraphs (2) and (4) of section 1504(b)).''.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2001.

SEC. 902. LOOK-THRU RULES TO APPLY TO DIVIDENDS FROM NONCONTROLLED SECTION 902 CORPORATIONS.

(a) IN GENERAL.—Section 904(d)(4) (relating to application of look-thru rules to dividends from noncontrolled section 902 corporations) is amended to read as follows:

''(4) LOOK-THRU APPLIES TO DIVIDENDS FROM NONCONTROLLED SECTION 902 CORPORATIONS.—

''(A) IN GENERAL.—For purposes of this subsection, any dividend from a noncontrolled section 902 corporation with respect to the taxpayer shall be treated as income in a separate category in proportion to the ratio of—

''(i) the portion of earnings and profits attributable to income in such category, to

''(ii) the total amount of earnings and profits.

''(B) SPECIAL RULES.—For purposes of this paragraph—

''(i) IN GENERAL.—Rules similar to the rules of paragraph (3)(F) shall apply; except that the term 'separate category' shall include the category of income described in paragraph (1)(I).

''(ii) EARNINGS AND PROFITS.—

''(I) IN GENERAL.—The rules of section 316 shall apply.

''(II) REGULATIONS.—The Secretary may prescribe regulations regarding the treatment of distributions out of earnings and profits for periods before the taxpayer's acquisition of the stock to which the distributions relate.

''(iii) DIVIDENDS NOT ALLOCABLE TO SEPARATE CATEGORY.—The portion of any dividend from a noncontrolled section 902 corporation which is not treated as income in a separate category under subparagraph (A) shall be treated as a dividend to which subparagraph (A) does not apply.

''(iv) LOOK-THRU WITH RESPECT TO CARRYFORWARDS OF CREDIT.—Rules similar to subparagraph (A) also shall apply to any carryforward under subsection (c) from a taxable year beginning before January 1, 2002, of tax allocable to a dividend from a noncontrolled section 902 corporation with respect to the taxpayer.''

(b) CONFORMING AMENDMENTS.—

(1) Subparagraph (E) of section 904(d)(1), as in effect both before and after the amendments made by section 1105 of the Taxpayer Relief Act of 1997, is hereby repealed.

(2) Section 904(d)(2)(C)(iii), as so in effect, is amended by striking subclause (II) and by redesignating subclause (III) as subclause (II).

(3) The last sentence of section 904(d)(2)(D), as so in effect, is amended to read as follows: ''Such term does not include any financial services income.''

(4) Section 904(d)(2)(E) is amended by striking clauses (ii) and (iv) and by redesignating clause (iii) as clause (ii).

(5) Section 904(d)(3)(F) is amended by striking ''(D), or (E)'' and inserting ''or (D)''.

(6) Section 864(d)(5)(A)(i) is amended by striking ''(C)(iii)(III)'' and inserting ''(C)(iii)(II)''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2001.

SEC. 903. CLARIFICATION OF TREATMENT OF PIPELINE TRANSPORTATION INCOME.

(a) IN GENERAL.—Section 954(g)(1) (defining foreign base company oil related income) 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 inserting after subparagraph (B) the following new subparagraph:

''(C) the pipeline transportation of oil or gas within such foreign country.''

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years of controlled foreign corporations beginning after December 31, 2001, and taxable years of United States shareholders with or within which such taxable years of controlled foreign corporations end.

SEC. 904. SUBPART F TREATMENT OF INCOME FROM TRANSMISSION OF HIGH VOLTAGE ELECTRICITY.

(a) IN GENERAL.—Paragraph (2) of section 954(e) (relating to foreign base company services income) 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 inserting after subparagraph (B) the following new subparagraph:

''(C) the transmission of high voltage electricity.''

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years of controlled foreign corporations beginning after December 31, 2001, and taxable years of United States shareholders with or within which such taxable years of controlled foreign corporations end.

SEC. 905. RECHARACTERIZATION OF OVERALL DOMESTIC LOSS.

(a) GENERAL RULE.—Section 904 is amended by redesignating subsections (g), (h), (i), (j), and (k) as subsections (h), (i), (j), (k), and (l), respectively, and by inserting after subsection (f) the following new subsection:

''(g) RECHARACTERIZATION OF OVERALL DOMESTIC LOSS.—

''(1) GENERAL RULE.—For purposes of this subpart and section 936, in the case of any taxpayer who sustains an overall domestic loss for any taxable year beginning after December 31, 2004, that portion of the taxpayer's taxable income from sources within the United States for each succeeding taxable year which is equal to the lesser of—

''(A) the amount of such loss (to the extent not used under this paragraph in prior taxable years), or

''(B) 50 percent of the taxpayer's taxable income from sources within the United States for such succeeding taxable year,

shall be treated as income from sources without the United States (and not as income from sources within the United States).

''(2) OVERALL DOMESTIC LOSS DEFINED.—For purposes of this subsection—

''(A) IN GENERAL.—The term 'overall domestic loss' means any domestic loss to the extent such loss offsets taxable income from sources without the United States for the taxable year or for any preceding taxable year by reason of a carryback. For purposes of the preceding sentence, the term 'domestic loss' means the amount by which the gross income for the taxable year from sources within the United States is exceeded by the sum of the deductions properly apportioned or allocated thereto (determined without regard to any carryback from a subsequent taxable year).

''(B) TAXPAYER MUST HAVE ELECTED FOREIGN TAX CREDIT FOR YEAR OF LOSS.—The term 'overall domestic loss' shall not include any loss for any taxable year unless the taxpayer chose the benefits of this subpart for such taxable year.

''(3) CHARACTERIZATION OF SUBSEQUENT INCOME.—

''(A) IN GENERAL.—Any income from sources within the United States that is treated as income from sources without the United States under paragraph (1) shall be allocated among and increase the income categories in proportion to the loss from sources within the United States previously allocated to those income categories.

''(B) INCOME CATEGORY.—For purposes of this paragraph, the term 'income category' has the meaning given such term by subsection (f)(5)(E)(i).

''(4) COORDINATION WITH SUBSECTION (f).—The Secretary shall prescribe such regulations as may be necessary to coordinate the provisions of this subsection with the provisions of subsection (f).''

(b) CONFORMING AMENDMENTS.—

(1) Section 535(d)(2) is amended by striking ''section 904(g)(6)'' and inserting ''section 904(h)(6)''.

(2) Subparagraph (A) of section 936(a)(2) is amended by striking ''section 904(f)'' and inserting ''subsections (f) and (g) of section 904''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to losses for taxable years beginning after December 31, 2004.

SEC. 906. TREATMENT OF MILITARY PROPERTY OF FOREIGN SALES CORPORATIONS.

(a) IN GENERAL.—Section 923(a) (defining exempt foreign trade income) is amended by striking paragraph (5) and by redesignating paragraph (6) as paragraph (5).

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years beginning after December 31, 2001.

SEC. 907. TREATMENT OF CERTAIN DIVIDENDS OF REGULATED INVESTMENT COMPANIES.

(a) TREATMENT OF CERTAIN DIVIDENDS.—

(1) NONRESIDENT ALIEN INDIVIDUALS.—Section 871 (relating to tax on nonresident alien individuals) is amended by redesignating subsection (k) as subsection (l) and by inserting after subsection (j) the following new subsection:

''(k) EXEMPTION FOR CERTAIN DIVIDENDS OF REGULATED INVESTMENT COMPANIES.—

''(1) INTEREST-RELATED DIVIDENDS.—

''(A) IN GENERAL.—Except as provided in subparagraph (B), no tax shall be imposed

under paragraph (1)(A) of subsection (a) on any interest-related dividend received from a regulated investment company.

''(B) EXCEPTIONS.—Subparagraph (A) shall not apply—

''(i) to any interest-related dividend received from a regulated investment company by a person to the extent such dividend is attributable to interest (other than interest described in subparagraph (E) (i) or (iii)) received by such company on indebtedness issued by such person or by any corporation or partnership with respect to which such person is a 10-percent shareholder,

''(ii) to any interest-related dividend with respect to stock of a regulated investment company unless the person who would otherwise be required to deduct and withhold tax from such dividend under chapter 3 receives a statement (which meets requirements similar to the requirements of subsection (h)(5)) that the beneficial owner of such stock is not a United States person, and

''(iii) to any interest-related dividend paid to any person within a foreign country (or any interest-related dividend payment addressed to, or for the account of, persons within such foreign country) during any period described in subsection (h)(6) with respect to such country.

Clause (iii) shall not apply to any dividend with respect to any stock the holding period of which begins on or before the date of the publication of the Secretary's determination under subsection (h)(6).

''(C) INTEREST-RELATED DIVIDEND.—For purposes of this paragraph, an interest-related dividend is any dividend (or part thereof) which is designated by the regulated investment company as an interest-related dividend in a written notice mailed to its shareholders not later than 60 days after the close of its taxable year. If the aggregate amount so designated with respect to a taxable year of the company (including amounts so designated with respect to dividends paid after the close of the taxable year described in section 855) is greater than the qualified net interest income of the company for such taxable year, the portion of each distribution which shall be an interest-related dividend shall be only that portion of the amounts so designated which such qualified net interest income bears to the aggregate amount so designated.

''(D) QUALIFIED NET INTEREST INCOME.—For purposes of subparagraph (C), the term 'qualified net interest income' means the qualified interest income of the regulated investment company reduced by the deductions properly allocable to such income.

''(E) QUALIFIED INTEREST INCOME.—For purposes of subparagraph (D), the term 'qualified interest income' means the sum of the following amounts derived by the regulated investment company from sources within the United States:

''(i) Any amount includible in gross income as original issue discount (within the meaning of section 1273) on an obligation payable 183 days or less from the date of original issue (without regard to the period held by the company).

''(ii) Any interest includible in gross income (including amounts recognized as ordinary income in respect of original issue discount or market discount or acquisition discount under part V of subchapter P and such other amounts as regulations may provide) on an obligation which is in registered form; except that this clause shall not apply to—

''(I) any interest on an obligation issued by a corporation or partnership if the regulated investment company is a 10-percent shareholder in such corporation or partnership, and

''(II) any interest which is treated as not being portfolio interest under the rules of subsection (h)(4).

''(iii) Any interest referred to in subsection (i)(2)(A) (without regard to the trade or business of the regulated investment company).

''(iv) Any interest-related dividend includable in gross income with respect to stock of another regulated investment company.

Such term includes any interest derived by the regulated investment company from sources outside the United States other than interest that is subject to a tax imposed by a foreign jurisdiction if the amount of such tax is reduced (or eliminated) by a treaty with the United States.

''(F) 10-PERCENT SHAREHOLDER.—For purposes of this paragraph, the term '10-percent shareholder' has the meaning given such term by subsection (h)(3)(B).

''(2) SHORT-TERM CAPITAL GAIN DIVIDENDS.—

''(A) IN GENERAL.—Except as provided in subparagraph (B), no tax shall be imposed under paragraph (1)(A) of subsection (a) on any short-term capital gain dividend received from a regulated investment company.

''(B) EXCEPTION FOR ALIENS TAXABLE UNDER SUBSECTION (a)(2).—Subparagraph (A) shall not apply in the case of any nonresident alien individual subject to tax under subsection (a)(2).

''(C) SHORT-TERM CAPITAL GAIN DIVIDEND.—For purposes of this paragraph, a short-term capital gain dividend is any dividend (or part thereof) which is designated by the regulated investment company as a short-term capital gain dividend in a written notice mailed to its shareholders not later than 60 days after the close of its taxable year. If the aggregate amount so designated with respect to a taxable year of the company (including amounts so designated with respect to dividends paid after the close of the taxable year described in section 855) is greater than the qualified short-term gain of the company for such taxable year, the portion of each distribution which shall be a short-term capital gain dividend shall be only that portion of the amounts so designated which such qualified short-term gain bears to the aggregate amount so designated.

''(D) QUALIFIED SHORT-TERM GAIN.—For purposes of subparagraph (C), the term 'qualified short-term gain' means the excess of the net short-term capital gain of the regulated investment company for the taxable year over the net long-term capital loss (if any) of such company for such taxable year. For purposes of this subparagraph—

''(i) the net short-term capital gain of the regulated investment company shall be computed by treating any short-term capital gain dividend includible in gross income with respect to stock of another regulated investment company as a short-term capital gain, and

''(ii) the excess of the net short-term capital gain for a taxable year over the net long-term capital loss for a taxable year (to which an election under section 4982(e)(4) does not apply) shall be determined without regard to any net capital loss or net short-term capital loss attributable to transactions after October 31 of such year, and any such net capital loss or net short-term capital loss shall be treated as arising on the 1st day of the next taxable year.

To the extent provided in regulations, clause (ii) shall apply also for purposes of computing the taxable income of the regulated investment company.''

(2) FOREIGN CORPORATIONS.—Section 881 (relating to tax on income of foreign corporations not connected with United States business) is amended by redesignating subsection (e) as subsection (f) and by inserting after subsection (d) the following new subsection:

''(e) TAX NOT TO APPLY TO CERTAIN DIVIDENDS OF REGULATED INVESTMENT COMPANIES.—

''(1) INTEREST-RELATED DIVIDENDS.—

''(A) IN GENERAL.—Except as provided in subparagraph (B), no tax shall be imposed under paragraph (1) of subsection (a) on any interest-related dividend (as defined in section 871(k)(1)) received from a regulated investment company.

''(B) EXCEPTION.—Subparagraph (A) shall not apply—

''(i) to any dividend referred to in section 871(k)(1)(B), and

''(ii) to any interest-related dividend received by a controlled foreign corporation (within the meaning of section 957(a)) to the extent such dividend is attributable to interest received by the regulated investment company from a person who is a related person (within the meaning of section 864(d)(4)) with respect to such controlled foreign corporation.

''(C) TREATMENT OF DIVIDENDS RECEIVED BY CONTROLLED FOREIGN CORPORATIONS.—The rules of subsection (c)(5)(A) shall apply to any interest-related dividend received by a controlled foreign corporation (within the meaning of section 957(a)) to the extent such dividend is attributable to interest received by the regulated investment company which is described in clause (ii) of section 871(k)(1)(E) (and not described in clause (i) or (iii) of such section).

''(2) SHORT-TERM CAPITAL GAIN DIVIDENDS.—No tax shall be imposed under paragraph (1) of subsection (a) on any short-term capital gain dividend (as defined in section 871(k)(2)) received from a regulated investment company.''

(3) WITHHOLDING TAXES.—

(A) Section 1441(c) (relating to exceptions) is amended by adding at the end the following new paragraph:

''(12) CERTAIN DIVIDENDS RECEIVED FROM REGULATED INVESTMENT COMPANIES.—

''(A) IN GENERAL.—No tax shall be required to be deducted and withheld under subsection (a) from any amount exempt from the tax imposed by section 871(a)(1)(A) by reason of section 871(k).

''(B) SPECIAL RULE.—For purposes of subparagraph (A), clause (i) of section 871(k)(1)(B) shall not apply to any dividend unless the regulated investment company knows that such dividend is a dividend referred to in such clause. A similar rule shall apply with respect to the exception contained in section 871(k)(2)(B).''

(B) Section 1442(a) (relating to withholding of tax on foreign corporations) is amended—

(i) by striking ''and the reference in section 1441(c)(10)'' and inserting ''the reference in section 1441(c)(10)'', and

(ii) by inserting before the period at the end the following: '', and the references in section 1441(c)(12) to sections 871(a) and 871(k) shall be treated as referring to sections 881(a) and 881(e) (except that for purposes of applying subparagraph (A) of section 1441(c)(12), as so modified, clause (ii) of section 881(e)(1)(B) shall not apply to any dividend unless the regulated investment company knows that such dividend is a dividend referred to in such clause)''.

(b) ESTATE TAX TREATMENT OF INTEREST IN CERTAIN REGULATED INVESTMENT COMPANIES.—Section 2105 (relating to property without the United States for estate tax purposes) is amended by adding at the end the following new subsection:

''(d) STOCK IN A RIC.—

''(1) IN GENERAL.—For purposes of this subchapter, stock in a regulated investment company (as defined in section 851) owned by a nonresident not a citizen of the United

States shall not be deemed property within the United States in the proportion that, at the end of the quarter of such investment company's taxable year immediately preceding a decedent's date of death (or at such other time as the Secretary may designate in regulations), the assets of the investment company that were qualifying assets with respect to the decedent bore to the total assets of the investment company.

''(2) QUALIFYING ASSETS.—For purposes of this subsection, qualifying assets with respect to a decedent are assets that, if owned directly by the decedent, would have been—

''(A) amounts, deposits, or debt obligations described in subsection (b) of this section,

''(B) debt obligations described in the last sentence of section 2104(c), or

''(C) other property not within the United States.''

(c) TREATMENT OF REGULATED INVESTMENT COMPANIES UNDER SECTION 897.—

(1) Paragraph (1) of section 897(h) is amended by striking ''REIT'' each place it appears and inserting ''qualified investment entity''.

(2) Paragraphs (2) and (3) of section 897(h) are amended to read as follows:

''(2) SALE OF STOCK IN DOMESTICALLY CONTROLLED ENTITY NOT TAXED.—The term 'United States real property interest' does not include any interest in a domestically controlled qualified investment entity.

''(3) DISTRIBUTIONS BY DOMESTICALLY CONTROLLED QUALIFIED INVESTMENT ENTITIES.—In the case of a domestically controlled qualified investment entity, rules similar to the rules of subsection (d) shall apply to the foreign ownership percentage of any gain.''

(3) Subparagraphs (A) and (B) of section 897(h)(4) are amended to read as follows:

''(A) QUALIFIED INVESTMENT ENTITY.—The term 'qualified investment entity' means any real estate investment trust and any regulated investment company.

''(B) DOMESTICALLY CONTROLLED.—The term 'domestically controlled qualified investment entity' means any qualified investment entity in which at all times during the testing period less than 50 percent in value of the stock was held directly or indirectly by foreign persons.''

(4) Subparagraphs (C) and (D) of section 897(h)(4) are each amended by striking ''REIT'' and inserting ''qualified investment entity''.

(5) The subsection heading for subsection (h) of section 897 is amended by striking ''REITS'' and inserting ''CERTAIN INVESTMENT ENTITIES''.

(d) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as otherwise provided in this subsection, the amendments made by this section shall apply to dividends with respect to taxable years of regulated investment companies beginning after December 31, 2004.

(2) ESTATE TAX TREATMENT.—The amendment made by subsection (b) shall apply to estates of decedents dying after December 31, 2004.

(3) CERTAIN OTHER PROVISIONS.—The amendments made by subsection (c) (other than paragraph (1) thereof) shall take effect on January 1, 2005.

SEC. 908. REPEAL OF SPECIAL RULES FOR APPLYING FOREIGN TAX CREDIT IN CASE OF FOREIGN OIL AND GAS INCOME.

(a) IN GENERAL.—Section 907 (relating to special rules in case of foreign oil and gas income) is repealed.

(b) CONFORMING AMENDMENTS.—

(1) Each of the following provisions are amended by striking ''907,'':

(A) Section 245(a)(10).

(B) Section 865(h)(1)(B).

(C) Section 904(d)(1).

(D) Section 904(g)(10)(A).

(2) Section 904(f)(5)(E)(iii) is amended by inserting '', as in effect before its repeal by the Financial Freedom Act of 1999'' after ''section 907(c)(4)(B)''.

(3) Section 954(g)(1) is amended by inserting '', as in effect before its repeal by the Financial Freedom Act of 1999'' after ''907(c)''.

(4) Section 6501(i) is amended—

(A) by striking '', or under section 907(f) (relating to carryback and carryover of disallowed oil and gas extraction taxes)'', and

(B) by striking ''or 907(f)''.

(5) The table of sections for subpart A of part III of subchapter N of chapter 1 is amended by striking the item relating to section 907.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2004.

SEC. 909. STUDY OF PROPER TREATMENT OF EUROPEAN UNION UNDER SAME COUNTRY EXCEPTIONS.

(a) STUDY.—The Secretary of the Treasury or the Secretary's delegate shall conduct a study on the feasibility of treating all countries included in the European Union as 1 country for purposes of applying the same country exceptions under subpart F of part III of subchapter N of chapter 1 of the Internal Revenue Code of 1986.

(b) REPORT.—Not later than 6 months after the date of the enactment of this Act, the Secretary of the Treasury shall report to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate the results of the study conducted under subsection (a), including recommendations (if any) for legislation.

SEC. 910. APPLICATION OF DENIAL OF FOREIGN TAX CREDIT WITH RESPECT TO CERTAIN FOREIGN COUNTRIES.

(a) IN GENERAL.—Clause (ii) of section 901(j)(2)(B) (relating to denial of foreign tax credit, etc., with respect to certain foreign countries) is amended by inserting before the period ''or, if earlier, ending on the date that the President determines that the application of this subsection to such foreign country is no longer in the national interests of the United States''.

(b) EFFECTIVE DATE.—The amendment made by this section shall take effect on the date of the enactment of this Act.

SEC. 911. ADVANCE PRICING AGREEMENTS TREATED AS CONFIDENTIAL TAXPAYER INFORMATION.

(a) IN GENERAL.—

(1) TREATMENT AS RETURN INFORMATION.—Paragraph (2) of section 6103(b) (defining return information) is amended by striking ''and'' at the end of subparagraph (A), by inserting ''and'' at the end of subparagraph (B), and by inserting after subparagraph (B) the following new subparagraph:

''(C) any advance pricing agreement entered into by a taxpayer and the Secretary and any background information related to such agreement or any application for an advance pricing agreement,''.

(2) EXCEPTION FROM PUBLIC INSPECTION AS WRITTEN DETERMINATION.—Paragraph (1) of section 6110(b) (defining written determination) is amended by adding at the end the following new sentence: ''Such term shall not include any advance pricing agreement entered into by a taxpayer and the Secretary and any background information related to such agreement or any application for an advance pricing agreement.''.

(3) EFFECTIVE DATE.—The amendments made by this subsection shall take effect on the date of the enactment of this Act.

(b) ANNUAL REPORT REGARDING ADVANCE PRICING AGREEMENTS.—

(1) IN GENERAL.—Not later than 90 days after the end of each calendar year, the Secretary of the Treasury shall prepare and publish a report regarding advance pricing agreements.

(2) CONTENTS OF REPORT.—The report shall include the following for the calendar year to which such report relates:

(A) Information about the structure, composition, and operation of the advance pricing agreement program office.

(B) A copy of each model advance pricing agreement.

(C) The number of—

(i) applications filed during such calendar year for advanced pricing agreements;

(ii) advance pricing agreements executed cumulatively to date and during such calendar year;

(iii) renewals of advanced pricing agreements issued;

(iv) pending requests for advance pricing agreements;

(v) pending renewals of advance pricing agreements;

(vi) for each of the items in clauses (ii) through (v), the number that are unilateral, bilateral, and multilateral, respectively;

(vii) advance pricing agreements revoked or canceled, and the number of withdrawals from the advance pricing agreement program; and

(viii) advanced pricing agreements finalized or renewed by industry.

(D) General descriptions of—

(i) the nature of the relationships between the related organizations, trades, or businesses covered by advance pricing agreements;

(ii) the covered transactions and the business functions performed and risks assumed by such organizations, trades, or businesses;

(iii) the related organizations, trades, or businesses whose prices or results are tested to determine compliance with transfer pricing methodologies prescribed in advanced pricing agreements;

(iv) methodologies used to evaluate tested parties and transactions and the circumstances leading to the use of those methodologies;

(v) critical assumptions made and sources of comparables used;

(vi) comparable selection criteria and the rationale used in determining such criteria;

(vii) the nature of adjustments to comparables or tested parties;

(viii) the nature of any ranges agreed to, including information regarding when no range was used and why, when interquartile ranges were used, and when there was a statistical narrowing of the comparables;

(ix) adjustment mechanisms provided to rectify results that fall outside of the agreed upon advance pricing agreement range;

(x) the various term lengths for advance pricing agreements, including rollback years, and the number of advance pricing agreements with each such term length;

(xi) the nature of documentation required; and

(xii) approaches for sharing of currency or other risks.

(E) Statistics regarding the amount of time taken to complete new and renewal advance pricing agreements.

(3) CONFIDENTIALITY.—The reports required by this subsection shall be treated as authorized by the Internal Revenue Code of 1986 for purposes of section 6103 of such Code, but the reports shall not include information—

(A) which would not be permitted to be disclosed under section 6110(c) of such Code if such report were a written determination as defined in section 6110 of such Code, or

(B) which can be associated with, or otherwise identify, directly or indirectly, a particular taxpayer.

(4) FIRST REPORT.—The report for calendar year 1999 shall include prior calendar years after 1990.

(c) USER FEE.—Section 7527, as added by title XV of this Act, is amended by redesignating subsection (c) as subsection (d) and by inserting after subsection (b) the following new subsection:

''(c) ADVANCE PRICING AGREEMENTS.—

''(1) IN GENERAL.—In addition to any fee otherwise imposed under this section, the fee imposed for requests for advance pricing agreements shall be increased by $500.

''(2) REDUCED FEE FOR SMALL BUSINESSES.—The Secretary shall provide an appropriate reduction in the amount imposed by reason of paragraph (1) for requests for advance pricing agreements for small businesses.''

(d) REGULATIONS.—The Secretary of the Treasury or the Secretary's delegate shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of section 6103(b)(2)(C), and the last sentence of section 6110(b)(1), of the Internal Revenue Code of 1986, as added by this section.

SEC. 912. INCREASE IN DOLLAR LIMITATION ON SECTION 911 EXCLUSION.

(a) GENERAL RULE.—The table contained in clause (i) of section 911(b)(2)(D) is amended to read as follows:

''For calendar year—	The exclusion amount is—
2000	$76,000
2001	78,000
2002	80,000
2003	83,000
2004	86,000
2005	89,000
2006	92,000
2007 and thereafter	95,000.''

(b) CONFORMING AMENDMENT.—Clause (ii) of section 911(b)(2)(D) is amended by striking ''$80,000'' and inserting ''$95,000''.

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

TITLE X—PROVISIONS RELATING TO TAX-EXEMPT ORGANIZATIONS

SEC. 1001. EXEMPTION FROM INCOME TAX FOR STATE-CREATED ORGANIZATIONS PROVIDING PROPERTY AND CASUALTY INSURANCE FOR PROPERTY FOR WHICH SUCH COVERAGE IS OTHERWISE UNAVAILABLE.

(a) IN GENERAL.—Subsection (c) of section 501 (relating to exemption from tax on corporations, certain trusts, etc.) is amended by adding at the end the following new paragraph:

''(28)(A) Any association created before January 1, 1999, by State law and organized and operated exclusively to provide property and casualty insurance coverage for property located within the State for which the State has determined that coverage in the authorized insurance market is limited or unavailable at reasonable rates, if—

''(i) no part of the net earnings of which inures to the benefit of any private shareholder or individual,

''(ii) except as provided in clause (v), no part of the assets of which may be used for, or diverted to, any purpose other than—

''(I) to satisfy, in whole or in part, the liability of the association for, or with respect to, claims made on policies written by the association,

''(II) to invest in investments authorized by applicable law, or

''(III) to pay reasonable and necessary administration expenses in connection with the establishment and operation of the association and the processing of claims against the association,

''(iii) the State law governing the association permits the association to levy assessments on property and casualty insurance policyholders with insurable interests in property located in the State to fund deficits of the association, including the creation of reserves,

''(iv) the plan of operation of the association is subject to approval by the chief executive officer or other executive branch official of the State, by the State legislature, or both, and

''(v) the assets of the association revert upon dissolution to the State, the State's designee, or an entity designated by the State law governing the association, or State law does not permit the dissolution of the association.

''(B)(i) An entity described in clause (ii) shall be disregarded as a separate entity and treated as part of the association described in subparagraph (A) from which it receives remittances described in clause (ii) if an election is made within 30 days after the date that such association is determined to be exempt from tax.

''(ii) An entity is described in this clause if it is an entity or fund created before January 1, 1999, pursuant to State law and organized and operated exclusively to receive, hold, and invest remittances from an association described in subparagraph (A) and exempt from tax under subsection (a) and to make disbursements to pay claims on insurance contracts issued by such association.

''(C) Subparagraph (A) shall not apply to an association for any taxable year if the association's surplus income for such year exceeds 15 percent of the total coverage in force under insurance contracts issued by such association and outstanding as of the close of the taxable year.''

(b) TRANSITIONAL RULE.—No income or gain shall be recognized by an association as a result of a change in status to that of an association described by section 501(c)(28) of the Internal Revenue Code of 1986, as amended by subsection (a).

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

SEC. 1002. MODIFICATION OF SPECIAL ARBITRAGE RULE FOR CERTAIN FUNDS.

(a) IN GENERAL.—Paragraph (1) of section 648 of the Tax Reform Act of 1984 is amended to read as follows:

''(1) such securities or obligations are held in a fund—

''(A) which, except to the extent of the investment earnings on such securities or obligations, cannot be used, under State constitutional or statutory restrictions continuously in effect since October 9, 1969, through the date of issue of the bond issue, to pay debt service on the bond issue or to finance the facilities that are to be financed with the proceeds of the bonds, or

''(B) the annual distributions from which cannot exceed 7 percent of the average fair market value of the assets held in such fund except to the extent distributions are necessary to pay debt service on the bond issue,''.

(b) CONFORMING AMENDMENT.—Paragraph (3) of such section is amended by striking ''the investment earnings of'' and inserting ''distributions from''.

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect on January 1, 2000.

SEC. 1003. CHARITABLE SPLIT-DOLLAR LIFE INSURANCE, ANNUITY, AND ENDOWMENT CONTRACTS.

(a) IN GENERAL.—Subsection (f) of section 170 (relating to disallowance of deduction in certain cases and special rules) is amended by adding at the end the following new paragraph:

''(10) SPLIT-DOLLAR LIFE INSURANCE, ANNUITY, AND ENDOWMENT CONTRACTS.—

''(A) IN GENERAL.—Nothing in this section or in section 545(b)(2), 556(b)(2), 642(c), 2055, 2106(a)(2), or 2522 shall be construed to allow a deduction, and no deduction shall be allowed, for any transfer to or for the use of an organization described in subsection (c) if in connection with such transfer—

''(i) the organization directly or indirectly pays, or has previously paid, any premium on any personal benefit contract with respect to the transferor, or

''(ii) there is an understanding or expectation that any person will directly or indirectly pay any premium on any personal benefit contract with respect to the transferor.

''(B) PERSONAL BENEFIT CONTRACT.—For purposes of subparagraph (A), the term 'personal benefit contract' means, with respect to the transferor, any life insurance, annuity, or endowment contract if any direct or indirect beneficiary under such contract is the transferor, any member of the transferor's family, or any other person (other than an organization described in subsection (c)) designated by the transferor.

''(C) APPLICATION TO CHARITABLE REMAINDER TRUSTS.—In the case of a transfer to a trust referred to in subparagraph (E), references in subparagraphs (A) and (F) to an organization described in subsection (c) shall be treated as a reference to such trust.

''(D) EXCEPTION FOR CERTAIN ANNUITY CONTRACTS.—If, in connection with a transfer to or for the use of an organization described in subsection (c), such organization incurs an obligation to pay a charitable gift annuity (as defined in section 501(m)) and such organization purchases any annuity contract to fund such obligation, persons receiving payments under the charitable gift annuity shall not be treated for purposes of subparagraph (B) as indirect beneficiaries under such contract if—

''(i) such organization possesses all of the incidents of ownership under such contract,

''(ii) such organization is entitled to all the payments under such contract, and

''(iii) the timing and amount of payments under such contract are substantially the same as the timing and amount of payments to each such person under such obligation (as such obligation is in effect at the time of such transfer).

''(E) EXCEPTION FOR CERTAIN CONTRACTS HELD BY CHARITABLE REMAINDER TRUSTS.—A person shall not be treated for purposes of subparagraph (B) as an indirect beneficiary under any life insurance, annuity, or endowment contract held by a charitable remainder annuity trust or a charitable remainder unitrust (as defined in section 664(d)) solely by reason of being entitled to any payment referred to in paragraph (1)(A) or (2)(A) of section 664(d) if—

''(i) such trust possesses all of the incidents of ownership under such contract, and

''(ii) such trust is entitled to all the payments under such contract.

''(F) EXCISE TAX ON PREMIUMS PAID.—

''(i) IN GENERAL.—There is hereby imposed on any organization described in subsection (c) an excise tax equal to the premiums paid by such organization on any life insurance, annuity, or endowment contract if the payment of premiums on such contract is in connection with a transfer for which a deduction is not allowable under subparagraph (A), determined without regard to when such transfer is made.

''(ii) PAYMENTS BY OTHER PERSONS.—For purposes of clause (i), payments made by any other person pursuant to an understanding or expectation referred to in subparagraph (A) shall be treated as made by the organization.

''(iii) REPORTING.—Any organization on which tax is imposed by clause (i) with respect to any premium shall file an annual return which includes—

''(I) the amount of such premiums paid during the year and the name and TIN of each beneficiary under the contract to which the premium relates, and

''(II) such other information as the Secretary may require.

The penalties applicable to returns required under section 6033 shall apply to returns required under this clause. Returns required under this clause shall be furnished at such time and in such manner as the Secretary shall by forms or regulations require.

''(iv) CERTAIN RULES TO APPLY.—The tax imposed by this subparagraph shall be treated as imposed by chapter 42 for purposes of this title other than subchapter B of chapter 42.

''(G) SPECIAL RULE WHERE STATE REQUIRES SPECIFICATION OF CHARITABLE GIFT ANNUITANT IN CONTRACT.—In the case of an obligation to pay a charitable gift annuity referred to in subparagraph (D) which is entered into under the laws of a State which requires, in order for the charitable gift annuity to be exempt from insurance regulation by such State, that each beneficiary under the charitable gift annuity be named as a beneficiary under an annuity contract issued by an insurance company authorized to transact business in such State, the requirements of clauses (i) and (ii) of subparagraph (D) shall be treated as met if—

''(i) such State law requirement was in effect on February 8, 1999,

''(ii) each such beneficiary under the charitable gift annuity is a bona fide resident of such State at the time the obligation to pay a charitable gift annuity is entered into, and

''(iii) the only persons entitled to payments under such contract are persons entitled to payments as beneficiaries under such obligation on the date such obligation is entered into.

''(H) MEMBER OF FAMILY.—For purposes of this paragraph, an individual's family consists of the individual's grandparents, the grandparents of such individual's spouse, the lineal descendants of such grandparents, and any spouse of such a lineal descendant.

''(I) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this paragraph, including regulations to prevent the avoidance of such purposes.''

(b) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as otherwise provided in this section, the amendment made by this section shall apply to transfers made after February 8, 1999.

(2) EXCISE TAX.—Except as provided in paragraph (3) of this subsection, section 170(f)(10)(F) of the Internal Revenue Code of 1986 (as added by this section) shall apply to premiums paid after the date of the enactment of this Act.

(3) REPORTING.—Clause (iii) of such section 170(f)(10)(F) shall apply to premiums paid after February 8, 1999 (determined as if the tax imposed by such section applies to premiums paid after such date).

SEC. 1004. EXEMPTION PROCEDURE FROM TAXES ON SELF-DEALING.

(a) IN GENERAL.—Subsection (d) of section 4941 (relating to taxes on self-dealing) is amended by adding at the end the following new paragraph:

''(3) SPECIAL EXEMPTION.—The Secretary shall establish an exemption procedure for purposes of this subsection. Pursuant to such procedure, the Secretary may grant a conditional or unconditional exemption of any disqualified person or transaction or class of disqualified persons or transactions, from all or part of the restrictions imposed by paragraph (1). The Secretary may not grant an exemption under this paragraph unless he finds that such exemption is—

''(A) administratively feasible,

''(B) in the interests of the private foundation, and

''(C) protective of the rights of the private foundation.

Before granting an exemption under this paragraph, the Secretary shall require adequate notice to be given to interested persons and shall publish notice in the Federal Register of the pendency of such exemption and shall afford interested persons an opportunity to present views.''.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to transactions occurring after the date of the enactment of this Act.

SEC. 1005. EXPANSION OF DECLARATORY JUDGMENT REMEDY TO TAX-EXEMPT ORGANIZATIONS.

(a) IN GENERAL.—Subsection (a) of section 7428 (relating to creation of remedy) is amended—

(1) in subparagraph (B) by inserting after ''509(a))'' the following: ''or as a private operating foundation (as defined in section 4942(j)(3))'', and

(2) by amending subparagraph (C) to read as follows:

''(C) with respect to the initial qualification or continuing qualification of an organization as an organization described in section 501(c) (other than paragraph (3)) which is exempt from tax under section 501(a), or''.

(b) COURT JURISDICTION.—Subsection (a) of section 7428 is amended in the material following paragraph (2) by striking ''United States Tax Court, the United States Claims Court, or the district court of the United States for the District of Columbia'' and inserting the following: ''United States Tax Court (in the case of any such determination or failure) or the United States Claims Court or the district court of the United States for the District of Columbia (in the case of a determination or failure with respect to an issue referred to in subparagraph (A) or (B) of paragraph (1)),''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to pleadings filed with respect to determinations (or requests for determinations) made after the date of the enactment of this Act.

SEC. 1006. MODIFICATIONS TO SECTION 512(b)(13).

(a) IN GENERAL.—Paragraph (13) of section 512(b) is amended by redesignating subparagraph (E) as subparagraph (F) and by inserting after subparagraph (D) the following new paragraph:

''(E) PARAGRAPH TO APPLY ONLY TO EXCESS PAYMENTS.—

''(i) IN GENERAL.—Subparagraph (A) shall apply only to the portion of a specified payment received by the controlling organization that exceeds the amount which would have been paid if such payment met the requirements prescribed under section 482.

''(ii) ADDITION TO TAX FOR VALUATION MISSTATEMENTS.—The tax imposed by this chapter on the controlling organization shall be increased by an amount equal to 20 percent of such excess.''

(b) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendment made by this section shall apply to payments received or accrued after December 31, 1999.

(2) PAYMENTS SUBJECT TO BINDING CONTRACT TRANSITION RULE.—If the amendments made by section 1041 of the Taxpayer Relief Act of 1997 do not apply to any amount received or accrued after the date of the enactment of this Act under any contract described in subsection (b)(2) of such section, such amendments also shall not apply to amounts received or accrued under such contract before January 1, 2000.

TITLE XI—REAL ESTATE PROVISIONS

Subtitle A—Provisions Relating to Real Estate Investment Trusts

PART I—TREATMENT OF INCOME AND SERVICES PROVIDED BY TAXABLE REIT SUBSIDIARIES

SEC. 1101. MODIFICATIONS TO ASSET DIVERSIFICATION TEST.

(a) IN GENERAL.—Subparagraph (B) of section 856(c)(4) is amended to read as follows:

''(B)(i) not more than 25 percent of the value of its total assets is represented by securities (other than those includible under subparagraph (A)), and

''(ii) except with respect to a taxable REIT subsidiary and securities includible under subparagraph (A)—

''(I) not more than 5 percent of the value of its total assets is represented by securities of any 1 issuer,

''(II) the trust does not hold securities possessing more than 10 percent of the total voting power of the outstanding securities of any 1 issuer, and

''(III) the trust does not hold securities having a value of more than 10 percent of the total value of the outstanding securities of any 1 issuer.''

(b) EXCEPTION FOR STRAIGHT DEBT SECURITIES.—Subsection (c) of section 856 is amended by adding at the end the following new paragraph:

''(7) STRAIGHT DEBT SAFE HARBOR IN APPLYING PARAGRAPH (4).—Securities of an issuer which are straight debt (as defined in section 1361(c)(5) without regard to subparagraph (B)(iii) thereof) shall not be taken into account in applying paragraph (4)(B)(ii)(III) if—

''(A) the only securities of such issuer which are held by the trust or a taxable REIT subsidiary of the trust are straight debt (as so defined), or

''(B) the issuer is a partnership and the trust holds at least a 20 percent profits interest in the partnership.''

SEC. 1102. TREATMENT OF INCOME AND SERVICES PROVIDED BY TAXABLE REIT SUBSIDIARIES.

(a) INCOME FROM TAXABLE REIT SUBSIDIARIES NOT TREATED AS IMPERMISSIBLE TENANT SERVICE INCOME.—Clause (i) of section 856(d)(7)(C) (relating to exceptions to impermissible tenant service income) is amended by inserting ''or through a taxable REIT subsidiary of such trust'' after ''income''.

(b) CERTAIN INCOME FROM TAXABLE REIT SUBSIDIARIES NOT EXCLUDED FROM RENTS FROM REAL PROPERTY.—

(1) IN GENERAL.—Subsection (d) of section 856 (relating to rents from real property defined) is amended by adding at the end the following new paragraphs:

''(8) SPECIAL RULE FOR TAXABLE REIT SUBSIDIARIES.—For purposes of this subsection, amounts paid to a real estate investment trust by a taxable REIT subsidiary of such trust shall not be excluded from rents from real property by reason of paragraph (2)(B) if the requirements of subparagraph (A) or (B) are met.

''(A) LIMITED RENTAL EXCEPTION.—The requirements of this subparagraph are met with respect to any property if at least 90 percent of the leased space of the property is rented to persons other than taxable REIT subsidiaries of such trust and other than persons described in section 856(d)(2)(B). The preceding sentence shall apply only to the extent that the amounts paid to the trust as rents from real property (as defined in paragraph (1) without regard to paragraph (2)(B)) from such property are substantially comparable to such rents made by the other tenants of the trust's property for comparable space.

''(B) EXCEPTION FOR CERTAIN LODGING FACILITIES.—The requirements of this subparagraph are met with respect to an interest in real property which is a qualified lodging facility leased by the trust to a taxable REIT subsidiary of the trust if the property is operated on behalf of such subsidiary by a person who is an eligible independent contractor.

''(9) ELIGIBLE INDEPENDENT CONTRACTOR.—For purposes of paragraph (8)(B)—

''(A) IN GENERAL.—The term 'eligible independent contractor' means, with respect to any qualified lodging facility, any independent contractor if, at the time such contractor enters into a management agreement or other similar service contract with the taxable REIT subsidiary to operate the facility, such contractor (or any related person) is actively engaged in the trade or business of operating qualified lodging facilities for any person who is not a related person with respect to the real estate investment trust or the taxable REIT subsidiary.

''(B) SPECIAL RULES.—Solely for purposes of this paragraph and paragraph (8)(B), a person shall not fail to be treated as an independent contractor with respect to any qualified lodging facility by reason of any of the following:

''(i) The taxable REIT subsidiary bears the expenses for the operation of the facility pursuant to the management agreement or other similar service contract.

''(ii) The taxable REIT subsidiary receives the revenues from the operation of such facility, net of expenses for such operation and fees payable to the operator pursuant to such agreement or contract.

''(iii) The real estate investment trust receives income from such person with respect to another property that is attributable to a lease of such other property to such person that was in effect as on the later of—

''(I) January 1, 1999, or

''(II) the earliest date that any taxable REIT subsidiary of such trust entered into a management agreement or other similar service contract with such person with respect to such qualified lodging facility.

''(C) RENEWALS, ETC., OF EXISTING LEASES.—For purposes of subparagraph (B)(iii)—

''(i) a lease shall be treated as in effect on January 1, 1999, without regard to its renewal after such date, so long as such renewal is pursuant to the terms of such lease as in effect on whichever of the dates under subparagraph (B)(iii) is the latest, and

''(ii) a lease of a property entered into after whichever of the dates under subparagraph (B)(iii) is the latest shall be treated as in effect on such date if—

''(I) on such date, a lease of such property from the trust was in effect, and

''(II) under the terms of the new lease, such trust receives a substantially similar or lesser benefit in comparison to the lease referred to in subclause (I).

''(D) QUALIFIED LODGING FACILITY.—For purposes of this paragraph—

''(i) IN GENERAL.—The term 'qualified lodging facility' means any lodging facility unless wagering activities are conducted at or in connection with such facility by any person who is engaged in the business of accepting wagers and who is legally authorized to engage in such business at or in connection with such facility.

''(ii) LODGING FACILITY.—The term 'lodging facility' means a hotel, motel, or other establishment more than one-half of the dwelling units in which are used on a transient basis.

''(iii) CUSTOMARY AMENITIES AND FACILITIES.—The term 'lodging facility' includes customary amenities and facilities operated as part of, or associated with, the lodging facility so long as such amenities and facilities are customary for other properties of a comparable size and class owned by other owners unrelated to such real estate investment trust.

''(E) OPERATE INCLUDES MANAGE.—References in this paragraph to operating a property shall be treated as including a reference to managing the property.

''(F) RELATED PERSON.—Persons shall be treated as related to each other if such persons are treated as a single employer under subsection (a) or (b) of section 52.''.

(2) CONFORMING AMENDMENT.—Subparagraph (B) of section 856(d)(2) is amended by inserting ''except as provided in paragraph (8),'' after ''(B)''.

SEC. 1103. TAXABLE REIT SUBSIDIARY.

(a) IN GENERAL.—Section 856 is amended by adding at the end the following new subsection:

''(l) TAXABLE REIT SUBSIDIARY.—For purposes of this part—

''(1) IN GENERAL.—The term 'taxable REIT subsidiary' means, with respect to a real estate investment trust, a corporation (other than a real estate investment trust) if—

''(A) such trust directly or indirectly owns stock in such corporation, and

''(B) such trust and such corporation jointly elect that such corporation shall be treated as a taxable REIT subsidiary of such trust for purposes of this part.

Such an election, once made, shall be irrevocable unless both such trust and corporation consent to its revocation. Such election, and any revocation thereof, may be made without the consent of the Secretary.

''(2) 35 PERCENT OWNERSHIP IN ANOTHER TAXABLE REIT SUBSIDIARY.—The term 'taxable REIT subsidiary' includes, with respect to any real estate investment trust, any corporation (other than a real estate investment trust) with respect to which a taxable REIT subsidiary of such trust owns directly or indirectly—

''(A) securities possessing more than 35 percent of the total voting power of the outstanding securities of such corporation, or

''(B) securities having a value of more than 35 percent of the total value of the outstanding securities of such corporation.

The preceding sentence shall not apply to a qualified REIT subsidiary (as defined in subsection (i)(2)). The rule of section 856(c)(7) shall apply for purposes of subparagraph (B).

''(3) EXCEPTIONS.—The term 'taxable REIT subsidiary' shall not include—

''(A) any corporation which directly or indirectly operates or manages a lodging facility or a health care facility, and

''(B) any corporation which directly or indirectly provides to any other person (under a franchise, license, or otherwise) rights to any brand name under which any lodging facility or health care facility is operated.

Subparagraph (B) shall not apply to rights provided to an eligible independent contractor to operate or manage a lodging facility if such rights are held by such corporation as a franchisee, licensee, or in a similar capacity and such lodging facility is either owned by such corporation or is leased to such corporation from the real estate investment trust.

''(4) DEFINITIONS.—For purposes of paragraph (3)—

''(A) LODGING FACILITY.—The term 'lodging facility' has the meaning given to such term by paragraph (9)(D)(ii).

''(B) HEALTH CARE FACILITY.—The term 'health care facility' has the meaning given to such term by subsection (e)(6)(D)(ii).''.

(b) CONFORMING AMENDMENT.—Paragraph (2) of section 856(i) is amended by adding at the end the following new sentence: ''Such term shall not include a taxable REIT subsidiary.''

SEC. 1104. LIMITATION ON EARNINGS STRIPPING.

Paragraph (3) of section 163(j) (relating to limitation on deduction for interest on certain indebtedness) is amended by striking ''and'' at the end of subparagraph (A), by striking the period at the end of subparagraph (B) and inserting '', and'', and by adding at the end the following new subparagraph:

''(C) any interest paid or accrued (directly or indirectly) by a taxable REIT subsidiary (as defined in section 856(l)) of a real estate investment trust to such trust.''.

SEC. 1105. 100 PERCENT TAX ON IMPROPERLY ALLOCATED AMOUNTS.

(a) IN GENERAL.—Subsection (b) of section 857 (relating to method of taxation of real estate investment trusts and holders of shares or certificates of beneficial interest) is amended by redesignating paragraphs (7) and (8) as paragraphs (8) and (9), respectively, and by inserting after paragraph (6) the following new paragraph:

''(7) INCOME FROM REDETERMINED RENTS, REDETERMINED DEDUCTIONS, AND EXCESS INTEREST.—

''(A) IMPOSITION OF TAX.—There is hereby imposed for each taxable year of the real estate investment trust a tax equal to 100 percent of redetermined rents, redetermined deductions, and excess interest.

''(B) REDETERMINED RENTS.—

''(i) IN GENERAL.—The term 'redetermined rents' means rents from real property (as defined in subsection 856(d)) the amount of which would (but for subparagraph (E)) be reduced on distribution, apportionment, or allocation under section 482 to clearly reflect income as a result of services furnished or rendered by a taxable REIT subsidiary of the real estate investment trust to a tenant of such trust.

''(ii) EXCEPTION FOR CERTAIN SERVICES.—Clause (i) shall not apply to amounts received directly or indirectly by a real estate investment trust for services described in paragraph (1)(B) or (7)(C)(i) of section 856(d).

''(iii) EXCEPTION FOR DE MINIMIS AMOUNTS.—Clause (i) shall not apply to amounts described in section 856(d)(7)(A) with respect to a property to the extent such amounts do not exceed the one percent threshold described in section 856(d)(7)(B) with respect to such property.

''(iv) EXCEPTION FOR COMPARABLY PRICED SERVICES.—Clause (i) shall not apply to any service rendered by a taxable REIT subsidiary of a real estate investment trust to a tenant of such trust if—

''(I) such subsidiary renders a significant amount of similar services to persons other than such trust and tenants of such trust who are unrelated (within the meaning of section 856(d)(8)(F)) to such subsidiary, trust, and tenants, but

''(II) only to the extent the charge for such service so rendered is substantially comparable to the charge for the similar services rendered to persons referred to in subclause (I).

''(v) EXCEPTION FOR CERTAIN SEPARATELY CHARGED SERVICES.—Clause (i) shall not apply to any service rendered by a taxable REIT subsidiary of a real estate investment trust to a tenant of such trust if—

''(I) the rents paid to the trust by tenants (leasing at least 25 percent of the net leasable space in the trust's property) who are not receiving such service from such subsidiary are substantially comparable to the rents paid by tenants leasing comparable space who are receiving such service from such subsidiary, and

''(II) the charge for such service from such subsidiary is separately stated.

''(vi) EXCEPTION FOR CERTAIN SERVICES BASED ON SUBSIDIARY'S INCOME FROM THE SERVICES.—Clause (i) shall not apply to any

service rendered by a taxable REIT subsidiary of a real estate investment trust to a tenant of such trust if the gross income of such subsidiary from such service is not less than 150 percent of such subsidiary's direct cost in furnishing or rendering the service.

''(vii) EXCEPTIONS GRANTED BY SECRETARY.—The Secretary may waive the tax otherwise imposed by subparagraph (A) if the trust establishes to the satisfaction of the Secretary that rents charged to tenants were established on an arms' length basis even though a taxable REIT subsidiary of the trust provided services to such tenants.

''(C) REDETERMINED DEDUCTIONS.—The term 'redetermined deductions' means deductions (other than redetermined rents) of a taxable REIT subsidiary of a real estate investment trust if the amount of such deductions would (but for subparagraph (E)) be increased on distribution, apportionment, or allocation under section 482 to clearly reflect income as between such subsidiary and such trust.

''(D) EXCESS INTEREST.—The term 'excess interest' means any deductions for interest payments by a taxable REIT subsidiary of a real estate investment trust to such trust to the extent that the interest payments are in excess of a rate that is commercially reasonable.

''(E) COORDINATION WITH SECTION 482.—The imposition of tax under subparagraph (A) shall be in lieu of any distribution, apportionment, or allocation under section 482.

''(F) REGULATORY AUTHORITY.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this paragraph. Until the Secretary prescribes such regulations, real estate investment trusts and their taxable REIT subsidiaries may base their allocations on any reasonable method.''.

(b) AMOUNT SUBJECT TO TAX NOT REQUIRED TO BE DISTRIBUTED.—Subparagraph (E) of section 857(b)(2) (relating to real estate investment trust taxable income) is amended by striking ''paragraph (5)'' and inserting ''paragraphs (5) and (7)''.

SEC. 1106. EFFECTIVE DATE.

(a) IN GENERAL.—The amendments made by this part shall apply to taxable years beginning after December 31, 2000.

(b) TRANSITIONAL RULES RELATED TO SECTION 1101.—

(1) EXISTING ARRANGEMENTS.—

(A) IN GENERAL.—Except as otherwise provided in this paragraph, the amendment made by section 1101 shall not apply to a real estate investment trust with respect to—

(i) securities of a corporation held directly or indirectly by such trust on July 12, 1999,

(ii) securities of a corporation held by an entity on July 12, 1999, if such trust acquires control of such entity pursuant to a written binding contract in effect on such date and at all times thereafter before such acquisition,

(iii) securities received by such trust (or a successor) in exchange for, or with respect to, securities described in clause (i) or (ii) in a transaction in which gain or loss is not recognized, and

(iv) securities acquired directly or indirectly by such trust as part of a reorganization (as defined in section 368(a)(1) of the Internal Revenue Code of 1986) with respect to such trust if such securities are described in clause (i), (ii), or (iii) with respect to any other real estate investment trust.

(B) NEW TRADE OR BUSINESS OR SUBSTANTIAL NEW ASSETS.—Subparagraph (A) shall cease to apply to securities of a corporation as of the first day after July 12, 1999, on which such corporation engages in a substantial new line of business, or acquires any substantial asset, other than—

(i) pursuant to a binding contract in effect on such date and at all times thereafter before the acquisition of such asset,

(ii) in a transaction in which gain or loss is not recognized by reason of section 1031 or 1033 of the Internal Revenue Code of 1986, or

(iii) in a reorganization (as so defined) with another corporation the securities of which are described in paragraph (1)(A) of this subsection.

(2) TAX-FREE CONVERSION.—If—

(A) at the time of an election for a corporation to become a taxable REIT subsidiary, the amendment made by section 1101 does not apply to such corporation by reason of paragraph (1), and

(B) such election first takes effect before January 1, 2004,

such election shall be treated as a reorganization qualifying under section 368(a)(1)(A) of such Code.

PART II—HEALTH CARE REITS

SEC. 1111. HEALTH CARE REITS.

(a) SPECIAL FORECLOSURE RULE FOR HEALTH CARE PROPERTIES.—Subsection (e) of section 856 (relating to special rules for foreclosure property) is amended by adding at the end the following new paragraph:

''(6) SPECIAL RULE FOR QUALIFIED HEALTH CARE PROPERTIES.—For purposes of this subsection—

''(A) ACQUISITION AT EXPIRATION OF LEASE.—The term 'foreclosure property' shall include any qualified health care property acquired by a real estate investment trust as the result of the termination of a lease of such property (other than a termination by reason of a default, or the imminence of a default, on the lease).

''(B) GRACE PERIOD.—In the case of a qualified health care property which is foreclosure property solely by reason of subparagraph (A), in lieu of applying paragraphs (2) and (3)—

''(i) the qualified health care property shall cease to be foreclosure property as of the close of the second taxable year after the taxable year in which such trust acquired such property, and

''(ii) if the real estate investment trust establishes to the satisfaction of the Secretary that an extension of the grace period in clause (i) is necessary to the orderly leasing or liquidation of the trust's interest in such qualified health care property, the Secretary may grant 1 or more extensions of the grace period for such qualified health care property.

Any such extension shall not extend the grace period beyond the close of the 6th year after the taxable year in which such trust acquired such qualified health care property.

''(C) INCOME FROM INDEPENDENT CONTRACTORS.—For purposes of applying paragraph (4)(C) with respect to qualified health care property which is foreclosure property by reason of subparagraph (A) or paragraph (1), income derived or received by the trust from an independent contractor shall be disregarded to the extent such income is attributable to—

''(i) any lease of property in effect on the date the real estate investment trust acquired the qualified health care property (without regard to its renewal after such date so long as such renewal is pursuant to the terms of such lease as in effect on such date), or

''(ii) any lease of property entered into after such date if—

''(I) on such date, a lease of such property from the trust was in effect, and

''(II) under the terms of the new lease, such trust receives a substantially similar or lesser benefit in comparison to the lease referred to in subclause (I).

''(D) QUALIFIED HEALTH CARE PROPERTY.—

''(i) IN GENERAL.—The term 'qualified health care property' means any real property (including interests therein), and any personal property incident to such real property, which—

''(I) is a health care facility, or

''(II) is necessary or incidental to the use of a health care facility.

''(ii) HEALTH CARE FACILITY.—For purposes of clause (i), the term 'health care facility' means a hospital, nursing facility, assisted living facility, congregate care facility, qualified continuing care facility (as defined in section 7872(g)(4)), or other licensed facility which extends medical or nursing or ancillary services to patients and which, immediately before the termination, expiration, default, or breach of the lease of or mortgage secured by such facility, was operated by a provider of such services which was eligible for participation in the medicare program under title XVIII of the Social Security Act with respect to such facility.''

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years beginning after December 31, 2000.

PART III—CONFORMITY WITH REGULATED INVESTMENT COMPANY RULES

SEC. 1121. CONFORMITY WITH REGULATED INVESTMENT COMPANY RULES.

(a) DISTRIBUTION REQUIREMENT.—Clauses (i) and (ii) of section 857(a)(1)(A) (relating to requirements applicable to real estate investment trusts) are each amended by striking ''95 percent (90 percent for taxable years beginning before January 1, 1980)'' and inserting ''90 percent''.

(b) IMPOSITION OF TAX.—Clause (i) of section 857(b)(5)(A) (relating to imposition of tax in case of failure to meet certain requirements) is amended by striking ''95 percent (90 percent in the case of taxable years beginning before January 1, 1980)'' and inserting ''90 percent''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2000.

PART IV—CLARIFICATION OF EXCEPTION FROM IMPERMISSIBLE TENANT SERVICE INCOME

SEC. 1131. CLARIFICATION OF EXCEPTION FOR INDEPENDENT OPERATORS.

(a) IN GENERAL.—Paragraph (3) of section 856(d) (relating to independent contractor defined) is amended by adding at the end the following flush sentence:

''In the event that any class of stock of either the real estate investment trust or such person is regularly traded on an established securities market, only persons who own, directly or indirectly, more than 5 percent of such class of stock shall be taken into account as owning any of the stock of such class for purposes of applying the 35 percent limitation set forth in subparagraph (B) (but all of the outstanding stock of such class shall be considered outstanding in order to compute the denominator for purpose of determining the applicable percentage of ownership).''

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years beginning after December 31, 2000.

PART V—MODIFICATION OF EARNINGS AND PROFITS RULES

SEC. 1141. MODIFICATION OF EARNINGS AND PROFITS RULES.

(a) RULES FOR DETERMINING WHETHER REGULATED INVESTMENT COMPANY HAS EARNINGS AND PROFITS FROM NON-RIC YEAR.—Subsection (c) of section 852 is amended by adding at the end the following new paragraph:

''(3) DISTRIBUTIONS TO MEET REQUIREMENTS OF SUBSECTION (a)(2)(B).—Any distribution which is made in order to comply with the requirements of subsection (a)(2)(B)—

''(A) shall be treated for purposes of this subsection and subsection (a)(2)(B) as made from the earliest earnings and profits accumulated in any taxable year to which the provisions of this part did not apply rather than the most recently accumulated earnings and profits, and

''(B) to the extent treated under subparagraph (A) as made from accumulated earnings and profits, shall not be treated as a distribution for purposes of subsection (b)(2)(D) and section 855.''.

(b) CLARIFICATION OF APPLICATION OF REIT SPILLOVER DIVIDEND RULES TO DISTRIBUTIONS TO MEET QUALIFICATION REQUIREMENT.—Subparagraph (B) of section 857(d)(3) is amended by inserting before the period ''and section 858''.

(c) APPLICATION OF DEFICIENCY DIVIDEND PROCEDURES.—Paragraph (1) of section 852(e) is amended by adding at the end the following new sentence: ''If the determination under subparagraph (A) is solely as a result of the failure to meet the requirements of subsection (a)(2), the preceding sentence shall also apply for purposes of applying subsection (a)(2) to the non-RIC year.''

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to distributions after December 31, 2000.

PART VI—STUDY RELATING TO TAXABLE REIT SUBSIDIARIES

SEC. 1151. STUDY RELATING TO TAXABLE REIT SUBSIDIARIES.

The Commissioner of the Internal Revenue shall conduct a study to determine how many taxable REIT subsidiaries are in existence and the aggregate amount of taxes paid by such subsidiaries. The Secretary shall submit a report to the Congress describing the results of such study.

Subtitle B—Modification of At-Risk Rules for Publicly Traded Securities

SEC. 1161. TREATMENT UNDER AT-RISK RULES OF PUBLICLY TRADED NON-RECOURSE DEBT.

(a) IN GENERAL.—Subparagraph (A) of section 465(b)(6) (relating to qualified nonrecourse financing treated as amount at risk) is amended by striking ''share of'' and all that follows and inserting ''share of—

''(i) any qualified nonrecourse financing which is secured by real property used in such activity, and

''(ii) any other financing which—

''(I) would (but for subparagraph (B)(ii)) be qualified nonrecourse financing,

''(II) is qualified publicly traded debt, and

''(III) is not borrowed by the taxpayer from a person described in subclause (I), (II), or (III) of section 49(a)(1)(D)(iv).''

(b) QUALIFIED PUBLICLY TRADED DEBT.—Paragraph (6) of section 465(b) is amended by adding at the end the following new subparagraph:

''(F) QUALIFIED PUBLICLY TRADED DEBT.—For purposes of subparagraph (A), the term 'qualified publicly traded debt' means any debt instrument which is readily tradable on an established securities market. Such term shall not include any debt instrument which has a yield to maturity which equals or exceeds the limitation in section 163(i)(1)(B).''

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to debt instruments issued after December 31, 1999.

Subtitle C—Treatment of Construction Allowances and Certain Contributions To Capital of Retailers

SEC. 1171. EXCLUSION FROM GROSS INCOME OF QUALIFIED LESSEE CONSTRUCTION ALLOWANCES NOT LIMITED FOR CERTAIN RETAILERS TO SHORT-TERM LEASES.

(a) IN GENERAL.—Subsection (a) section 110 (relating to qualified lessee construction allowances for short-term leases) is amended by adding at the end the following new sentence: ''Paragraph (1) shall not apply if the lessee is a qualified retail business (as defined by section 118(d)(3)).''.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to leases entered into after December 31, 1999.

SEC. 1172. EXCLUSION FROM GROSS INCOME FOR CERTAIN CONTRIBUTIONS TO THE CAPITAL OF CERTAIN RETAILERS.

(a) IN GENERAL.—Section 118 (relating to contributions to the capital of a corporation) is amended by redesignating subsections (d) and (e) as subsections (e) and (f), respectively, and by inserting after subsection (c) the following new subsection:

''(d) SAFE HARBOR FOR CONTRIBUTIONS TO CERTAIN RETAILERS.—

''(1) GENERAL RULE.—For purposes of this section, the term 'contribution to the capital of the taxpayer' includes any amount of money or other property received by the taxpayer if—

''(A) the taxpayer has entered into an agreement to operate (or cause to be operated) a qualified retail business at a particular location for a period of at least 15 years,

''(B)(i) immediately after the receipt of such money or other property, the taxpayer owns the land and the structure to be used by the taxpayer in carrying on a qualified retail business at such location, or

''(ii) the taxpayer uses such amount to acquire ownership of at least such land and structure,

''(C) such amount meets the requirements of the expenditure rule of paragraph (2), and

''(D) the contributor of such amount does not hold a beneficial interest in any property located on the premises of such qualified retail business other than de minimis amounts of property associated with the operation of property adjacent to such premises.

''(2) EXPENDITURE RULE.—An amount meets the requirements of this paragraph if—

''(A) an amount equal to such amount is expended for the acquisition of land or for acquisition or construction of other property described in section 1231(b)—

''(i) which was the purpose motivating the contribution, and

''(ii) which is used predominantly in a qualified retail business at the location referred to in paragraph (1)(A),

''(B) the expenditure referred to in subparagraph (A) occurs before the end of the second taxable year after the year in which such amount was received, and

''(C) accurate records are kept of the amounts contributed and expenditures made on the basis of the project for which the contribution was made and on the basis of the year of the contribution expenditure.

''(3) DEFINITION OF QUALIFIED RETAIL BUSINESS.—

''(A) IN GENERAL.—Except as provided in subparagraph (B), the term 'qualified retail business' means a trade or business of selling tangible personal property to the general public if the premises on which such trade or business is conducted is in close proximity to property that the contributor of the amount referred to in paragraph (1) is developing or operating for profit (or, in the case of a contributor which is a governmental entity, is attempting to revitalize).

''(B) SERVICES.—A trade or business shall not fail to be treated as a qualified retail business by reason of sales of services if such sales are incident to the sale of tangible personal property or if the services are de minimis in amount.

''(4) SPECIAL RULES.—

''(A) LEASES.—For purposes of paragraph (1)(B)(i), property shall be treated as owned by the taxpayer if the taxpayer is the lessee of such property under a lease having a term of at least 30 years and on which only nominal rent is required.

''(B) CONTROLLED GROUPS.—For purposes of this subsection, all persons treated as a single employer under subsection (a) or (b) of section 52 shall be treated as 1 person.

''(5) DISALLOWANCE OF DEDUCTIONS AND CREDITS; ADJUSTED BASIS.—Notwithstanding any other provision of this subtitle, no deduction or credit shall be allowed for, or by reason of, any amount received by the taxpayer which constitutes a contribution to capital to which this subsection applies. The adjusted basis of any property acquired with the contributions to which this subsection applies shall be reduced by the amount of the contributions to which this subsection applies.

''(6) REGULATIONS.—The Secretary shall prescribe such regulations are appropriate to prevent the abuse of the purposes of the subsection, including regulations which allocate income and deductions (or adjust the amount excludable under this subsection) in cases in which—

''(A) payments in excess of fair market value are paid to the contributor by the taxpayer, or

''(B) the contributor and the taxpayer are related parties.''

(b) CONFORMING AMENDMENT.—Subsection (e) of section 118 (as redesignated by subsection (a)) is amended by adding at the end the following flush sentence:

''Rules similar to the rules of the preceding sentence shall apply to any amount treated as a contribution to the capital of the taxpayer under subsection (d).''

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to amounts received after December 31, 1999.

TITLE XII—PROVISIONS RELATING TO PENSIONS

Subtitle A—Expanding Coverage

SEC. 1201. INCREASE IN BENEFIT AND CONTRIBUTION LIMITS.

(a) DEFINED BENEFIT PLANS.—

(1) DOLLAR LIMIT.—

(A) Subparagraph (A) of section 415(b)(1) (relating to limitation for defined benefit plans) is amended by striking ''$90,000'' and inserting ''$160,000''.

(B) Subparagraphs (C) and (D) of section 415(b)(2) are each amended by striking ''$90,000'' each place it appears in the headings and the text and inserting ''$160,000''.

(C) Paragraph (7) of section 415(b) (relating to benefits under certain collectively bargained plans) is amended by striking ''the greater of $68,212 or one-half the amount otherwise applicable for such year under paragraph (1)(A) for '$90,000' '' and inserting ''one-half the amount otherwise applicable for such year under paragraph (1)(A) for '$160,000' ''.

(2) LIMIT REDUCED WHEN BENEFIT BEGINS BEFORE AGE 62.—Subparagraph (C) of section 415(b)(2) is amended by striking ''the social security retirement age'' each place it appears in the heading and text and inserting ''age 62''.

(3) LIMIT INCREASED WHEN BENEFIT BEGINS AFTER AGE 65.—Subparagraph (D) of section 415(b)(2) is amended by striking ''the social security retirement age'' each place it appears in the heading and text and inserting ''age 65''.

(4) COST-OF-LIVING ADJUSTMENTS.—Subsection (d) of section 415 (related to cost-of-living adjustments) is amended—

(A) in paragraph (1)(A) by striking ''$90,000'' and inserting ''$160,000'', and

(B) in paragraph (3)(A)—

(i) by striking ''$90,000'' in the heading and inserting ''$160,000'', and

(ii) by striking ''October 1, 1986'' and inserting ''July 1, 2000''.

(5) CONFORMING AMENDMENT.—Section 415(b)(2) is amended by striking subparagraph (F).

(b) DEFINED CONTRIBUTION PLANS.—

(1) DOLLAR LIMIT.—Subparagraph (A) of section 415(c)(1) (relating to limitation for defined contribution plans) is amended by striking ''$30,000'' and inserting ''$40,000''.

(2) COST-OF-LIVING ADJUSTMENTS.—Subsection (d) of section 415 (related to cost-of-living adjustments) is amended—

(A) in paragraph (1)(C) by striking ''$30,000'' and inserting ''$40,000'', and

(B) in paragraph (3)(D)—

(i) by striking ''$30,000'' in the heading and inserting ''$40,000'', and

(ii) by striking ''October 1, 1993'' and inserting ''July 1, 2000''.

(c) QUALIFIED TRUSTS.—

(1) COMPENSATION LIMIT.—Sections 401(a)(17), 404(l), 408(k), and 505(b)(7) are each amended by striking ''$150,000'' each place it appears and inserting ''$200,000''.

(2) BASE PERIOD AND ROUNDING OF COST-OF-LIVING ADJUSTMENT.—Subparagraph (B) of section 401(a)(17) is amended—

(A) by striking ''October 1, 1993'' and inserting ''July 1, 2000'', and

(B) by striking ''$10,000'' both places it appears and inserting ''$5,000''.

(d) ELECTIVE DEFERRALS.—

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

''(1) IN GENERAL.—

''(A) LIMITATION.—Notwithstanding subsections (e)(3) and (h)(1)(B), the elective deferrals of any individual for any taxable year shall be included in such individual's gross income to the extent the amount of such deferrals for the taxable year exceeds the applicable dollar amount.

''(B) APPLICABLE DOLLAR AMOUNT.—For purposes of subparagraph (A), the applicable dollar amount shall be the amount determined in accordance with the following table:

''Taxable year:	**Applicable dollar amount:**
2001	$11,000
2002	$12,000
2003	$13,000
2004	$14,000
2005 or thereafter	$15,000.''.

(2) COST-OF-LIVING ADJUSTMENT.—Paragraph (5) of section 402(g) is amended to read as follows:

''(5) COST-OF-LIVING ADJUSTMENT.—In the case of taxable years beginning after December 31, 2005, the Secretary shall adjust the $15,000 amount under paragraph (1)(B) at the same time and in the same manner as under section 415(d); except that the base period shall be the calendar quarter beginning July 1, 2004, and any increase under this paragraph which is not a multiple of $500 shall be rounded to the next lowest multiple of $500.''.

(3) CONFORMING AMENDMENTS.—

(A) Section 402(g) (relating to limitation on exclusion for elective deferrals), as amended by paragraphs (1) and (2), is further amended by striking paragraph (4) and redesignating paragraphs (5), (6), (7), (8), and (9) as paragraphs (4), (5), (6), (7), and (8), respectively.

(B) Paragraph (2) of section 457(c) is amended by striking ''402(g)(8)(A)(iii)'' and inserting ''402(g)(7)(A)(iii)''.

(C) Clause (iii) of section 501(c)(18)(D) is amended by striking ''(other than paragraph (4) thereof)''.

(e) DEFERRED COMPENSATION PLANS OF STATE AND LOCAL GOVERNMENTS AND TAX-EXEMPT ORGANIZATIONS.—

(1) IN GENERAL.—Section 457 (relating to deferred compensation plans of State and local governments and tax-exempt organizations) is amended—

(A) in subsections (b)(2)(A) and (c)(1) by striking ''$7,500'' each place it appears and inserting ''the applicable dollar amount'', and

(B) in subsection (b)(3)(A) by striking ''$15,000'' and inserting ''twice the dollar amount in effect under subsection (b)(2)(A)''.

(2) APPLICABLE DOLLAR AMOUNT; COST-OF-LIVING ADJUSTMENT.—Paragraph (15) of section 457(e) is amended to read as follows:

''(15) APPLICABLE DOLLAR AMOUNT.—

''(A) IN GENERAL.—The applicable dollar amount shall be the amount determined in accordance with the following table:

''Taxable year:	**Applicable dollar amount:**
2001	$11,000
2002	$12,000
2003	$13,000
2004	$14,000
2005 or thereafter	$15,000.

''(B) COST-OF-LIVING ADJUSTMENTS.—In the case of taxable years beginning after December 31, 2005, the Secretary shall adjust the $15,000 amount specified in the table in subparagraph (A) at the same time and in the same manner as under section 415(d), except that the base period shall be the calendar quarter beginning July 1, 2004, and any increase under this paragraph which is not a multiple of $500 shall be rounded to the next lowest multiple of $500.''.

(f) SIMPLE RETIREMENT ACCOUNTS.—

(1) LIMITATION.—Clause (ii) of section 408(p)(2)(A) (relating to general rule for qualified salary reduction arrangement) is amended by striking ''$6,000'' and inserting ''the applicable dollar amount''.

(2) APPLICABLE DOLLAR AMOUNT.—Subparagraph (E) of 408(p)(2) is amended to read as follows:

''(E) APPLICABLE DOLLAR AMOUNT; COST-OF-LIVING ADJUSTMENT.—

''(i) IN GENERAL.—For purposes of subparagraph (A)(ii), the applicable dollar amount shall be the amount determined in accordance with the following table:

''Year:	**Applicable dollar amount:**
2001	$7,000
2002	$8,000
2003	$9,000
2004 or thereafter	$10,000.

''(ii) COST-OF-LIVING ADJUSTMENT.—In the case of a year beginning after December 31, 2004, the Secretary shall adjust the $10,000 amount under clause (i) at the same time and in the same manner as under section 415(d), except that the base period taken into account shall be the calendar quarter beginning July 1, 2003, and any increase under this subparagraph which is not a multiple of $500 shall be rounded to the next lower multiple of $500.''.

(3) CONFORMING AMENDMENTS.—

(A) Clause (I) of section 401(k)(11)(B)(i) is amended by striking ''$6,000'' and inserting ''the amount in effect under section 408(p)(2)(A)(ii)''.

(B) Section 401(k)(11) is amended by striking subparagraph (E).

(g) ROUNDING RULE RELATING TO DEFINED BENEFIT PLANS AND DEFINED CONTRIBUTION PLANS.—Paragraph (4) of section 415(d) is amended to read as follows:

''(4) ROUNDING.—

''(A) $160,000 AMOUNT.—Any increase under subparagraph (A) of paragraph (1) which is not a multiple of $5,000 shall be rounded to the next lowest multiple of $5,000.

''(B) $40,000 AMOUNT.—Any increase under subparagraph (C) of paragraph (1) which is not a multiple of $1,000 shall be rounded to the next lowest multiple of $1,000.''.

(h) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to years beginning after December 31, 2000.

(2) COLLECTIVE BARGAINING AGREEMENTS.—In the case of a plan maintained pursuant to 1 or more collective bargaining agreements between employee representatives and 1 or more employers ratified by the date of enactment of this Act, the amendments made by this section shall not apply to contributions or benefits pursuant to any such agreement for years beginning before the earlier of—

(A) the later of—

(i) the date on which the last of such collective bargaining agreements terminates (determined without regard to any extension thereof on or after such date of enactment), or

(ii) January 1, 2001, or

(B) January 1, 2005.

SEC. 1202. PLAN LOANS FOR SUBCHAPTER S OWNERS, PARTNERS, AND SOLE PROPRIETORS.

(a) IN GENERAL.—Subparagraph (B) of section 4975(f)(6) (relating to exemptions not to apply to certain transactions) is amended by adding at the end the following new clause:

''(iii) LOAN EXCEPTION.—For purposes of subparagraph (A)(i), the term 'owner-employee' shall only include a person described in subclause (II) or (III) of clause (i).''

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to loans made after December 31, 2000.

SEC. 1203. MODIFICATION OF TOP-HEAVY RULES.

(a) SIMPLIFICATION OF DEFINITION OF KEY EMPLOYEE.—

(1) IN GENERAL.—Section 416(i)(1)(A) (defining key employee) is amended—

(A) by striking ''or any of the 4 preceding plan years'' in the matter preceding clause (i),

(B) by striking clause (i) and inserting the following:

''(i) an officer of the employer having an annual compensation greater than $150,000,'',

(C) by striking clause (ii) and redesignating clauses (iii) and (iv) as clauses (ii) and (iii), respectively, and

(D) by striking the second sentence in the matter following clause (iii), as redesignated by subparagraph (C).

(2) CONFORMING AMENDMENT.—Section 416(i)(1)(B)(iii) is amended by striking ''and subparagraph (A)(ii)''.

(b) MATCHING CONTRIBUTIONS TAKEN INTO ACCOUNT FOR MINIMUM CONTRIBUTION REQUIREMENTS.—Section 416(c)(2)(A) (relating to defined contribution plans) is amended by adding at the end the following: ''Employer matching contributions (as defined in section 401(m)(4)(A)) shall be taken into account for purposes of this subparagraph.''.

(c) DISTRIBUTIONS DURING LAST YEAR BEFORE DETERMINATION DATE TAKEN INTO ACCOUNT.—

(1) IN GENERAL.—Paragraph (3) of section 416(g) is amended to read as follows:

''(3) DISTRIBUTIONS DURING LAST YEAR BEFORE DETERMINATION DATE TAKEN INTO ACCOUNT.—

''(A) IN GENERAL.—For purposes of determining—

''(i) the present value of the cumulative accrued benefit for any employee, or

''(ii) the amount of the account of any employee,

such present value or amount shall be increased by the aggregate distributions made with respect to such employee under the plan during the 1-year period ending on the determination date. The preceding sentence shall also apply to distributions under a terminated plan which if it had not been terminated would have been required to be included in an aggregation group.

''(B) 5-YEAR PERIOD IN CASE OF IN-SERVICE DISTRIBUTION.—In the case of any distribution made for a reason other than separation

from service, death, or disability, subparagraph (A) shall be applied by substituting '5-year period' for '1-year period'.''.

(2) BENEFITS NOT TAKEN INTO ACCOUNT.—Subparagraph (E) of section 416(g)(4) is amended—

(A) by striking ''LAST 5 YEARS'' in the heading and inserting ''LAST YEAR BEFORE DETERMINATION DATE'', and

(B) by striking ''5-year period'' and inserting ''1-year period''.

(d) DEFINITION OF TOP-HEAVY PLANS.—Paragraph (4) of section 416(g) (relating to other special rules for top-heavy plans) is amended by adding at the end the following new subparagraph:

''(H) CASH OR DEFERRED ARRANGEMENTS USING ALTERNATIVE METHODS OF MEETING NONDISCRIMINATION REQUIREMENTS.—The term 'top-heavy plan' shall not include a plan which consists solely of—

''(i) a cash or deferred arrangement which meets the requirements of section 401(k)(12), and

''(ii) matching contributions with respect to which the requirements of section 401(m)(11) are met.

If, but for this subparagraph, a plan would be treated as a top-heavy plan because it is a member of an aggregation group which is a top-heavy group, contributions under the plan may be taken into account in determining whether any other plan in the group meets the requirements of subsection (c)(2).''

(e) FROZEN PLAN EXEMPT FROM MINIMUM BENEFIT REQUIREMENT.—Subparagraph (C) of section 416(c)(1) (relating to defined benefit plans) is amended—

(A) in clause (i), by striking ''clause (ii)'' and inserting ''clause (ii) or (iii)'', and

(B) by adding at the end the following:

''(iii) EXCEPTION FOR FROZEN PLAN.—For purposes of determining an employee's years of service with the employer, any service with the employer shall be disregarded to the extent that such service occurs during a plan year when the plan benefits (within the meaning of section 410(b)) no employee or former employee.''.

(f) EFFECTIVE DATE.—The amendments made by this section shall apply to years beginning after December 31, 2000.

SEC. 1204. ELECTIVE DEFERRALS NOT TAKEN INTO ACCOUNT FOR PURPOSES OF DEDUCTION LIMITS.

(a) IN GENERAL.—Section 404 (relating to deduction for contributions of an employer to an employees' trust or annuity plan and compensation under a deferred payment plan) is amended by adding at the end the following new subsection:

''(n) ELECTIVE DEFERRALS NOT TAKEN INTO ACCOUNT FOR PURPOSES OF DEDUCTION LIMITS.—Elective deferrals (as defined in section 402(g)(3)) shall not be subject to any limitation contained in paragraph (3), (7), or (9) of subsection (a), and such elective deferrals shall not be taken into account in applying any such limitation to any other contributions.''.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to years beginning after December 31, 2000.

SEC. 1205. REDUCED PBGC PREMIUM FOR NEW PLANS OF SMALL EMPLOYERS.

(a) IN GENERAL.—Subparagraph (A) of section 4006(a)(3) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1306(a)(3)(A)) is amended—

(1) in clause (i), by inserting ''other than a new single-employer plan (as defined in subparagraph (F)) maintained by a small employer (as so defined),'' after ''single-employer plan,'',

(2) in clause (iii), by striking the period at the end and inserting '', and'', and

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

''(iv) in the case of a new single-employer plan (as defined in subparagraph (F)) maintained by a small employer (as so defined) for the plan year, $5 for each individual who is a participant in such plan during the plan year.''.

(b) DEFINITION OF NEW SINGLE-EMPLOYER PLAN.—Section 4006(a)(3) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1306(a)(3)) is amended by adding at the end the following new subparagraph:

''(F)(i) For purposes of this paragraph, a single-employer plan maintained by a contributing sponsor shall be treated as a new single-employer plan for each of its first 5 plan years if, during the 36-month period ending on the date of the adoption of such plan, the sponsor or any member of such sponsor's controlled group (or any predecessor of either) had not established or maintained a plan to which this title applies with respect to which benefits were accrued for substantially the same employees as are in the new single-employer plan.

''(ii)(I) For purposes of this paragraph, the term 'small employer' means an employer which on the first day of any plan year has, in aggregation with all members of the controlled group of such employer, 100 or fewer employees.

''(II) In the case of a plan maintained by 2 or more contributing sponsors that are not part of the same controlled group, the employees of all contributing sponsors and controlled groups of such sponsors shall be aggregated for purposes of determining whether any contributing sponsor is a small employer.''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to plans established after December 31, 2000.

SEC. 1206. REDUCTION OF ADDITIONAL PBGC PREMIUM FOR NEW AND SMALL PLANS.

(a) NEW PLANS.—Subparagraph (E) of section 4006(a)(3) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1306(a)(3)(E)) is amended by adding at the end the following new clause:

''(v) In the case of a new defined benefit plan, the amount determined under clause (ii) for any plan year shall be an amount equal to the product of the amount determined under clause (ii) and the applicable percentage. For purposes of this clause, the term 'applicable percentage' means—

''(I) 0 percent, for the first plan year.

''(II) 20 percent, for the second plan year.

''(III) 40 percent, for the third plan year.

''(IV) 60 percent, for the fourth plan year.

''(V) 80 percent, for the fifth plan year.

For purposes of this clause, a defined benefit plan (as defined in section 3(35)) maintained by a contributing sponsor shall be treated as a new defined benefit plan for its first 5 plan years if, during the 36-month period ending on the date of the adoption of the plan, the sponsor and each member of any controlled group including the sponsor (or any predecessor of either) did not establish or maintain a plan to which this title applies with respect to which benefits were accrued for substantially the same employees as are in the new plan.''.

(b) SMALL PLANS.—Paragraph (3) of section 4006(a) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1306(a)) is amended—

(1) in subparagraph (E)(i) by striking ''The'' and inserting ''Except as provided in subparagraph (G), the'', and

(2) by inserting after subparagraph (F) the following new subparagraph:

''(G)(i) In the case of an employer who has 25 or fewer employees on the first day of the plan year, the additional premium determined under subparagraph (E) for each participant shall not exceed $5 multiplied by the number of participants in the plan as of the close of the preceding plan year.

''(ii) For purposes of clause (i), whether an employer has 25 or fewer employees on the first day of the plan year is determined taking into consideration all of the employees of all members of the contributing sponsor's controlled group. In the case of a plan maintained by 2 or more contributing sponsors, the employees of all contributing sponsors and their controlled groups shall be aggregated for purposes of determining whether 25-or-fewer-employees limitation has been satisfied.''.

(c) EFFECTIVE DATES.—

(1) SUBSECTION (a).—The amendments made by subsection (a) shall apply to plans established after December 31, 2000.

(2) SUBSECTION (b).—The amendments made by subsection (b) shall apply to plan years beginning after December 31, 2000.

SEC. 1207. REPEAL OF COORDINATION REQUIREMENTS FOR DEFERRED COMPENSATION PLANS OF STATE AND LOCAL GOVERNMENTS AND TAX-EXEMPT ORGANIZATIONS.

(a) IN GENERAL.—Subsection (c) of section 457 (relating to deferred compensation plans of State and local governments and tax-exempt organizations), as amended by section 1201(e), is amended to read as follows:

''(c) LIMITATION.—The maximum amount of the compensation of any one individual which may be deferred under subsection (a) during any taxable year shall not exceed the amount in effect under subsection (b)(2)(A) (as modified by any adjustment provided under subsection (b)(3)).''.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to years beginning after December 31, 2000.

SEC. 1208. ELIMINATION OF USER FEE FOR REQUESTS TO IRS REGARDING PENSION PLANS.

(a) ELIMINATION OF CERTAIN USER FEES.—The Secretary of the Treasury or the Secretary's delegate shall not require payment of user fees under the program established under section 7527 of the Internal Revenue Code of 1986 for requests to the Internal Revenue Service for determination letters with respect to the qualified status of a pension benefit plan maintained solely by one or more eligible employers or any trust which is part of the plan. The preceding sentence shall not apply to any request made by the sponsor of any prototype or similar plan which the sponsor intends to market to participating employers.

(b) PENSION BENEFIT PLAN.—For purposes of this section, the term ''pension benefit plan'' means a pension, profit-sharing, stock bonus, annuity, or employee stock ownership plan.

(c) ELIGIBLE EMPLOYER.—For purposes of this section, the term ''eligible employer'' has the same meaning given such term in section 408(p)(2)(C)(i)(I) of the Internal Revenue Code of 1986. The determination of whether an employer is an eligible employer under this section shall be made as of the date of the request described in subsection (a).

(d) EFFECTIVE DATE.—The provisions of this section shall apply with respect to requests made after December 31, 2000.

SEC. 1209. DEDUCTION LIMITS.

(a) IN GENERAL.—Section 404(a) (relating to general rule) is amended by adding at the end the following:

''(12) DEFINITION OF COMPENSATION.—For purposes of paragraphs (3), (7), (8), and (9), the term 'compensation' shall include amounts treated as participant's compensation under subparagraph (C) or (D) of section 415(c)(3).''.

(b) CONFORMING AMENDMENT.—Subparagraph (B) of section 404(a)(3) is amended by striking the last sentence thereof.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to years beginning after December 31, 2000.

SEC. 1210. OPTION TO TREAT ELECTIVE DEFERRALS AS AFTER-TAX CONTRIBUTIONS.

(a) IN GENERAL.—Subpart A of part I of subchapter D of chapter 1 (relating to deferred compensation, etc.) is amended by inserting after section 402 the following new section:

"SEC. 402A. OPTIONAL TREATMENT OF ELECTIVE DEFERRALS AS PLUS CONTRIBUTIONS.

''(a) GENERAL RULE.—If an applicable retirement plan includes a qualified plus contribution program—

''(1) any designated plus contribution made by an employee pursuant to the program shall be treated as an elective deferral for purposes of this chapter, except that such contribution shall not be excludable from gross income, and

''(2) such plan (and any arrangement which is part of such plan) shall not be treated as failing to meet any requirement of this chapter solely by reason of including such program.

''(b) QUALIFIED PLUS CONTRIBUTION PROGRAM.—For purposes of this section—

''(1) IN GENERAL.—The term 'qualified plus contribution program' means a program under which an employee may elect to make designated plus contributions in lieu of all or a portion of elective deferrals the employee is otherwise eligible to make under the applicable retirement plan.

''(2) SEPARATE ACCOUNTING REQUIRED.—A program shall not be treated as a qualified plus contribution program unless the applicable retirement plan—

''(A) establishes separate accounts ('designated plus accounts') for the designated plus contributions of each employee and any earnings properly allocable to the contributions, and

''(B) maintains separate recordkeeping with respect to each account.

''(c) DEFINITIONS AND RULES RELATING TO DESIGNATED PLUS CONTRIBUTIONS.—For purposes of this section—

''(1) DESIGNATED PLUS CONTRIBUTION.—The term 'designated plus contribution' means any elective deferral which—

''(A) is excludable from gross income of an employee without regard to this section, and

''(B) the employee designates (at such time and in such manner as the Secretary may prescribe) as not being so excludable.

''(2) DESIGNATION LIMITS.—The amount of elective deferrals which an employee may designate under paragraph (1) shall not exceed the excess (if any) of—

''(A) the maximum amount of elective deferrals excludable from gross income of the employee for the taxable year (without regard to this section), over

''(B) the aggregate amount of elective deferrals of the employee for the taxable year which the employee does not designate under paragraph (1).

''(3) ROLLOVER CONTRIBUTIONS.—

''(A) IN GENERAL.—A rollover contribution of any payment or distribution from a designated plus account which is otherwise allowable under this chapter may be made only if the contribution is to—

''(i) another designated plus account of the individual from whose account the payment or distribution was made, or

''(ii) a Roth IRA of such individual.

''(B) COORDINATION WITH LIMIT.—Any rollover contribution to a designated plus account under subparagraph (A) shall not be taken into account for purposes of paragraph (1).

''(d) DISTRIBUTION RULES.—For purposes of this title—

''(1) EXCLUSION.—Any qualified distribution from a designated plus account shall not be includible in gross income.

''(2) QUALIFIED DISTRIBUTION.—For purposes of this subsection—

''(A) IN GENERAL.—The term 'qualified distribution' has the meaning given such term by section 408A(d)(2)(A) (without regard to clause (iv) thereof).

''(B) DISTRIBUTIONS WITHIN NONEXCLUSION PERIOD.—A payment or distribution from a designated plus account shall not be treated as a qualified distribution if such payment or distribution is made within the 5-taxable-year period beginning with the earlier of—

''(i) the 1st taxable year for which the individual made a designated plus contribution to any designated plus account established for such individual under the same applicable retirement plan, or

''(ii) if a rollover contribution was made to such designated plus account from a designated plus account previously established for such individual under another applicable retirement plan, the 1st taxable year for which the individual made a designated plus contribution to such previously established account.

''(C) DISTRIBUTIONS OF EXCESS DEFERRALS AND EARNINGS.—The term 'qualified distribution' shall not include any distribution of any excess deferral under section 402(g)(2) and any income on the excess deferral.

''(3) AGGREGATION RULES.—Section 72 shall be applied separately with respect to distributions and payments from a designated plus account and other distributions and payments from the plan.

''(e) OTHER DEFINITIONS.—For purposes of this section—

''(1) APPLICABLE RETIREMENT PLAN.—The term 'applicable retirement plan' means—

''(A) an employees' trust described in section 401(a) which is exempt from tax under section 501(a), and

''(B) a plan under which amounts are contributed by an individual's employer for an annuity contract described in section 403(b).

''(2) ELECTIVE DEFERRAL.—The term 'elective deferral' means any elective deferral described in subparagraph (A) or (C) of section 402(g)(3).''

(b) EXCESS DEFERRALS.—Section 402(g) (relating to limitation on exclusion for elective deferrals) is amended—

(1) by adding at the end of paragraph (1) the following new sentence: ''The preceding sentence shall not apply to so much of such excess as does not exceed the designated plus contributions of the individual for the taxable year.'', and

(2) by inserting ''(or would be included but for the last sentence thereof)'' after ''paragraph (1)'' in paragraph (2)(A).

(c) ROLLOVERS.—Subparagraph (B) of section 402(c)(8) is amended by adding at the end the following:

''If any portion of an eligible rollover distribution is attributable to payments or distributions from a designated plus account (as defined in section 402A), an eligible retirement plan with respect to such portion shall include only another designated plus account and a Roth IRA.''

(d) REPORTING REQUIREMENTS.—

(1) W–2 INFORMATION.—Section 6051(a)(8) is amended by inserting '', including the amount of designated plus contributions (as defined in section 402A)'' before the comma at the end.

(2) INFORMATION.—Section 6047 is amended by redesignating subsection (f) as subsection (g) and by inserting after subsection (e) the following new subsection:

''(f) DESIGNATED PLUS CONTRIBUTIONS.—The Secretary shall require the plan administrator of each applicable retirement plan (as defined in section 402A) to make such returns and reports regarding designated plus contributions (as so defined) to the Secretary, participants and beneficiaries of the plan, and such other persons as the Secretary may prescribe.''

(e) CONFORMING AMENDMENTS.—

(1) Section 408A(e) is amended by adding after the first sentence the following new sentence: ''Such term includes a rollover contribution described in section 402A(c)(3)(A).''

(2) The table of sections for subpart A of part I of subchapter D of chapter 1 is amended by inserting after the item relating to section 402 the following new item:

''Sec. 402A. Optional treatment of elective deferrals as plus contributions.''

(f) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2000.

SEC. 1211. INCREASE IN MINIMUM DEFINED BENEFIT LIMIT UNDER SECTION 415.

(a) IN GENERAL.—Paragraph (4) of section 415(b) (relating to total annual benefits not in excess of $10,000) is amended to read as follows:

''(4) TOTAL ANNUAL BENEFITS NOT IN EXCESS OF $40,000.—

''(A) IN GENERAL.—Notwithstanding the preceding provisions of this subsection, the benefits payable with respect to a participant under any defined benefit plan shall be deemed not to exceed the limitation of this subsection if the retirement benefits payable with respect to such participant under such plan and under all other defined benefit plans of the employer do not exceed applicable limit which applies to the plan year, or the applicable limit which applies to prior plan years.

''(B) APPLICABLE LIMIT.—For purposes of subparagraph (A), the applicable limit is—

''(i) $10,000 for plan years beginning before 2001,

''(ii) $20,000 for plan years beginning during 2001,

''(iii) $30,000 for plan years beginning during 2002, and

''(iv) $40,000 for plan years beginning after 2002.''

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to years beginning after December 31, 2000.

Subtitle B—Enhancing Fairness for Women

SEC. 1221. ADDITIONAL SALARY REDUCTION CATCH-UP CONTRIBUTIONS.

(a) LIMITATION ON EXCLUSION FOR ELECTIVE DEFERRALS.—

(1) IN GENERAL.—Subsection (g) of section 402 (as amended by section 1201(d)) is further amended by adding at the end the following:

''(9) CATCH-UP CONTRIBUTIONS FOR THOSE APPROACHING RETIREMENT.—

''(A) IN GENERAL.—In the case of an individual who is at least age 50 as of the end of any taxable year, the limitation of paragraph (1) for such year, after the application of paragraph (7), shall be increased by the applicable catch-up amount.

''(B) APPLICABLE CATCH-UP AMOUNT.—For purposes of subparagraph (A), the applicable catch-up amount shall be the amount determined in accordance with the following table:

"Taxable year:	Applicable catch-up amount:
2001	$1,000
2002	$2,000
2003	$3,000
2004	$4,000
2005 or thereafter	$5,000.''.

(2) COST-OF-LIVING ADJUSTMENTS.—Paragraph (4) of section 402(g) (relating to cost-of-living adjustment), as amended by section 1201(d), is further amended by inserting ''and the $5,000 dollar amount in paragraph (9)'' after ''paragraph (1)(B)''.

(b) SIMPLE RETIREMENT ACCOUNTS.—Paragraph (2) of section 408(p) (relating to qualified salary reduction arrangement) is amended by inserting at the end of the following new subparagraph:

''(F) CATCH-UP CONTRIBUTIONS FOR THOSE APPROACHING RETIREMENT.—In the case of an individual who is at least age 50 as of the end of any taxable year, the limitation of subparagraph (A)(ii) for such year shall be increased by the applicable catch-up amount. For purposes of the preceding sentence, the applicable catch-up amount is the amount in effect under section 402(g)(9) for such taxable year.''.

(c) DEFERRED COMPENSATION PLANS OF STATE AND LOCAL GOVERNMENTS AND TAX-EXEMPT ORGANIZATIONS.—Subsection (e) of section 457 (relating to other definitions and special rules) is amended by adding after paragraph (16) the following new paragraph:

''(17) CATCH-UP AMOUNTS.—In the case of an individual who is at least age 50 as of the end of any taxable year, the limitation of subsection (b)(2)(A) for such year shall be increased by the applicable catch-up amount (as in effect under section 402(g)(9) for such taxable year), except that this paragraph shall not apply to any taxable year to which subsection (b)(3) applies.''.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to years beginning after December 31, 2000.

SEC. 1222. EQUITABLE TREATMENT FOR CONTRIBUTIONS OF EMPLOYEES TO DEFINED CONTRIBUTION PLANS.

(a) EQUITABLE TREATMENT.—

(1) IN GENERAL.—Subparagraph (B) of section 415(c)(1) (relating to limitation for defined contribution plans) is amended by striking ''25 percent'' and inserting ''100 percent''.

(2) APPLICATION TO SECTION 403(b).—Section 403(b) is amended—

(A) by striking ''the exclusion allowance for such taxable year'' in paragraph (1) and inserting ''the applicable limit under section 415'',

(B) by striking paragraph (2), and

(C) by inserting ''or any amount received by a former employee after the 5th taxable year following the taxable year in which such employee was terminated'' before the period at the end of the second sentence of paragraph (3).

(3) CONFORMING AMENDMENTS.—

(A) Subsection (f) of section 72 is amended by striking ''section 403(b)(2)(D)(iii))'' and inserting ''section 403(b)(2)(D)(iii), as in effect on December 31, 2000)''.

(B) Section 404(a)(10)(B) is amended by striking '', the exclusion allowance under section 403(b)(2),''.

(C) Section 415(a)(2) is amended by striking '', and the amount of the contribution for such portion shall reduce the exclusion allowance as provided in section 403(b)(2)''.

(D) Section 415(c)(3) is amended by adding at the end the following new subparagraph:

''(E) ANNUITY CONTRACTS.—In the case of an annuity contract described in section 403(b), the term 'participant's compensation' means the participant's includible compensation determined under section 403(b)(3).''.

(E) Section 415(c) is amended by striking paragraph (4).

(F) Section 415(c)(7) is amended to read as follows:

''(7) CERTAIN CONTRIBUTIONS BY CHURCH PLANS NOT TREATED AS EXCEEDING LIMIT.—

''(A) IN GENERAL.—Notwithstanding any other provision of this subsection, at the election of a participant who is an employee of a church or a convention or association of churches, including an organization described in section 414(e)(3)(B)(ii), contributions and other additions for an annuity contract or retirement income account described in section 403(b) with respect to such participant, when expressed as an annual addition to such participant's account, shall be treated as not exceeding the limitation of paragraph (1) if such annual addition is not in excess of $10,000.

''(B) $40,000 AGGREGATE LIMITATION.—The total amount of additions with respect to any participant which may be taken into account for purposes of this subparagraph for all years may not exceed $40,000.

''(C) ANNUAL ADDITION.—For purposes of this paragraph, the term 'annual addition' has the meaning given such term by paragraph (2).''.

(G) Subparagraph (B) of section 402(g)(7) (as amended by section 1201(d)) is amended by inserting before the period at the end the following: ''(as in effect on the date of the enactment of the Financial Freedom Act of 1999)''.

(3) EFFECTIVE DATE.—The amendments made by this subsection shall apply to years beginning after December 31, 2000.

(b) SPECIAL RULES FOR SECTIONS 403(b) AND 408.—

(1) IN GENERAL.—Subsection (k) of section 415 is amended by adding at the end the following new paragraph:

''(4) SPECIAL RULES FOR SECTIONS 403(b) AND 408.—For purposes of this section, any annuity contract described in section 403(b) for the benefit of a participant shall be treated as a defined contribution plan maintained by each employer with respect to which the participant has the control required under subsection (b) or (c) of section 414 (as modified by subsection (h)). For purposes of this section, any contribution by an employer to a simplified employee pension plan for an individual for a taxable year shall be treated as an employer contribution to a defined contribution plan for such individual for such year.''.

(2) EFFECTIVE DATE.—

(A) IN GENERAL.—The amendment made by paragraph (1) shall apply to limitation years beginning after December 31, 1999.

(B) EXCLUSION ALLOWANCE.—Effective for limitation years beginning in 2000, in the case of any annuity contract described in section 403(b) of the Internal Revenue Code of 1986, the amount of the contribution disqualified by reason of section 415(g) of such Code shall reduce the exclusion allowance as provided in section 403(b)(2) of such Code.

(c) DEFERRED COMPENSATION PLANS OF STATE AND LOCAL GOVERNMENTS AND TAX-EXEMPT ORGANIZATIONS.—

(1) IN GENERAL.—Subparagraph (B) of section 457(b)(2) (relating to salary limitation on eligible deferred compensation plans) is amended by striking ''33⅓ percent'' and inserting ''100 percent''.

(2) EFFECTIVE DATE.—The amendment made by this subsection shall apply to years beginning after December 31, 2000.

SEC. 1223. FASTER VESTING OF CERTAIN EMPLOYER MATCHING CONTRIBUTIONS.

(a) IN GENERAL.—Section 411(a) (relating to minimum vesting standards) is amended—

(1) in paragraph (2), by striking ''A plan'' and inserting ''Except as provided in paragraph (12), a plan'', and

(2) by adding at the end the following:

''(12) FASTER VESTING FOR MATCHING CONTRIBUTIONS.—In the case of matching contributions (as defined in section 401(m)(4)(A)), paragraph (2) shall be applied—

''(A) by substituting '3 years' for '5 years' in subparagraph (A), and

''(B) by substituting the following table for the table contained in subparagraph (B):

"Years of service:	The nonforfeitable percentage is:
2	20
3	40
4	60
5	80
6 or more	100.''.

(b) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to plan years beginning after December 31, 2000.

(2) COLLECTIVE BARGAINING AGREEMENTS.—In the case of a plan maintained pursuant to 1 or more collective bargaining agreements between employee representatives and 1 or more employers ratified by the date of the enactment of this Act, the amendments made by this section shall not apply to plan years beginning before the earlier of—

(A) the later of—

(i) the date on which the last of such collective bargaining agreements terminates (determined without regard to any extension thereof on or after such date of enactment), or

(ii) January 1, 2001, or

(B) January 1, 2005.

(3) SERVICE REQUIRED.—With respect to any plan, the amendments made by this section shall not apply to any employee before the date that such employee has 1 hour of service under such plan in any plan year to which the amendments made by this section apply.

SEC. 1224. SIMPLIFY AND UPDATE THE MINIMUM DISTRIBUTION RULES.

(a) SIMPLIFICATION AND FINALIZATION OF MINIMUM DISTRIBUTION REQUIREMENTS.—

(1) IN GENERAL.—The Secretary of the Treasury shall—

(A) simplify and finalize the regulations relating to minimum distribution requirements under sections 401(a)(9), 408(a)(6) and (b)(3), 403(b)(10), and 457(d)(2) of the Internal Revenue Code of 1986, and

(B) modify such regulations to—

(i) reflect current life expectancy, and

(ii) revise the required distribution methods so that, under reasonable assumptions, the amount of the required minimum distribution does not decrease over a participant's life expectancy.

(2) FRESH START.—Notwithstanding subparagraph (D) of section 401(a)(9) of such Code, during the first year that regulations are in effect under this subsection, required distributions for future years may be redetermined to reflect changes under such regulations. Such redetermination shall include the opportunity to choose a new designated beneficiary and to elect a new method of calculating life expectancy.

(3) EFFECTIVE DATE FOR REGULATIONS.—Regulations referred to in paragraph (1) shall be effective for years beginning after December 31, 2000, and shall apply in such years without regard to whether an individual had previously begun receiving minimum distributions.

(b) REPEAL OF RULE WHERE DISTRIBUTIONS HAD BEGUN BEFORE DEATH OCCURS.—

(1) IN GENERAL.—Subparagraph (B) of section 401(a)(9) is amended by striking clause (i) and redesignating clauses (ii), (iii), and (iv) as clauses (i), (ii), and (iii), respectively.

(2) CONFORMING CHANGES.—

(A) Clause (i) of section 401(a)(9)(B) (as so redesignated) is amended—

(i) by striking ''FOR OTHER CASES'' in the heading, and

(ii) by striking ''the distribution of the employee's interest has begun in accordance with subparagraph (A)(ii)'' and inserting ''his entire interest has been distributed to him,''.

(B) Clause (ii) of section 401(a)(9)(B) (as so redesignated) is amended by striking ''clause (ii)'' and inserting ''clause (i)''.

(C) Clause (iii) of section 401(a)(9)(B) (as so redesignated) is amended—

(i) by striking ''clause (iii)(I)'' and inserting ''clause (ii)(I)'',

(ii) in subclause (I) by striking ''clause (iii)(III)'' and inserting ''clause (ii)(III)'',

(iii) in subclause (I) by striking ''the date on which the employee would have attained the age 70½,'' and inserting ''April 1 of the calendar year following the calendar year in which the spouse attains 70½,'', and

(iv) in subclause (II) by striking ''the distributions to such spouse begin,'' and inserting ''his entire interest has been distributed to him,''.

(3) EFFECTIVE DATE.—The amendments made by this subsection shall apply to years beginning after December 31, 2000.

(c) REDUCTION IN EXCISE TAX.—

(1) IN GENERAL.—Subsection (a) of section 4974 is amended by striking ''50 percent'' and inserting ''10 percent''.

(2) EFFECTIVE DATE.—The amendment made by this subsection shall apply to years beginning after December 31, 2000.

SEC. 1225. CLARIFICATION OF TAX TREATMENT OF DIVISION OF SECTION 457 PLAN BENEFITS UPON DIVORCE.

(a) IN GENERAL.—Section 414(p)(11) (relating to application of rules to governmental and church plans) is amended—

(1) by inserting ''or an eligible deferred compensation plan (within the meaning of section 457(b))'' after ''subsection (e))'', and

(2) in the heading, by striking ''GOVERNMENTAL AND CHURCH PLANS'' and inserting ''CERTAIN OTHER PLANS''.

(b) WAIVER OF CERTAIN DISTRIBUTION REQUIREMENTS.—Paragraph (10) of section 414(p) is amended by striking ''and section 409(d)'' and inserting ''section 409(d), and section 457(d)''.

(c) TAX TREATMENT OF PAYMENTS FROM A SECTION 457 PLAN.—Subsection (p) of section 414 is amended by redesignating paragraph (12) as paragraph (13) and inserting after paragraph (11) the following new paragraph:

''(12) TAX TREATMENT OF PAYMENTS FROM A SECTION 457 PLAN.—If a distribution or payment from an eligible deferred compensation plan described in section 457(b) is made pursuant to a qualified domestic relations order, rules similar to the rules of section 402(e)(1)(A) shall apply to such distribution or payment.''.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to transfers, distributions, and payments made after December 31, 2000.

Subtitle C—Increasing Portability for Participants

SEC. 1231. ROLLOVERS ALLOWED AMONG VARIOUS TYPES OF PLANS.

(a) ROLLOVERS FROM AND TO SECTION 457 PLANS.—

(1) ROLLOVERS FROM SECTION 457 PLANS.—

(A) IN GENERAL.—Section 457(e) (relating to other definitions and special rules) is amended by adding at the end the following:

''(16) ROLLOVER AMOUNTS.—

''(A) GENERAL RULE.—In the case of an eligible deferred compensation plan established and maintained by an employer described in subsection (e)(1)(A), if—

''(i) any portion of the balance to the credit of an employee in such plan is paid to such employee in an eligible rollover distribution (within the meaning of section 402(c)(4) without regard to subparagraph (C) thereof),

''(ii) the employee transfers any portion of the property such employee receives in such distribution to an eligible retirement plan described in section 402(c)(8)(B), and

''(iii) in the case of a distribution of property other than money, the amount so transferred consists of the property distributed,

then such distribution (to the extent so transferred) shall not be includible in gross income for the taxable year in which paid.

''(B) CERTAIN RULES MADE APPLICABLE.—The rules of paragraphs (2) through (7) (other than paragraph (4)(C)) and (9) of section 402(c) and section 402(f) shall apply for purposes of subparagraph (A).

''(C) REPORTING.—Rollovers under this paragraph shall be reported to the Secretary in the same manner as rollovers from qualified retirement plans (as defined in section 4974(c)).''.

(B) DEFERRAL LIMIT DETERMINED WITHOUT REGARD TO ROLLOVER AMOUNTS.—Section 457(b)(2) (defining eligible deferred compensation plan) is amended by inserting ''(other than rollover amounts)'' after ''taxable year''.

(C) DIRECT ROLLOVER.—Paragraph (1) of section 457(d) is amended by striking ''and'' at the end of subparagraph (A), by striking the period at the end of subparagraph (B) and inserting '', and'', and by inserting after subparagraph (B) the following:

''(C) in the case of a plan maintained by an employer described in subsection (e)(1)(A), the plan meets requirements similar to the requirements of section 401(a)(31).

Any amount transferred in a direct trustee-to-trustee transfer in accordance with section 401(a)(31) shall not be includible in gross income for the taxable year of transfer.''.

(D) WITHHOLDING.—

(i) Paragraph (12) of section 3401(a) is amended by adding at the end the following:

''(E) under or to an eligible deferred compensation plan which, at the time of such payment, is a plan described in section 457(b) maintained by an employer described in section 457(e)(1)(A); or''.

(ii) Paragraph (3) of section 3405(c) is amended to read as follows:

''(3) ELIGIBLE ROLLOVER DISTRIBUTION.—For purposes of this subsection, the term 'eligible rollover distribution' has the meaning given such term by section 402(f)(2)(A).''.

(iii) LIABILITY FOR WITHHOLDING.—Subparagraph (B) of section 3405(d)(2) is amended by striking ''or'' at the end of clause (ii), by striking the period at the end of clause (iii) and inserting '', or'', and by adding at the end the following:

''(iv) section 457(b).''.

(2) ROLLOVERS TO SECTION 457 PLANS.—

(A) IN GENERAL.—Section 402(c)(8)(B) (defining eligible retirement plan) is amended by striking ''and'' at the end of clause (iii), by striking the period at the end of clause (iv) and inserting '', and'', and by inserting after clause (iv) the following new clause:

''(v) an eligible deferred compensation plan described in section 457(b) of an employer described in section 457(e)(1)(A).''.

(B) SEPARATE ACCOUNTING.—Section 402(c) is amended by adding at the end the following new paragraph:

''(11) SEPARATE ACCOUNTING.—Unless a plan described in clause (v) of paragraph (8)(B) agrees to separately account for amounts rolled into such plan from eligible retirement plans not described in such clause, the plan described in such clause may not accept transfers or rollovers from such retirement plans.''.

(C) 10 PERCENT ADDITIONAL TAX.—Subsection (t) of section 72 (relating to 10-percent additional tax on early distributions from qualified retirement plans) is amended by adding at the end the following new paragraph:

''(9) SPECIAL RULE FOR ROLLOVERS TO SECTION 457 PLANS.—For purposes of this subsection, a distribution from an eligible deferred compensation plan (as defined in section 457(b)) of an employer described in section 457(e)(1)(A) shall be treated as a distribution from a qualified retirement plan described in 4974(c)(1) to the extent that such distribution is attributable to an amount transferred to an eligible deferred compensation plan from a qualified retirement plan (as defined in section 4974(c)).''.

(b) ALLOWANCE OF ROLLOVERS FROM AND TO 403(b) PLANS.—

(1) ROLLOVERS FROM SECTION 403(b) PLANS.—Section 403(b)(8)(A)(ii) (relating to rollover amounts) is amended by striking ''such distribution'' and all that follows and inserting ''such distribution to an eligible retirement plan described in section 402(c)(8)(B), and''.

(2) ROLLOVERS TO SECTION 403(b) PLANS.—Section 402(c)(8)(B) (defining eligible retirement plan), as amended by subsection (a), is amended by striking ''and'' at the end of clause (iv), by striking the period at the end of clause (v) and inserting '', and'', and by inserting after clause (v) the following new clause:

''(vi) an annuity contract described in section 403(b).''

(c) EXPANDED EXPLANATION TO RECIPIENTS OF ROLLOVER DISTRIBUTIONS.—Paragraph (1) of section 402(f) (relating to written explanation to recipients of distributions eligible for rollover treatment) is amended by striking ''and'' at the end of subparagraph (C), by striking the period at the end of subparagraph (D) and inserting '', and'', and by adding at the end the following new subparagraph:

''(E) of the provisions under which distributions from the eligible retirement plan receiving the distribution may be subject to restrictions and tax consequences which are different from those applicable to distributions from the plan making such distribution.''.

(d) SPOUSAL ROLLOVERS.—Section 402(c)(9) (relating to rollover where spouse receives distribution after death of employee) is amended by striking ''; except that'' and all that follows up to the end period.

(e) CONFORMING AMENDMENTS.—

(1) Section 72(o)(4) is amended by striking ''and 408(d)(3)'' and inserting ''403(b)(8), 408(d)(3), and 457(e)(16)''.

(2) Section 219(d)(2) is amended by striking ''or 408(d)(3)'' and inserting ''408(d)(3), or 457(e)(16)''.

(3) Section 401(a)(31)(B) is amended by striking ''and 403(a)(4)'' and inserting '', 403(a)(4), 403(b)(8), and 457(e)(16)''.

(4) Subparagraph (A) of section 402(f)(2) is amended by striking ''or paragraph (4) of section 403(a)'' and inserting '', paragraph (4) of section 403(a), subparagraph (A) of section 403(b)(8), or subparagraph (A) of section 457(e)(16)''.

(5) Paragraph (1) of section 402(f) is amended by striking ''from an eligible retirement plan''.

(6) Subparagraphs (A) and (B) of section 402(f)(1) are amended by striking ''another eligible retirement plan'' and inserting ''an eligible retirement plan''.

(7) Subparagraph (B) of section 403(b)(8) is amended to read as follows:

''(B) CERTAIN RULES MADE APPLICABLE.—The rules of paragraphs (2) through (7) and (9) of section 402(c) and section 402(f) shall apply for purposes of subparagraph (A), except that section 402(f) shall be applied to the payor in lieu of the plan administrator.''.

(8) Section 408(a)(1) is amended by striking ''or 403(b)(8)'' and inserting '', 403(b)(8), or 457(e)(16)''.

(9) Subparagraphs (A) and (B) of section 415(b)(2) are each amended by striking ''and 408(d)(3)'' and inserting ''403(b)(8), 408(d)(3), and 457(e)(16)''.

(10) Section 415(c)(2) is amended by striking ''and 408(d)(3)'' and inserting ''408(d)(3), and 457(e)(16)''.

(11) Section 4973(b)(1)(A) is amended by striking ''or 408(d)(3)'' and inserting ''408(d)(3), or 457(e)(16)''.

(f) EFFECTIVE DATE; SPECIAL RULE.—

(1) EFFECTIVE DATE.—The amendments made by this section shall apply to distributions after December 31, 2000.

(2) SPECIAL RULE.—Notwithstanding any other provision of law, subsections (h)(3) and (h)(5) of section 1122 of the Tax Reform Act of 1986 shall not apply to any distribution from an eligible retirement plan (as defined in clause (iii) or (iv) of section 402(c)(8)(B) of the Internal Revenue Code of 1986) on behalf of an individual if there was a rollover to such plan on behalf of such individual which is permitted solely by reason of any amendment made by this section.

SEC. 1232. ROLLOVERS OF IRAS INTO WORKPLACE RETIREMENT PLANS.

(a) IN GENERAL.—Subparagraph (A) of section 408(d)(3) (relating to rollover amounts) is amended by adding ''or'' at the end of clause (i), by striking clauses (ii) and (iii), and by adding at the end the following:

''(ii) the entire amount received (including money and any other property) is paid into an eligible retirement plan for the benefit of such individual not later than the 60th day after the date on which the payment or distribution is received, except that the maximum amount which may be paid into such plan may not exceed the portion of the amount received which is includible in gross income (determined without regard to this paragraph).

For purposes of clause (ii), the term 'eligible retirement plan' has the meaning given such term by clauses (iii), (iv), (v), and (vi) of section 402(c)(8)(B).''.

(b) CONFORMING AMENDMENTS.—

(1) Paragraph (1) of section 403(b) is amended by striking ''section 408(d)(3)(A)(iii)'' and inserting ''section 408(d)(3)(A)(ii)''.

(2) Clause (i) of section 408(d)(3)(D) is amended by striking ''(i), (ii), or (iii)'' and inserting ''(i) or (ii)''.

(3) Subparagraph (G) of section 408(d)(3) is amended to read as follows:

''(G) SIMPLE RETIREMENT ACCOUNTS.—In the case of any payment or distribution out of a simple retirement account (as defined in subsection (p)) to which section 72(t)(6) applies, this paragraph shall not apply unless such payment or distribution is paid into another simple retirement account.''.

(c) EFFECTIVE DATE; SPECIAL RULE.—

(1) EFFECTIVE DATE.—The amendments made by this section shall apply to distributions after December 31, 2000.

(2) SPECIAL RULE.—Notwithstanding any other provision of law, subsections (h)(3) and (h)(5) of section 1122 of the Tax Reform Act of 1986 shall not apply to any distribution from an eligible retirement plan (as defined in clause (iii) or (iv) of section 402(c)(8)(B) of the Internal Revenue Code of 1986) on behalf of an individual if there was a rollover to such plan on behalf of such individual which is permitted solely by reason of the amendments made by this section.

SEC. 1233. ROLLOVERS OF AFTER-TAX CONTRIBUTIONS.

(a) ROLLOVERS FROM EXEMPT TRUSTS.—Paragraph (2) of section 402(c) (relating to maximum amount which may be rolled over) is amended by adding at the end the following: ''The preceding sentence shall not apply to such distribution to the extent—

''(A) such portion is transferred in a direct trustee-to-trustee transfer to a qualified trust which is part of a plan which is a defined contribution plan and which agrees to separately account for amounts so transferred, including separately accounting for the portion of such distribution which is includible in gross income and the portion of such distribution which is not so includible, or

''(B) such portion is transferred to an eligible retirement plan described in clause (i) or (ii) of paragraph (8)(B).''.

(b) OPTIONAL DIRECT TRANSFER OF ELIGIBLE ROLLOVER DISTRIBUTIONS.—Subparagraph (B) of section 401(a)(31) (relating to limitation) is amended by adding at the end the following: ''The preceding sentence shall not apply to such distribution if the plan to which such distribution is transferred—

''(i) agrees to separately account for amounts so transferred, including separately accounting for the portion of such distribution which is includible in gross income and the portion of such distribution which is not so includible, or

''(ii) is an eligible retirement plan described in clause (i) or (ii) of section 402(c)(8)(B).''.

(c) RULES FOR APPLYING SECTION 72 TO IRAS.—Paragraph (3) of section 408(d) (relating to special rules for applying section 72) is amended by inserting at the end the following:

''(H) APPLICATION OF SECTION 72.—

''(i) IN GENERAL.—If—

''(I) a distribution is made from an individual retirement plan, and

''(II) a rollover contribution is made to an eligible retirement plan described in section 402(c)(8)(B)(iii), (iv), (v), or (vi) with respect to all or part of such distribution,

then, notwithstanding paragraph (2), the rules of clause (ii) shall apply for purposes of applying section 72.

''(ii) APPLICABLE RULES.—In the case of a distribution described in clause (i)—

''(I) section 72 shall be applied separately to such distribution,

''(II) notwithstanding the pro rata allocation of income on, and investment in the contract, to distributions under section 72, the portion of such distribution rolled over to an eligible retirement plan described in clause (i) shall be treated as from income on the contract (to the extent of the aggregate income on the contract from all individual retirement plans of the distributee), and

''(III) appropriate adjustments shall be made in applying section 72 to other distributions in such taxable year and subsequent taxable years.''

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to distributions made after December 31, 2000.

SEC. 1234. HARDSHIP EXCEPTION TO 60-DAY RULE.

(a) EXEMPT TRUSTS.—Paragraph (3) of section 402(c) (relating to transfer must be made within 60 days of receipt) is amended to read as follows:

''(3) TRANSFER MUST BE MADE WITHIN 60 DAYS OF RECEIPT.—

''(A) IN GENERAL.—Except as provided in subparagraph (B), paragraph (1) shall not apply to any transfer of a distribution made after the 60th day following the day on which the distributee received the property distributed.

''(B) HARDSHIP EXCEPTION.—The Secretary may waive the 60-day requirement under subparagraph (A) where the failure to waive such requirement would be against equity or good conscience, including casualty, disaster, or other events beyond the reasonable control of the individual subject to such requirement.''.

(b) IRAS.—Paragraph (3) of section 408(d) (relating to rollover contributions) is amended by adding after subparagraph (H) the following new subparagraph:

''(I) WAIVER OF 60-DAY REQUIREMENT.—The Secretary may waive the 60-day requirement under subparagraphs (A) and (D) where the failure to waive such requirement would be against equity or good conscience, including casualty, disaster, or other events beyond the reasonable control of the individual subject to such requirement.''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to distributions after December 31, 2000.

SEC. 1235. TREATMENT OF FORMS OF DISTRIBUTION.

(a) PLAN TRANSFERS.—

(1) IN GENERAL.—Paragraph (6) of section 411(d) (relating to accrued benefit not to be decreased by amendment) is amended by adding at the end the following:

''(D) PLAN TRANSFERS.—

''(i) A defined contribution plan (in this subparagraph referred to as the 'transferee plan') shall not be treated as failing to meet the requirements of this subsection merely because the transferee plan does not provide some or all of the forms of distribution previously available under another defined contribution plan (in this subparagraph referred to as the 'transferor plan') to the extent that—

''(I) the forms of distribution previously available under the transferor plan applied to the account of a participant or beneficiary under the transferor plan that was transferred from the transferor plan to the transferee plan pursuant to a direct transfer rather than pursuant to a distribution from the transferor plan;

''(II) the terms of both the transferor plan and the transferee plan authorize the transfer described in subclause (I);

''(III) the transfer described in subclause (I) was made pursuant to a voluntary election by the participant or beneficiary whose account was transferred to the transferee plan;

''(IV) the election described in subclause (III) was made after the participant or beneficiary received a notice describing the consequences of making the election;

''(V) if the transferor plan provides for an annuity as the normal form of distribution under the plan in accordance with section 417, the transfer is made with the consent of the participant's spouse (if any), and such consent meets requirements similar to the requirements imposed by section 417(a)(2); and

''(VI) the transferee plan allows the participant or beneficiary described in subclause (III) to receive any distribution to which the participant or beneficiary is entitled under the transferee plan in the form of a single sum distribution.

''(ii) Clause (i) shall apply to plan mergers and other transactions having the effect of a direct transfer, including consolidations of benefits attributable to different employers within a multiple employer plan.

''(E) ELIMINATION OF FORM OF DISTRIBUTION.—Except to the extent provided in regulations, a defined contribution plan shall not be treated as failing to meet the requirements of this section merely because of the elimination of a form of distribution previously available thereunder. This subparagraph shall not apply to the elimination of a form of distribution with respect to any participant unless—

''(i) a single sum payment is available to such participant at the same time or times as the form of distribution being eliminated; and

''(ii) such single sum payment is based on the same or greater portion of the participant's account as the form of distribution being eliminated.''.

(2) EFFECTIVE DATE.—The amendment made by this subsection shall apply to years beginning after December 31, 2000.

(b) REGULATIONS.—

(1) IN GENERAL.—The last sentence of paragraph (6)(B) of section 411(d) (relating to accrued benefit not to be decreased by amendment) is amended to read as follows: ''The Secretary may by regulations provide that this subparagraph shall not apply to any plan amendment that does not adversely affect the rights of participants in a material manner.''.

(2) SECRETARY DIRECTED.—Not later than December 31, 2001, the Secretary of the Treasury is directed to issue final regulations under section 411(d)(6) of the Internal Revenue Code of 1986. Such regulations shall apply to plan years beginning after December 31, 2001, or such earlier date as is specified by the Secretary of the Treasury.

SEC. 1236. RATIONALIZATION OF RESTRICTIONS ON DISTRIBUTIONS.

(a) MODIFICATION OF SAME DESK EXCEPTION.—

(1) SECTION 401(k).—

(A) Section 401(k)(2)(B)(i)(I) (relating to qualified cash or deferred arrangements) is amended by striking ''separation from service'' and inserting ''severance from employment''.

(B) Subparagraph (A) of section 401(k)(10) (relating to distributions upon termination of plan or disposition of assets or subsidiary) is amended to read as follows:

''(A) IN GENERAL.—An event described in this subparagraph is the termination of the plan without establishment or maintenance of another defined contribution plan (other than an employee stock ownership plan as defined in section 4975(e)(7)).''.

(C) Section 401(k)(10) is amended—

(i) in subparagraph (B)—

(I) by striking ''An event'' in clause (i) and inserting ''A termination'', and

(II) by striking ''the event'' in clause (i) and inserting ''the termination'',

(ii) by striking subparagraph (C), and

(iii) by striking ''OR DISPOSITION OF ASSETS OR SUBSIDIARY'' in the heading.

(2) SECTION 403(b).—

(A) Paragraphs (7)(A)(ii) and (11)(A) of section 403(b) are each amended by striking ''separates from service'' and inserting ''has a severance from employment''.

(B) The heading for paragraph (11) of section 403(b) is amended by striking ''SEPARATION FROM SERVICE'' and inserting ''SEVERANCE FROM EMPLOYMENT''.

(3) SECTION 457.—Clause (ii) of section 457(d)(1)(A) is amended by striking ''is separated from service'' and inserting ''has a severance from employment''.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to distributions after December 31, 2000.

SEC. 1237. PURCHASE OF SERVICE CREDIT IN GOVERNMENTAL DEFINED BENEFIT PLANS.

(a) 403(b) PLANS.—Subsection (b) of section 403 is amended by adding at the end the following new paragraph:

''(13) TRUSTEE-TO-TRUSTEE TRANSFERS TO PURCHASE PERMISSIVE SERVICE CREDIT.—No amount shall be includible in gross income by reason of a direct trustee-to-trustee transfer to a defined benefit governmental plan (as defined in section 414(d)) if such transfer is—

''(A) for the purchase of permissive service credit (as defined in section 415(n)(3)(A)) under such plan, or

''(B) a repayment to which section 415 does not apply by reason of subsection (k)(3) thereof.''.

(b) 457 PLANS.—

(1) Subsection (e) of section 457 is amended by adding after paragraph (17) the following new paragraph:

''(18) TRUSTEE-TO-TRUSTEE TRANSFERS TO PURCHASE PERMISSIVE SERVICE CREDIT.—No amount shall be includible in gross income by reason of a direct trustee-to-trustee transfer to a defined benefit governmental plan (as defined in section 414(d)) if such transfer is—

''(A) for the purchase of permissive service credit (as defined in section 415(n)(3)(A)) under such plan, or

''(B) a repayment to which section 415 does not apply by reason of subsection (k)(3) thereof.''.

(2) Section 457(b)(2) is amended by striking ''(other than rollover amounts)'' and inserting ''(other than rollover amounts and amounts received in a transfer referred to in subsection (e)(16))''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to trustee-to-trustee transfers after December 31, 2000.

SEC. 1238. EMPLOYERS MAY DISREGARD ROLLOVERS FOR PURPOSES OF CASH-OUT AMOUNTS.

(a) IN GENERAL.—Section 411(a)(11) (relating to restrictions on certain mandatory distributions) is amended by adding at the end the following:

''(D) SPECIAL RULE FOR ROLLOVER CONTRIBUTIONS.—A plan shall not fail to meet the requirements of this paragraph if, under the terms of the plan, the present value of the nonforfeitable accrued benefit is determined without regard to that portion of such benefit which is attributable to rollover contributions (and earnings allocable thereto). For purposes of this subparagraph, the term 'rollover contributions' means any rollover contribution under sections 402(c), 403(a)(4), 403(b)(8), 408(d)(3)(A)(ii), and 457(e)(16).''.

(b) ELIGIBLE DEFERRED COMPENSATION PLANS.—Clause (i) of section 457(e)(9)(A) is amended by striking ''such amount'' and inserting ''the portion of such amount which is not attributable to rollover contributions (as defined in section 411(a)(11)(D))''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to distributions after December 31, 2000.

SEC. 1239. MINIMUM DISTRIBUTION AND INCLUSION REQUIREMENTS FOR SECTION 457 PLANS.

(a) MINIMUM DISTRIBUTION REQUIREMENTS.—Paragraph (2) of section 457(d) (relating to distribution requirements) is amended to read as follows:

''(2) MINIMUM DISTRIBUTION REQUIREMENTS.—A plan meets the minimum distribution requirements of this paragraph if such plan meets the requirements of section 401(a)(9).''

(b) INCLUSION IN GROSS INCOME.—

(1) YEAR OF INCLUSION.—Subsection (a) of section 457 (relating to year of inclusion in gross income) is amended to read as follows:

''(a) YEAR OF INCLUSION IN GROSS INCOME.—

''(1) IN GENERAL.—Any amount of compensation deferred under an eligible deferred compensation plan, and any income attributable to the amounts so deferred, shall be includible in gross income only for the taxable year in which such compensation or other income—

''(A) is paid to the participant or other beneficiary, in the case of a plan of an eligible employer described in subsection (e)(1)(A), and

''(B) is paid or otherwise made available to the participant or other beneficiary, in the case of a plan of an eligible employer described in subsection (e)(1)(B).

''(2) SPECIAL RULE FOR ROLLOVER AMOUNTS.—To the extent provided in section 72(t)(9), section 72(t) shall apply to any amount includible in gross income under this subsection.''.

(2) CONFORMING AMENDMENT.—So much of paragraph (9) of section 457(e) as precedes subparagraph (A) is amended to read as follows:

''(9) BENEFITS OF TAX EXEMPT ORGANIZATION PLANS NOT TREATED AS MADE AVAILABLE BY REASON OF CERTAIN ELECTIONS, ETC.—In the case of an eligible deferred compensation plan of an employer described in subsection (e)(1)(B)—''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to distributions after December 31, 2000.

Subtitle D—Strengthening Pension Security and Enforcement

SEC. 1241. REPEAL OF 150 PERCENT OF CURRENT LIABILITY FUNDING LIMIT.

(a) IN GENERAL.—Section 412(c)(7) (relating to full-funding limitation) is amended—

(1) by striking ''the applicable percentage'' in subparagraph (A)(i)(I) and inserting ''in the case of plan years beginning before January 1, 2004, the applicable percentage'', and

(2) by amending subparagraph (F) to read as follows:

''(F) APPLICABLE PERCENTAGE.—For purposes of subparagraph (A)(i)(I), the applicable percentage shall be determined in accordance with the following table:

''In the case of any plan year beginning in—	The applicable percentage is—
2001	160
2002	165
2003	170.''.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to plan years beginning after December 31, 2000.

SEC. 1242. MAXIMUM CONTRIBUTION DEDUCTION RULES MODIFIED AND APPLIED TO ALL DEFINED BENEFIT PLANS.

(a) IN GENERAL.—Subparagraph (D) of section 404(a)(1) (relating to special rule in case of certain plans) is amended to read as follows:

''(D) SPECIAL RULE IN CASE OF CERTAIN PLANS.—

''(i) IN GENERAL.—In the case of any defined benefit plan, except as provided in regulations, the maximum amount deductible under the limitations of this paragraph shall not be less than the unfunded termination liability (determined as if the proposed termination date referred to in section 4041(b)(2)(A)(i)(II) of the Employee Retirement Income Security Act of 1974 were the last day of the plan year).

''(ii) PLANS WITH LESS THAN 100 PARTICIPANTS.—For purposes of this subparagraph, in the case of a plan which has less than 100 participants for the plan year, termination liability shall not include the liability attributable to benefit increases for highly compensated employees (as defined in section 414(q)) resulting from a plan amendment which is made or becomes effective, whichever is later, within the last 2 years before the termination date.

''(iii) RULE FOR DETERMINING NUMBER OF PARTICIPANTS.—For purposes of determining whether a plan has more than 100 participants, all defined benefit plans maintained by the same employer (or any member of such employer's controlled group (within the meaning of section 412(l)(8)(C))) shall be treated as 1 plan, but only employees of such member or employer shall be taken into account.

''(iv) PLANS ESTABLISHED AND MAINTAIN BY PROFESSIONAL SERVICE EMPLOYERS.—Clause (i) shall not apply to a plan described in section 4021(b)(13) of the Employee Retirement Income Security Act of 1974.''.

(b) CONFORMING AMENDMENT.—Paragraph (6) of section 4972(c) is amended to read as follows:

''(6) EXCEPTIONS.—In determining the amount of nondeductible contributions for any taxable year, there shall not be taken into account so much of the contributions to 1 or more defined contribution plans which are not deductible when contributed solely because of section 404(a)(7) as does not exceed the greater of—

''(A) the amount of contributions not in excess of 6 percent of compensation (within the meaning of section 404(a)) paid or accrued (during the taxable year for which the contributions were made) to beneficiaries under the plans, or

''(B) the sum of—

''(i) the amount of contributions described in section 401(m)(4)(A), plus

''(ii) the amount of contributions described in section 402(g)(3)(A).

For purposes of this paragraph, the deductible limits under section 404(a)(7) shall first be applied to amounts contributed to a defined benefit plan and then to amounts described in subparagraph (B).''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to plan years beginning after December 31, 2000.

SEC. 1243. MISSING PARTICIPANTS.

(a) IN GENERAL.—Section 4050 of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1350) is amended by redesignating subsection (c) as subsection (e) and by inserting after subsection (b) the following:

''(c) MULTIEMPLOYER PLANS.—The corporation shall prescribe rules similar to the rules in subsection (a) for multiemployer plans covered by this title that terminate under section 4041A.

''(d) PLANS NOT OTHERWISE SUBJECT TO TITLE.—

''(1) TRANSFER TO CORPORATION.—The plan administrator of a plan described in paragraph (4) may elect to transfer a missing participant's benefits to the corporation upon termination of the plan.

''(2) INFORMATION TO THE CORPORATION.—To the extent provided in regulations, the plan administrator of a plan described in paragraph (4) shall, upon termination of the plan, provide the corporation information with respect to benefits of a missing participant if the plan transfers such benefits—

''(A) to the corporation, or

''(B) to an entity other than the corporation or a plan described in paragraph (4)(B)(ii).

''(3) PAYMENT BY THE CORPORATION.—If benefits of a missing participant were transferred to the corporation under paragraph (1), the corporation shall, upon location of the participant or beneficiary, pay to the participant or beneficiary the amount transferred (or the appropriate survivor benefit) either—

''(A) in a single sum (plus interest), or

''(B) in such other form as is specified in regulations of the corporation.

''(4) PLANS DESCRIBED.—A plan is described in this paragraph if—

''(A) the plan is a pension plan (within the meaning of section 3(2))—

''(i) to which the provisions of this section do not apply (without regard to this subsection), and

''(ii) which is not a plan described in paragraphs (2) through (11) of section 4021(b), and

''(B) at the time the assets are to be distributed upon termination, the plan—

''(i) has missing participants, and

''(ii) has not provided for the transfer of assets to pay the benefits of all missing participants to another pension plan (within the meaning of section 3(2)).

''(5) CERTAIN PROVISIONS NOT TO APPLY.—Subsections (a)(1) and (a)(3) shall not apply to a plan described in paragraph (4).''.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to distributions made after final regulations implementing subsections (c) and (d) of section 4050 of the Employee Retirement Income Security Act of 1974 (as added by subsection (a)), respectively, are prescribed.

SEC. 1244. EXCISE TAX RELIEF FOR SOUND PENSION FUNDING.

(a) IN GENERAL.—Subsection (c) of section 4972 (relating to nondeductible contributions) is amended by adding at the end the following new paragraph:

''(7) DEFINED BENEFIT PLAN EXCEPTION.—In determining the amount of nondeductible contributions for any taxable year, an employer may elect for such year not to take into account any contributions to a defined benefit plan except to the extent that such contributions exceed the full-funding limitation (as defined in section 412(c)(7), determined without regard to subparagraph (A)(i)(I) thereof). For purposes of this paragraph, the deductible limits under section 404(a)(7) shall first be applied to amounts contributed to defined contribution plans and then to amounts described in this paragraph. If an employer makes an election under this paragraph for a taxable year, paragraph (6) shall not apply to such employer for such taxable year.''.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to years beginning after December 31, 2000.

SEC. 1245. EXCISE TAX ON FAILURE TO PROVIDE NOTICE BY DEFINED BENEFIT PLANS SIGNIFICANTLY REDUCING FUTURE BENEFIT ACCRUALS.

(a) IN GENERAL.—Chapter 43 of subtitle D (relating to qualified pension, etc., plans) is amended by adding at the end the following new section:

''SEC. 4980F. FAILURE OF APPLICABLE PLANS REDUCING BENEFIT ACCRUALS TO SATISFY NOTICE REQUIREMENTS.

''(a) IMPOSITION OF TAX.—There is hereby imposed a tax on the failure of any applicable pension plan to meet the requirements of subsection (e) with respect to any applicable individual.

''(b) AMOUNT OF TAX.—

''(1) IN GENERAL.—The amount of the tax imposed by subsection (a) on any failure with respect to any applicable individual shall be $100 for each day in the noncompliance period with respect to such failure.

''(2) NONCOMPLIANCE PERIOD.—For purposes of this section, the term 'noncompliance period' means, with respect to any failure, the period beginning on the date the failure first occurs and ending on the date the failure is corrected.

''(c) LIMITATIONS ON AMOUNT OF TAX.—

''(1) OVERALL LIMITATION FOR UNINTENTIONAL FAILURES.—In the case of failures that are due to reasonable cause and not to willful neglect, the tax imposed by subsection (a) for failures during the taxable year of the employer (or, in the case of a multiemployer plan, the taxable year of the trust forming part of the plan) shall not exceed $500,000. For purposes of the preceding sentence, all multiemployer plans of which the same trust forms a part shall be treated as 1 plan. For purposes of this paragraph, if not all persons who are treated as a single employer for purposes of this section have the same taxable year, the taxable years taken into account shall be determined under principles similar to the principles of section 1561.

''(2) WAIVER BY SECRETARY.—In the case of a failure which is due to reasonable cause and not to willful neglect, the Secretary may waive part or all of the tax imposed by subsection (a) to the extent that the payment of such tax would be excessive relative to the failure involved.

''(d) LIABILITY FOR TAX.—The following shall be liable for the tax imposed by subsection (a):

''(1) In the case of a plan other than a multiemployer plan, the employer.

''(2) In the case of a multiemployer plan, the plan.

''(e) NOTICE REQUIREMENTS FOR PLANS SIGNIFICANTLY REDUCING BENEFIT ACCRUALS.—

''(1) IN GENERAL.—If an applicable pension plan is amended to provide for a significant reduction in the rate of future benefit accrual, the plan administrator shall provide written notice to each applicable individual (and to each employee organization representing applicable individuals).

''(2) NOTICE.—The notice required by paragraph (1) shall be written in a manner calculated to be understood by the average plan participant and shall provide sufficient information (as determined in accordance with regulations prescribed by the Secretary) to allow applicable individuals to understand the effect of the plan amendment.

''(3) TIMING OF NOTICE.—Except as provided in regulations, the notice required by paragraph (1) shall be provided within a reasonable time before the effective date of the plan amendment.

''(4) DESIGNEES.—Any notice under paragraph (1) may be provided to a person designated, in writing, by the person to which it would otherwise be provided.

''(5) NOTICE BEFORE ADOPTION OF AMENDMENT.—A plan shall not be treated as failing to meet the requirements of paragraph (1) merely because notice is provided before the adoption of the plan amendment if no material modification of the amendment occurs before the amendment is adopted.

''(f) APPLICABLE INDIVIDUAL; APPLICABLE PENSION PLAN.—For purposes of this section—

''(1) APPLICABLE INDIVIDUAL.—The term 'applicable individual' means, with respect to any plan amendment—

''(A) any participant in the plan, and

''(B) any beneficiary who is an alternate payee (within the meaning of section 414(p)(8)) under an applicable qualified domestic relations order (within the meaning of section 414(p)(1)(A)),

who may reasonably be expected to be affected by such plan amendment.

''(2) APPLICABLE PENSION PLAN.—The term 'applicable pension plan' means—

''(A) any defined benefit plan, or

''(B) an individual account plan which is subject to the funding standards of section 412,

which had 100 or more participants who had accrued a benefit, or with respect to whom contributions were made, under the plan (whether or not vested) as of the last day of the plan year preceding the plan year in which the plan amendment becomes effective.''

(b) CLERICAL AMENDMENT.—The table of sections for chapter 43 of subtitle D is amended by adding at the end the following new item:

''Sec. 4980F. Failure of applicable plans reducing benefit accruals to satisfy notice requirements.''

(c) EFFECTIVE DATES.—

(1) IN GENERAL.—The amendments made by this section shall apply to plan amendments taking effect on or after the date of the enactment of this Act.

(2) TRANSITION.—Until such time as the Secretary of the Treasury issues regulations under sections 4980F(e)(2) and (3) of the Internal Revenue Code of 1986 (as added by the amendment made by subsection (a)), a plan shall be treated as meeting the requirements of such section if it makes a good faith effort to comply with such requirements.

(3) SPECIAL RULE.—The period for providing any notice required by the amendments made by this section shall not end before the date which is 3 months after the date of the enactment of this Act.

Subtitle E—Reducing Regulatory Burdens

SEC. 1251. REPEAL OF THE MULTIPLE USE TEST.

(a) IN GENERAL.—Paragraph (9) of section 401(m) is amended to read as follows:

''(9) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary to carry out the purposes of this subsection and subsection (k), including regulations permitting appropriate aggregation of plans and contributions.''.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to years beginning after December 31, 2000.

SEC. 1252. MODIFICATION OF TIMING OF PLAN VALUATIONS.

(a) IN GENERAL.—Section 412(c)(9) (relating to annual valuation) is amended—

(1) by striking ''For purposes'' and inserting the following:

''(A) IN GENERAL.—For purposes'', and

(2) by adding at the end the following:

''(B) ELECTION TO USE PRIOR YEAR VALUATION.—

''(i) IN GENERAL.—Except as provided in clause (ii), if, for any plan year—

''(I) an election is in effect under this subparagraph with respect to a plan, and

''(II) the assets of the plan are not less than 125 percent of the plan's current liability (as defined in paragraph (7)(B)), determined as of the valuation date for the preceding plan year,

then this section shall be applied using the information available as of such valuation date.

''(ii) EXCEPTIONS.—

''(I) ACTUAL VALUATION EVERY 3 YEARS.—Clause (i) shall not apply for more than 2 consecutive plan years and valuation shall be under subparagraph (A) with respect to any plan year to which clause (i) does not apply by reason of this clause.

''(II) REGULATIONS.—Subclause (I) shall not apply to the extent that more frequent valuations are required under the regulations under subparagraph (A).

''(iii) ADJUSTMENTS.—Information under clause (i) shall, in accordance with regulations, be actuarially adjusted to reflect significant differences in participants.

''(iv) ELECTION.—An election under this subparagraph, once made, shall be irrevocable without the consent of the Secretary.''.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to plan years beginning after December 31, 2000.

SEC. 1253. FLEXIBILITY AND NONDISCRIMINATION AND LINE OF BUSINESS RULES.

The Secretary of the Treasury shall, on or before December 31, 2000, modify the existing regulations issued under section 401(a)(4) and section 414(r) of the Internal Revenue Code of 1986 in order to expand (to the extent that the Secretary determines appropriate) the ability of a pension plan to demonstrate compliance with the nondiscrimination and line of business requirements based upon the facts and circumstances surrounding the design and operation of the plan, even though the plan is unable to satisfy the mechanical tests currently used to determine compliance.

SEC. 1254. SUBSTANTIAL OWNER BENEFITS IN TERMINATED PLANS.

(a) MODIFICATION OF PHASE-IN OF GUARANTEE.—Section 4022(b)(5) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1322(b)(5)) is amended to read as follows:

''(5)(A) For purposes of this paragraph, the term 'majority owner' means an individual who, at any time during the 60-month period ending on the date the determination is being made—

''(i) owns the entire interest in an unincorporated trade or business,

''(ii) in the case of a partnership, is a partner who owns, directly or indirectly, 50 percent or more of either the capital interest or the profits interest in such partnership, or

''(iii) in the case of a corporation, owns, directly or indirectly, 50 percent or more in value of either the voting stock of that corporation or all the stock of that corporation. For purposes of clause (iii), the constructive ownership rules of section 1563(e) of the Internal Revenue Code of 1986 shall apply (determined without regard to section 1563(e)(3)(C)).

''(B) In the case of a participant who is a majority owner, the amount of benefits guaranteed under this section shall equal the product of—

''(i) a fraction (not to exceed 1) the numerator of which is the number of years from the later of the effective date or the adoption date of the plan to the termination date, and the denominator of which is 10, and

''(ii) the amount of benefits that would be guaranteed under this section if the participant were not a majority owner.''.

(b) MODIFICATION OF ALLOCATION OF ASSETS.—

(1) Section 4044(a)(4)(B) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1344(a)(4)(B)) is amended by striking ''section 4022(b)(5)'' and inserting ''section 4022(b)(5)(B)''.

(2) Section 4044(b) of such Act (29 U.S.C. 1344(b)) is amended—

(A) by striking ''(5)'' in paragraph (2) and inserting ''(4), (5),'', and

(B) by redesignating paragraphs (3) through (6) as paragraphs (4) through (7), respectively, and by inserting after paragraph (2) the following:

''(3) If assets available for allocation under paragraph (4) of subsection (a) are insufficient to satisfy in full the benefits of all individuals who are described in that paragraph, the assets shall be allocated first to benefits described in subparagraph (A) of that paragraph. Any remaining assets shall then be allocated to benefits described in subparagraph (B) of that paragraph. If assets allocated to such subparagraph (B) are insufficient to satisfy in full the benefits described in that subparagraph, the assets shall be allocated pro rata among individuals on the basis of the present value (as of the termination date) of their respective benefits described in that subparagraph.''.

(c) CONFORMING AMENDMENTS.—

(1) Section 4021 of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1321) is amended—

(A) in subsection (b)(9), by striking ''as defined in section 4022(b)(6)'', and

(B) by adding at the end the following:

''(d) For purposes of subsection (b)(9), the term 'substantial owner' means an individual who, at any time during the 60-month period ending on the date the determination is being made—

''(1) owns the entire interest in an unincorporated trade or business,

''(2) in the case of a partnership, is a partner who owns, directly or indirectly, more than 10 percent of either the capital interest or the profits interest in such partnership, or

''(3) in the case of a corporation, owns, directly or indirectly, more than 10 percent in value of either the voting stock of that corporation or all the stock of that corporation. For purposes of paragraph (3), the constructive ownership rules of section 1563(e) of the Internal Revenue Code of 1986 shall apply (determined without regard to section 1563(e)(3)(C)).''.

(2) Section 4043(c)(7) of such Act (29 U.S.C. 1343(c)(7)) is amended by striking ''section 4022(b)(6)'' and inserting ''section 4021(d)''.

(d) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to plan terminations—

(A) under section 4041(c) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1341(c)) with respect to which notices of intent to terminate are provided under section 4041(a)(2) of such Act (29 U.S.C. 1341(a)(2)) after December 31, 2000, and

(B) under section 4042 of such Act (29 U.S.C. 1342) with respect to which proceedings are instituted by the corporation after such date.

(2) CONFORMING AMENDMENTS.—The amendments made by subsection (c) shall take effect on the date of enactment of this Act.

SEC. 1255. ESOP DIVIDENDS MAY BE REINVESTED WITHOUT LOSS OF DIVIDEND DEDUCTION.

(a) IN GENERAL.—Section 404(k)(2)(A) (defining applicable dividends) is amended by striking ''or'' at the end of clause (ii), by redesignating clause (iii) as clause (iv), and by inserting after clause (ii) the following new clause:

''(iii) is, at the election of such participants or their beneficiaries—

''(I) payable as provided in clause (i) or (ii), or

''(II) paid to the plan and reinvested in qualifying employer securities, or''.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2000.

SEC. 1256. NOTICE AND CONSENT PERIOD REGARDING DISTRIBUTIONS.

(a) EXPANSION OF PERIOD.—

(1) IN GENERAL.—Subparagraph (A) of section 417(a)(6) is amended by striking ''90-day'' and inserting ''180-day''.

(2) MODIFICATION OF REGULATIONS.—The Secretary of the Treasury shall modify the regulations under sections 402(f), 411(a)(11), and 417 of the Internal Revenue Code of 1986 to substitute ''180 days'' for ''90 days'' each place it appears in Treasury Regulations sections 1.402(f)–1, 1.411(a)–11(c), and 1.417(e)–1(b).

(3) EFFECTIVE DATE.—The amendments made by paragraph (1) and the modifications required by paragraph (2) shall apply to years beginning after December 31, 2000.

(b) CONSENT REGULATION INAPPLICABLE TO CERTAIN DISTRIBUTIONS.—

(1) IN GENERAL.—The Secretary of the Treasury shall modify the regulations under section 411(a)(11) of the Internal Revenue Code of 1986 to provide that the description of a participant's right, if any, to defer receipt of a distribution shall also describe the consequences of failing to defer such receipt.

(2) EFFECTIVE DATE.—The modifications required by paragraph (1) shall apply to years beginning after December 31, 2000.

SEC. 1257. REPEAL OF TRANSITION RULE RELATING TO CERTAIN HIGHLY COMPENSATED EMPLOYEES.

(a) IN GENERAL.—Paragraph (4) of section 1114(c) of the Tax Reform Act of 1986 is hereby repealed.

(b) EFFECTIVE DATE.—The repeal made by subsection (a) shall apply to plan years beginning on or after January 1, 2000.

SEC. 1258. EMPLOYEES OF TAX-EXEMPT ENTITIES.

(a) IN GENERAL.—The Secretary of the Treasury shall modify Treasury Regulations section 1.410(b)–6(g) to provide that employees of an organization described in section 403(b)(1)(A)(i) of the Internal Revenue Code of 1986 who are eligible to make contributions under section 403(b) pursuant to a salary reduction agreement may be treated as excludable with respect to a plan under section 401(k), or section 401(m) of such Code that is provided under the same general arrangement as a plan under such section 401(k), if—

(1) no employee of an organization described in section 403(b)(1)(A)(i) of such Code is eligible to participate in such section 401(k) plan or section 401(m) plan, and

(2) 95 percent of the employees who are not employees of an organization described in section 403(b)(1)(A)(i) of such Code are eligible to participate in such section 401(k) plan or section 401(m) plan.

(b) EFFECTIVE DATE.—The modification required by subsection (a) shall apply as of the

same date set forth in section 1426(b) of the Small Business Job Protection Act of 1996.

SEC. 1259. CLARIFICATION OF TREATMENT OF EMPLOYER-PROVIDED RETIREMENT ADVICE.

(a) IN GENERAL.—Subsection (a) of section 132 (relating to exclusion from gross income) is amended by striking ''or'' at the end of paragraph (5), by striking the period at the end of paragraph (6) and inserting '', or'', and by adding at the end the following new paragraph:

''(7) qualified retirement planning services.''.

(b) QUALIFIED RETIREMENT PLANNING SERVICES DEFINED.—Section 132 is amended by redesignating subsection (m) as subsection (n) and by inserting after subsection (l) the following:

''(m) QUALIFIED RETIREMENT PLANNING SERVICES.—

''(1) IN GENERAL.—For purposes of this section, the term 'qualified retirement planning services' means any retirement planning service provided to an employee and his spouse by an employer maintaining a retirement plan.

''(2) NONDISCRIMINATION RULE.—Subsection (a)(7) shall apply in the case of highly compensated employees only if such services are available on substantially the same terms to each member of the group of employees normally provided education and information regarding the employer's pension plan.''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to years beginning after December 31, 2000.

SEC. 1260. PROVISIONS RELATING TO PLAN AMENDMENTS.

(a) IN GENERAL.—If this section applies to any plan or contract amendment—

(1) such plan or contract shall be treated as being operated in accordance with the terms of the plan during the period described in subsection (b)(2)(A), and

(2) such plan shall not fail to meet the requirements of section 411(d)(6) of the Internal Revenue Code of 1986 by reason of such amendment.

(b) AMENDMENTS TO WHICH SECTION APPLIES.—

(1) IN GENERAL.—This section shall apply to any amendment to any plan or annuity contract which is made—

(A) pursuant to any amendment made by this Act, or pursuant to any regulation issued under this Act, and

(B) on or before the last day of the first plan year beginning on or after January 1, 2003.

In the case of a government plan (as defined in section 414(d) of the Internal Revenue Code of 1986, this paragraph shall be applied by substituting ''2005'' for ''2003''.

(2) CONDITIONS.—This section shall not apply to any amendment unless—

(A) during the period—

(i) beginning on the date the legislative or regulatory amendment described in paragraph (1)(A) takes effect (or in the case of a plan or contract amendment not required by such legislative or regulatory amendment, the effective date specified by the plan), and

(ii) ending on the date described in paragraph (1)(B) (or, if earlier, the date the plan or contract amendment is adopted),

the plan or contract is operated as if such plan or contract amendment were in effect, and

(B) such plan or contract amendment applies retroactively for such period.

SEC. 1261. MODEL PLANS FOR SMALL BUSINESSES.

(a) IN GENERAL.—Not later than December 31, 2000, the Secretary of the Treasury is directed to issue at least one model defined contribution plan and at least one model defined benefit plan that fit the needs of small businesses and that shall be treated as meeting the requirements of section 401(a) of the Internal Revenue Code of 1986 with respect to the form of the plan. To the extent that the requirements of section 401(a) of such Code are modified after the issuance of such plans, the Secretary of the Treasury shall, in a timely manner, issue model amendments that, if adopted in a timely manner by an employer that has a model plan in effect, shall cause such model plan to be treated as meeting the requirements of section 401(a) of such Code, as modified, with respect to the form of the plan.

(b) PROTOTYPE PLAN ALTERNATIVE.—The Secretary of the Treasury may satisfy the requirements of subsection (a) through the enhancement and simplification of the Secretary's programs for prototype plans in such a manner as to achieve the purposes of subsection (a).

SEC. 1262. SIMPLIFIED ANNUAL FILING REQUIREMENT FOR PLANS WITH FEWER THAN 25 EMPLOYEES.

(a) IN GENERAL.—In the case of a retirement plan which covers less than 25 employees on the 1st day of the plan year and meets the requirements described in subsection (b), the Secretary of the Treasury shall provide for the filing of a simplified annual return that is substantially similar to the annual return required to be filed by a one-participant retirement plan.

(b) REQUIREMENTS.—A plan meets the requirements of this subsection if it—

(1) meets the minimum coverage requirements of section 410(b) of the Internal Revenue Code of 1986 without being combined with any other plan of the business that covers the employees of the business,

(2) does not cover a business that is a member of an affiliated service group, a controlled group of corporations, or a group of businesses under common control, and

(3) does not cover a business that leases employees.

SEC. 1263. INTERMEDIATE SANCTIONS FOR INADVERTENT FAILURES.

The Secretary of the Treasury shall continue to update and improve the Employee Plans Compliance Resolution System (or any successor program) giving special attention to—

(1) increasing the awareness and knowledge of small employers concerning the availability and use of the program,

(2) taking into account special concerns and circumstances that small employers face with respect to compliance and correction of compliance failures,

(3) extending the duration of the self-correction period under the Administrative Policy Regarding Self-Correction for significant compliance failures,

(4) expanding the availability to correct insignificant compliance failures under the Administrative Policy Regarding Self-Correction during audit, and

(5) assuring that any tax, penalty, or sanction that is imposed by reason of a compliance failure is not excessive and bears a reasonable relationship to the nature, extent, and severity of the failure.

TITLE XIII—MISCELLANEOUS PROVISIONS

Subtitle A—Provisions Primarily Affecting Individuals

SEC. 1301. EXCLUSION FOR FOSTER CARE PAYMENTS TO APPLY TO PAYMENTS BY QUALIFIED PLACEMENT AGENCIES.

(a) IN GENERAL.—The matter preceding subparagraph (B) of section 131(b)(1) (defining qualified foster care payment) is amended to read as follows:

''(1) IN GENERAL.—The term 'qualified foster care payment' means any payment made pursuant to a foster care program of a State or political subdivision thereof—

''(A) which is paid by—

''(i) a State or political subdivision thereof, or

''(ii) a qualified foster care placement agency, and''.

(b) QUALIFIED FOSTER INDIVIDUALS TO INCLUDE INDIVIDUALS PLACED BY QUALIFIED PLACEMENT AGENCIES.—Subparagraph (B) of section 131(b)(2) (defining qualified foster individual) is amended to read as follows:

''(B) a qualified foster care placement agency.''

(c) QUALIFIED FOSTER CARE PLACEMENT AGENCY DEFINED.—Subsection (b) of section 131 is amended by redesignating paragraph (3) as paragraph (4) and by inserting after paragraph (2) the following new paragraph:

''(3) QUALIFIED FOSTER CARE PLACEMENT AGENCY.—The term 'qualified foster care placement agency' means any placement agency which is licensed or certified by—

''(A) a State or political subdivision thereof, or

''(B) an entity designated by a State or political subdivision thereof,

for the foster care program of such State or political subdivision to make foster care payments to providers of foster care.''

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

SEC. 1302. MILEAGE REIMBURSEMENTS TO CHARITABLE VOLUNTEERS EXCLUDED FROM GROSS INCOME.

(A) IN GENERAL.—Part III of subchapter B of chapter 1 is amended by inserting after section 138 the following new section:

''SEC. 138A. MILEAGE REIMBURSEMENTS TO CHARITABLE VOLUNTEERS.

''(a) IN GENERAL.—Gross income of an individual does not include amounts received, from an organization described in section 170(c), as reimbursement of operating expenses with respect to use of a passenger automobile for the benefit of such organization. The preceding sentence shall apply only to the extent that such reimbursement would be deductible under section 274(d) (determined by applying the standard business mileage rate established pursuant to section 274(d)) if the organization were not so described and such individual were an employee of such organization.

''(b) NO DOUBLE BENEFIT.—Subsection (a) shall not apply with respect to any expenses if the individual claims a deduction or credit for such expenses under any other provision of this title.

''(c) EXEMPTION FROM REPORTING REQUIREMENTS.—Section 6041 shall not apply with respect to reimbursements excluded from income under subsection (a).''

(b) CLERICAL AMENDMENT.—The table of sections for part III of subchapter B of chapter 1 is amended by inserting after the item relating to section 138 the following new items:

''Sec. 138A. Reimbursement for use of passenger automobile for charity.''

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

SEC. 1303. W–2 TO INCLUDE EMPLOYER SOCIAL SECURITY TAXES.

(a) IN GENERAL.—Subsection (a) of section 6051 (relating to receipts for employees) is amended by striking ''and'' at the end of paragraph (10), by striking the period at the end of paragraph (11) and inserting a comma, and by inserting after paragraph (11) the following new paragraphs:

''(12) the amount of tax imposed by section 3111(a), and

''(13) the amount of tax imposed by section 3111(b).''

(b) EFFECTIVE DATE.—The amendment made by this section shall apply with respect

to remuneration paid after December 31, 1999.

Subtitle B—Provisions Primarily Affecting Businesses

SEC. 1311. DISTRIBUTIONS FROM PUBLICLY TRADED PARTNERSHIPS TREATED AS QUALIFYING INCOME OF REGULATED INVESTMENT COMPANIES.

(a) IN GENERAL.—Paragraph (2) of section 851(b) (defining regulated investment company) is amended by inserting ''income derived from an interest in a publicly traded partnership (as defined in section 7704(b)),'' after ''dividends, interest,''.

(b) SOURCE FLOW-THROUGH RULE NOT TO APPLY.—The last sentence of section 851(b) is amended by inserting ''(other than a publicly traded partnership (as defined in section 7704(b)))'' after ''derived from a partnership''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2000.

SEC. 1312. SPECIAL PASSIVE ACTIVITY RULE FOR PUBLICLY TRADED PARTNERSHIPS TO APPLY TO REGULATED INVESTMENT COMPANIES.

(a) IN GENERAL.—Subsection (k) of section 469 (relating to separate application of section in case of publicly traded partnerships) is amended by adding at the end the following new paragraph:

''(4) APPLICATION TO REGULATED INVESTMENT COMPANIES.—For purposes of this section, a regulated investment company (as defined in section 851) holding an interest in a publicly traded partnership shall be treated as a taxpayer described in subsection (a)(2) with respect to items attributable to such interest.''.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years beginning after December 31, 2000.

SEC. 1313. LARGE ELECTRIC TRUCKS, VANS, AND BUSES ELIGIBLE FOR DEDUCTION FOR CLEAN-FUEL VEHICLES IN LIEU OF CREDIT.

(a) IN GENERAL.—Paragraph (1) of section 30(c) (relating to credit for qualified electric vehicles) is amended by adding at the end the following new flush sentence:

''Such term shall not include any vehicle described in subclause (I) or (II) of section 179A(b)(1)(A)(iii).''

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to property placed in service after December 31, 1999.

SEC. 1314. MODIFICATIONS TO SPECIAL RULES FOR NUCLEAR DECOMMISSIONING COSTS.

(a) REPEAL OF LIMITATION ON DEPOSITS INTO FUND BASED ON COST OF SERVICE.—Subsection (b) of section 468A is amended to read as follows:

''(b) LIMITATION ON AMOUNTS PAID INTO FUND.—The amount which a taxpayer may pay into the Fund for any taxable year shall not exceed the ruling amount applicable to such taxable year.''

(b) CLARIFICATION OF TREATMENT OF FUND TRANSFERS.—Subsection (e) of section 468A is amended by adding at the end the following new paragraph:

''(8) TREATMENT OF FUND TRANSFERS.—If, in connection with the transfer of the taxpayer's interest in a nuclear powerplant, the taxpayer transfers the Fund with respect to such powerplant to the transferee of such interest and the transferee elects to continue the application of this section to such Fund—

''(A) the transfer of such Fund shall not cause such Fund to be disqualified from the application of this section, and

''(B) no amount shall be treated as distributed from such Fund, or be includible in gross income, by reason of such transfer.''

(c) TRANSFERS OF BALANCES IN NONQUALIFIED FUNDS.—Section 468A is amended by redesignating subsections (f) and (g) as subsections (g) and (h), respectively, and by inserting after subsection (e) the following new subsection:

''(f) TRANSFERS OF BALANCES IN NONQUALIFIED FUNDS INTO QUALIFIED FUNDS.—

''(1) IN GENERAL.—Notwithstanding subsection (b), any taxpayer maintaining a Fund to which this section applies with respect to a nuclear powerplant may transfer into such Fund amounts held in any nonqualified fund of such taxpayer with respect to such powerplant.

''(2) MAXIMUM AMOUNT PERMITTED TO BE TRANSFERRED.—The amount permitted to be transferred under paragraph (1) shall not exceed the balance in the nonqualified fund as of December 31, 1998.

''(3) DEDUCTION FOR AMOUNTS TRANSFERRED.—

''(A) IN GENERAL.—The deduction allowed by subsection (a) for any transfer permitted by this subsection shall be allowed ratably over the remaining estimated useful life (within the meaning of subsection (d)(2)(A)) of the nuclear powerplant, beginning with the later of the taxable year during which the transfer is made or the taxpayer's first taxable year beginning after December 31, 2001.

''(B) DENIAL OF DEDUCTION FOR PREVIOUSLY DEDUCTED AMOUNTS.—No deduction shall be allowed for any transfer under this subsection of an amount for which a deduction was allowed when such amount was paid into the nonqualified fund. For purposes of the preceding sentence, a ratable portion of each transfer shall be treated as being from previously deducted amounts to the extent thereof.

''(C) TRANSFERS OF QUALIFIED FUNDS.—If—

''(i) any transfer permitted by this subsection is made to any Fund to which this section applies, and

''(ii) such Fund is transferred thereafter,

any deduction under this subsection for taxable years ending after the date that such Fund is transferred shall be allowed to the transferee and not to the transferor. The preceding sentence shall not apply if the transferor is an organization exempt from tax imposed by this chapter.

''(4) NEW RULING AMOUNT REQUIRED.—Paragraph (1) shall not apply to any transfer unless the taxpayer requests from the Secretary a new schedule of ruling amounts in connection with such transfer.

''(5) NONQUALIFIED FUND.—For purposes of this subsection, the term 'nonqualified fund' means, with respect to any nuclear powerplant, any fund in which amounts are irrevocably set aside pursuant to the requirements of any State or Federal agency exclusively for the purpose of funding the decommissioning of such powerplant.

''(6) NO BASIS IN QUALIFIED FUNDS.—Notwithstanding any other provision of law, the basis of any Fund to which this section applies shall not be increased by reason of any transfer permitted by this subsection.''

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

SEC. 1315. CONSOLIDATION OF LIFE INSURANCE COMPANIES WITH OTHER CORPORATIONS.

(a) IN GENERAL.—Section 1504(b) (defining includible corporation) is amended by striking paragraph (2).

(b) CONFORMING AMENDMENTS.—

(1) Subsection (c) of section 1503 is amended by striking paragraph (2) (relating to losses of recent nonlife affiliates).

(2) Section 1504 is amended by striking subsection (c) and by redesignating subsections (d), (e), and (f) as subsections (c), (d), and (e), respectively.

(3) Section 1503(c)(1) (relating to special rule for application of certain losses against income of insurance companies taxed under section 801) is amended by striking ''an election under section 1504(c)(2) is in effect for the taxable year and''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2004.

(d) NO CARRYBACK BEFORE JANUARY 1, 2005.—To the extent that a consolidated net operating loss is allowed or increased by reason of the amendments made by this section, such loss may not be carried back to a taxable year beginning before January 1, 2005.

(e) NONTERMINATION OF GROUP.—No affiliated group shall terminate solely as a result of the amendments made by this section.

(f) WAIVER OF 5-YEAR WAITING PERIOD.—Under regulations prescribed by the Secretary of the Treasury or his delegate, an automatic waiver from the 5-year waiting period for reconsolidation provided in section 1504(a)(3) of such Code shall be granted to any corporation which was previously an includible corporation but was subsequently deemed a nonincludible corporation as a result of becoming a subsidiary of a corporation which was not an includible corporation solely by operation of section 1504(c)(2) of such Code (as in effect on the day before the date of enactment of this Act).

Subtitle C—Provisions Relating to Excise Taxes

SEC. 1321. CONSOLIDATION OF HAZARDOUS SUBSTANCE SUPERFUND AND LEAKING UNDERGROUND STORAGE TANK TRUST FUND.

(a) IN GENERAL.—Subchapter A of chapter 98 (relating to trust fund code) is amended by striking sections 9507 and 9508 and inserting the following new section:

''SEC. 9507. ENVIRONMENTAL REMEDIATION TRUST FUND.

''(a) CREATION OF TRUST FUND.—There is established in the Treasury of the United States a trust fund to be known as the 'Environmental Remediation Trust Fund' consisting of such amounts as may be—

''(1) appropriated to the Environmental Remediation Trust Fund as provided in this section,

''(2) appropriated to the Environmental Remediation Trust Fund pursuant to section 517(b) of the Superfund Revenue Act of 1986, or

''(3) credited to the Environmental Remediation Trust Fund as provided in section 9602(b).

''(b) TRANSFERS TO ENVIRONMENTAL REMEDIATION TRUST FUND.—

''(1) IN GENERAL.—There are hereby appropriated to the Environmental Remediation Trust Fund amounts equivalent to—

''(A) the taxes received in the Treasury under—

''(i) section 59A, 4611, 4661, or 4671 (relating to environmental taxes),

''(ii) section 4041(d) (relating to additional taxes on motor fuels),

''(iii) section 4081 (relating to tax on gasoline, diesel fuel, and kerosene) to the extent attributable to the Environmental Remediation Trust Fund financing rate under such section,

''(iv) section 4091 (relating to tax on aviation fuel) to the extent attributable to the Environmental Remediation Trust Fund financing rate under such section, and

''(v) section 4042 (relating to tax on fuel used in commercial transportation on inland waterways) to the extent attributable to the Environmental Remediation Trust Fund financing rate under such section,

''(B) amounts recovered on behalf of the Environmental Remediation Trust Fund under the Comprehensive Environmental Response, Compensation, and Liability Act of

1980 (hereinafter in this section referred to as 'CERCLA'),

''(C) all moneys recovered or collected under section 311(b)(6)(B) of the Clean Water Act,

''(D) penalties assessed under title I of CERCLA,

''(E) punitive damages under section 107(c)(3) of CERCLA, and

''(F) amounts received in the Treasury and collected under section 9003(h)(6) of the Solid Waste Disposal Act.

''(2) LIMITATION ON TRANSFERS.—

''(A) IN GENERAL.—Except as provided in subparagraph (B), no amount may be appropriated or credited to the Environmental Remediation Trust Fund on and after the date of any expenditure from any such Trust Fund which is not permitted by this section. The determination of whether an expenditure is so permitted shall be made without regard to—

''(i) any provision of law which is not contained or referenced in this title or in a revenue Act, and

''(ii) whether such provision of law is a subsequently enacted provision or directly or indirectly seeks to waive the application of this paragraph.

''(B) EXCEPTION FOR PRIOR OBLIGATIONS.—Subparagraph (A) shall not apply to any expenditure to liquidate any contract entered into (or for any amount otherwise obligated) in accordance with the provisions of this section.''

''(c) EXPENDITURES FROM ENVIRONMENTAL REMEDIATION TRUST FUND.—

''(1) IN GENERAL.—Amounts in the Environmental Remediation Trust Fund shall be available, as provided in appropriation Acts, only for purposes of making expenditures—

''(A) to carry out the purposes of—

''(i) paragraphs (1), (2), (5), and (6) of section 111(a) of CERCLA as in effect on July 12, 1999,

''(ii) section 111(c) of CERCLA (as so in effect), other than paragraphs (1) and (2) thereof, and

''(iii) section 111(m) of CERCLA (as so in effect), or

''(B) to carry out section 9003(h) of the Solid Waste Disposal Act as in effect on July 12, 1999.

''(2) EXCEPTION FOR CERTAIN TRANSFERS, ETC., OF HAZARDOUS SUBSTANCES.—No amount in the Environmental Remediation Trust Fund or derived from the Environmental Remediation Trust Fund shall be available or used for the transfer or disposal of hazardous waste carried out pursuant to a cooperative agreement between the Administrator of the Environmental Protection Agency and a State if the following conditions apply—

''(A) the transfer or disposal, if made on December 13, 1985, would not comply with a State or local requirement,

''(B) the transfer is to a facility for which a final permit under section 3005(a) of the Solid Waste Disposal Act was issued after January 1, 1983, and before November 1, 1984, and

''(C) the transfer is from a facility identified as the McColl Site in Fullerton, California.

''(3) TRANSFERS FROM TRUST FUND FOR CERTAIN REPAYMENTS AND CREDITS.—

''(A) IN GENERAL.—The Secretary shall pay from time to time from the Environmental Remediation Trust Fund into the general fund of the Treasury amounts equivalent to—

''(i) amounts paid under—

''(I) section 6420 (relating to amounts paid in respect of gasoline used on farms),

''(II) section 6421 (relating to amounts paid in respect of gasoline used for certain nonhighway purposes or by local transit systems), and

''(III) section 6427 (relating to fuels not used for taxable purposes), and

''(ii) credits allowed under section 34,

with respect to the taxes imposed by section 4041(d) or by sections 4081 and 4091 (to the extent attributable to the Leaking Underground Storage Tank Trust Fund financing rate or the Environmental Remediation Trust Fund financing rate under such sections).

''(B) TRANSFERS BASED ON ESTIMATES.—Transfers under subparagraph (A) shall be made on the basis of estimates by the Secretary, and proper adjustments shall be made in amounts subsequently transferred to the extent prior estimates were in excess of or less than the amounts required to be transferred.

''(d) LIABILITY OF UNITED STATES LIMITED TO AMOUNT IN TRUST FUND.—

''(1) GENERAL RULE.—Any claim filed against the Environmental Remediation Trust Fund may be paid only out of the Environmental Remediation Trust Fund.

''(2) COORDINATION WITH OTHER PROVISIONS.—Nothing in CERCLA or the Superfund Amendments and Reauthorization Act of 1986 (or in any amendment made by either of such Acts) shall authorize the payment by the United States Government of any amount with respect to any such claim out of any source other than the Environmental Remediation Trust Fund.

''(3) ORDER IN WHICH UNPAID CLAIMS ARE TO BE PAID.—If at any time the Environmental Remediation Trust Fund has insufficient funds to pay all of the claims payable out of the Environmental Remediation Trust Fund at such time, such claims shall, to the extent permitted under paragraph (1), be paid in full in the order in which they were finally determined.''

(b) CONFORMING AMENDMENTS.—

(1) Subsections (c) and (d) of section 4611 are each amended by striking ''Hazardous Substance Superfund'' each place it appears and inserting ''Environmental Remediation Trust Fund''.

(2) Subsection (c) of section 4661 is amended by striking ''Hazardous Substance Superfund'' and inserting ''Environmental Remediation Trust Fund''.

(3) Sections 4041(d), 4042(b), 4081(a)(2)(B), 4081(d)(3), 4091(b), 4092(b), 6421(f), and 6427(l) are each amended by striking ''Leaking Underground Storage Tank'' each place it appears (other than the headings) and inserting ''Environmental Remediation''.

(4) The heading for subsection (d) of section 4041 is amended by striking ''LEAKING UNDERGROUND STORAGE TANK'' and inserting ''ENVIRONMENTAL REMEDIATION''.

(5) The headings for subsections (a)(2)(B) and (d)(3) of section 4081 and section 4091(b)(2) are each amended by striking ''LEAKING UNDERGROUND STORAGE TANK'' and inserting ''ENVIRONMENTAL REMEDIATION''.

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect on October 1, 1999.

(d) ENVIRONMENTAL REMEDIATION TRUST FUND TREATED AS CONTINUATION OF OLD TRUST FUNDS.—The Environmental Remediation Trust Fund established by the amendments made by this section shall be treated for all purposes of law as a continuation of both the Hazardous Substance Superfund and the Leaking Underground Storage Tank Trust Fund. Any reference in any law to the Hazardous Substance Superfund or the Leaking Underground Storage Tank Trust Fund shall be deemed to include (wherever appropriate) a reference to the Environmental Remediation Trust Fund established by such amendments.

SEC. 1322. REPEAL OF CERTAIN MOTOR FUEL EXCISE TAXES ON FUEL USED BY RAILROADS AND ON INLAND WATERWAY TRANSPORTATION.

(a) REPEAL OF LEAKING UNDERGROUND STORAGE TANK TRUST FUND TAXES ON FUEL USED IN TRAINS.—

(1) IN GENERAL.—Paragraph (1) of section 4041(d) is amended by adding at the end the following new sentence: ''The preceding sentence shall not apply to any sale for use, or use, of fuel in a diesel-powered train.''

(2) CONFORMING AMENDMENTS.—

(A) Paragraph (3) of section 6421(f) is amended by striking ''with respect to—'' and all that follows through ''so much of'' and inserting ''with respect to so much of''.

(B) Paragraph (3) of section 6427(l) is amended by striking ''with respect to—'' and all that follows through ''so much of'' and inserting ''with respect to so much of''.

(b) REPEAL OF 4.3-CENT MOTOR FUEL EXCISE TAXES ON RAILROADS AND INLAND WATERWAY TRANSPORTATION WHICH REMAIN IN GENERAL FUND.—

(1) TAXES ON TRAINS.—

(A) IN GENERAL.—Subparagraph (A) of section 4041(a)(1) is amended by striking ''or a diesel-powered train'' each place it appears and by striking ''or train''.

(B) CONFORMING AMENDMENTS.—

(i) Subparagraph (C) of section 4041(a)(1) is amended by striking clause (ii) and by redesignating clause (iii) as clause (ii).

(ii) Subparagraph (C) of section 4041(b)(1) is amended by striking all that follows ''section 6421(e)(2)'' and inserting a period.

(iii) Paragraph (3) of section 4083(a) is amended by striking ''or a diesel-powered train''.

(iv) Section 6421(f) is amended by striking paragraph (3).

(v) Section 6427(l) is amended by striking paragraph (3).

(2) FUEL USED ON INLAND WATERWAYS.—

(A) IN GENERAL.—Paragraph (1) of section 4042(b) is amended by adding ''and'' at the end of subparagraph (A), by striking '', and'' at the end of subparagraph (B) and inserting a period, and by striking subparagraph (C).

(B) CONFORMING AMENDMENT.—Paragraph (2) of section 4042(b) is amended by striking subparagraph (C).

(c) EFFECTIVE DATE.—The amendments made by this subsection shall take effect on October 1, 1999 (October 1, 2003, in the case of the amendments made by subsection (b)), but shall not take effect if section 1321 does not take effect.

SEC. 1323. REPEAL OF EXCISE TAX ON FISHING TACKLE BOXES.

(a) IN GENERAL.—Paragraph (6) of section 4162(a) (defining sport fishing equipment) is amended by striking subparagraph (C) and by redesignating subparagraphs (D) through (J) as subparagraphs (C) through (I), respectively.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to articles sold by the manufacturer, producer, or importer more than 30 days after the date of the enactment of this Act.

Subtitle D—Other Provisions

SEC. 1331. INCREASE IN VOLUME CAP ON PRIVATE ACTIVITY BONDS.

(a) IN GENERAL.—Subsection (d) of section 146 (relating to volume cap) is amended by striking paragraph (2), by redesignating paragraphs (3) and (4) as paragraphs (2) and (3), respectively, and by striking paragraph (1) and inserting the following new paragraph:

''(1) IN GENERAL.—The State ceiling applicable to any State for any calendar year shall be the greater of—

''(A) an amount equal to $75 multiplied by the State population, or

''(B) $225,000,000.

Subparagraph (B) shall not apply to any possession of the United States.''.

(b) CONFORMING AMENDMENT.—Sections 25(f)(3) and 42(h)(3)(E)(iii) are each amended by striking ''section 146(d)(3)(C)'' and inserting ''section 146(d)(2)(C)''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to calendar years after 1999.

SEC. 1332. TAX TREATMENT OF ALASKA NATIVE SETTLEMENT TRUSTS.

(a) IN GENERAL.—Subpart A of part I of subchapter J of chapter 1 (relating to general rules for taxation of trusts and estates) is amended by adding at the end the following new section:

''SEC. 646. ELECTING ALASKA NATIVE SETTLEMENT TRUSTS.

''(a) IN GENERAL.—Except as otherwise provided in this section, the provisions of this subchapter and section 1(e) shall apply to all Settlement Trusts.

''(b) BENEFICIARIES OF ELECTING TRUST NOT TAXED ON CONTRIBUTIONS.—

''(1) IN GENERAL.—In the case of a Settlement Trust for which an election under paragraph (2) is in effect for any taxable year, no amount shall be includible in the gross income of a beneficiary of the Settlement Trust by reason of a contribution to the Settlement Trust made during such taxable year.

''(2) ONE-TIME ELECTION.—

''(A) IN GENERAL.—A Settlement Trust may elect to have the provisions of this section apply to the trust and its beneficiaries.

''(B) TIME AND METHOD OF ELECTION.—An election under subparagraph (A) shall be made—

''(i) before the due date (including extensions) for filing the Settlement Trust's return of tax for the 1st taxable year of the Settlement Trust ending after December 31, 1999, and

''(ii) by attaching to such return of tax a statement specifically providing for such election.

''(C) PERIOD ELECTION IN EFFECT.—Except as provided in paragraph (3), an election under subparagraph (A)—

''(i) shall apply to the 1st taxable year described in subparagraph (B)(i) and all subsequent taxable years, and

''(ii) may not be revoked once it is made.

''(c) SPECIAL RULES WHERE TRANSFER RESTRICTIONS MODIFIED.—

''(1) TRANSFER OF BENEFICIAL INTERESTS.—If, at any time, a beneficial interest in a Settlement Trust may be disposed of to a person in a manner which would not be permitted by section 7(h) of the Alaska Native Claims Settlement Act (43 U.S.C. 1606(h)) if the interest were Settlement Common Stock—

''(A) no election may be made under subsection (b)(2) with respect to such trust, and

''(B) if such an election is in effect as of such time, such election shall cease to apply for purposes of subsection (b)(1) as of the 1st day of the taxable year following the taxable year in which such disposition is first permitted.

''(2) STOCK IN CORPORATION.—If—

''(A) the Settlement Common Stock in any Native Corporation which transferred assets to a Settlement Trust making an election under subsection (b)(2) may be disposed of to a person in a manner not permitted by section 7(h) of the Alaska Native Claims Settlement Act (43 U.S.C. 1606(h)), and

''(B) at any time after such disposition of stock is first permitted, such corporation transfers assets to such trust,

subparagraph (B) of paragraph (1) shall be applied to such trust on and after the date of the transfer in the same manner as if the trust permitted dispositions of beneficial interests in the trust in a manner not permitted by such section 7(h).

''(c) TAX TREATMENT OF DISTRIBUTIONS TO BENEFICIARIES.—

''(1) IN GENERAL.—In the case of a Settlement Trust for which an election under subsection (b)(2) is in effect for any taxable year, any distribution to a beneficiary shall be included in gross income of the beneficiary as ordinary income to the extent such distribution reduces the earnings and profits of any Native Corporation making a contribution to such Trust.

''(2) EARNINGS AND PROFITS.—The earnings and profits of any Native Corporation making a contribution to a Settlement Trust shall not be reduced on account thereof at the time of such contribution, but such earnings and profits shall be reduced (up to the amount of such contribution) as distributions are thereafter made by the Settlement Trust which exceed the sum of—

''(A) such Trust's total undistributed net income for all prior years during which an election under subsection (b)(2) is in effect, and

''(B) such Trust's distributable net income.

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

''(1) NATIVE CORPORATION.—The term 'Native Corporation' has the meaning given such term by section 3(m) of the Alaska Native Claims Settlement Act (43 U.S.C. 1602(m)).

''(2) SETTLEMENT TRUST.—The term 'Settlement Trust' means a trust which constitutes a Settlement Trust under section 39 of the Alaska Native Claims Settlement Act (43 U.S.C. 1629e).''

(b) WITHHOLDING ON DISTRIBUTIONS BY ELECTING ANCSA SETTLEMENT TRUSTS.—Section 3402 is amended by adding at the end the following new subsection:

''(t) TAX WITHHOLDING ON DISTRIBUTIONS BY ELECTING ANCSA SETTLEMENT TRUSTS.—

''(1) IN GENERAL.—Any Settlement Trust (as defined in section 646(d)) for which an election under section 646(b)(2) is in effect (in this subsection referred to as an 'electing trust') and which makes a payment to any beneficiary which is includable in gross income under section 646(c) shall deduct and withhold from such payment a tax in an amount equal to such payment's proportionate share of the annualized tax.

''(2) EXCEPTION.—The tax imposed by paragraph (1) shall not apply to any payment to the extent that such payment, when annualized, does not exceed an amount equal to the amount in effect under section 6012(a)(1)(A)(i) for taxable years beginning in the calendar year in which the payment is made.

''(3) ANNUALIZED TAX.—For purposes of paragraph (1), the term 'annualized tax' means, with respect to any payment, the amount of tax which would be imposed by section 1(c) (determined without regard to any rate of tax in excess of 31 percent) on an amount of taxable income equal to the excess of—

''(A) the annualized amount of such payment, over

''(B) the amount determined under paragraph (2).

''(4) ANNUALIZATION.—For purposes of this subsection, amounts shall be annualized in the manner prescribed by the Secretary.

''(5) ALTERNATE WITHHOLDING PROCEDURES.—At the election of an electing trust, the tax imposed by this subsection on any payment made by such trust shall be determined in accordance with such tables or computational procedures as may be specified in regulations prescribed by the Secretary (in lieu of in accordance with paragraphs (2) and (3)).

''(6) COORDINATION WITH OTHER SECTIONS.—For purposes of this chapter and so much of subtitle F as relates to this chapter, payments which are subject to withholding under this subsection shall be treated as if they were wages paid by an employer to an employee.''

(c) REPORTING.—Section 6041 is amended by adding at the end the following new subsection:

''(f) APPLICATION TO ALASKA NATIVE SETTLEMENT TRUSTS.—In the case of any distribution from a Settlement Trust (as defined in section 646(d)) to a beneficiary which is includable in gross income under section 646(c), this section shall apply, except that—

''(1) this section shall apply to such distribution without regard to the amount thereof,

''(2) the Settlement Trust shall include on any return or statement required by this section information as to the character of such distribution (if applicable) and the amount of tax imposed by chapter 1 which has been deducted and withheld from such distribution, and

''(3) the filing of any return or statement required by this section shall satisfy any requirement to file any other form or schedule under this title with respect to distributive share information (including any form or schedule to be included with the trust's tax return).''

(d) CLERICAL AMENDMENT.—The table of sections for subpart A of part I of subchapter J of chapter 1 is amended by adding at the end the following new item:

''Sec. 646. Electing Alaska Native Settlement Trusts.''

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years of Settlement Trusts ending after December 31, 1999, and to contributions to such trusts after such date.

SEC. 1333. INCREASE IN THRESHOLD FOR JOINT COMMITTEE REPORTS ON REFUNDS AND CREDITS.

(a) GENERAL RULE.—Subsections (a) and (b) of section 6405 are each amended by striking ''$1,000,000'' and inserting ''$2,000,000''.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall take effect on the date of the enactment of this Act, except that such amendment shall not apply with respect to any refund or credit with respect to a report that has been made before such date of enactment under section 6405 of the Internal Revenue Code of 1986.

Subtitle E—Tax Court Provisions

SEC. 1341. TAX COURT FILING FEE IN ALL CASES COMMENCED BY FILING PETITION.

(a) IN GENERAL.—Section 7451 (relating to fee for filing a Tax Court petition) is amended by striking all that follows ''petition'' and inserting a period.

(b) EFFECTIVE DATE.—The amendment made by this section shall take effect on the date of the enactment of this Act.

SEC. 1342. EXPANDED USE OF TAX COURT PRACTICE FEE.

Subsection (b) of section 7475 (relating to use of fees) is amended by inserting before the period at the end ''and to provide services to pro se taxpayers''.

SEC. 1343. CONFIRMATION OF AUTHORITY OF TAX COURT TO APPLY DOCTRINE OF EQUITABLE RECOUPMENT.

(a) CONFIRMATION OF AUTHORITY OF TAX COURT TO APPLY DOCTRINE OF EQUITABLE RECOUPMENT.—Subsection (b) of section 6214 (relating to jurisdiction over other years and quarters) is amended by adding at the end the following new sentence: ''Notwithstanding the preceding sentence, the Tax Court may apply the doctrine of equitable recoupment to the same extent that it is available in civil tax cases before the district

courts of the United States and the United States Court of Federal Claims.''.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to any action or proceeding in the Tax Court with respect to which a decision has not become final (as determined under section 7481 of the Internal Revenue Code of 1986) as of the date of the enactment of this Act.

TITLE XIV—EXTENSIONS OF EXPIRING PROVISIONS

SEC. 1401. RESEARCH CREDIT.

(a) EXTENSION.—

(1) IN GENERAL.—Paragraph (1) of section 41(h) (relating to termination) is amended—

(A) by striking ''June 30, 1999'' and inserting ''June 30, 2004'', and

(B) by striking the material following subparagraph (B).

(2) TECHNICAL AMENDMENT.—Subparagraph (D) of section 45C(b)(1) is amended by striking ''June 30, 1999'' and inserting ''June 30, 2004''.

(3) EFFECTIVE DATE.—The amendments made by this subsection shall apply to amounts paid or incurred after June 30, 1999.

(b) INCREASE IN PERCENTAGES UNDER ALTERNATIVE INCREMENTAL CREDIT.—

(1) IN GENERAL.—Subparagraph (A) of section 41(c)(4) is amended—

(A) by striking ''1.65 percent'' and inserting ''2.65 percent'',

(B) by striking ''2.2 percent'' and inserting ''3.2 percent'', and

(C) by striking ''2.75 percent'' and inserting ''3.75 percent''.

(2) EFFECTIVE DATE.—The amendments made by this subsection shall apply to taxable years beginning after June 30, 1999.

SEC. 1402. SUBPART F EXEMPTION FOR ACTIVE FINANCING INCOME.

(a) IN GENERAL.—Sections 953(e)(10) and 954(h)(9) are each amended—

(1) by striking ''the first taxable year'' and inserting ''taxable years'', and

(2) by striking ''January 1, 2000'' and inserting ''January 1, 2005''.

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

SEC. 1403. TAXABLE INCOME LIMIT ON PERCENTAGE DEPLETION FOR MARGINAL PRODUCTION.

(a) IN GENERAL.—Subparagraph (H) of section 613A(c)(6) is amended by striking ''January 1, 2000'' and inserting ''January 1, 2005''.

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

SEC. 1404. WORK OPPORTUNITY CREDIT AND WELFARE-TO-WORK CREDIT.

(a) TEMPORARY EXTENSION.—Sections 51(c)(4)(B) and 51A(f) (relating to termination) are each amended by striking ''June 30, 1999'' and inserting ''June 30, 2001''.

(b) CLARIFICATION OF FIRST YEAR OF EMPLOYMENT.—Paragraph (2) of section 51(i) is amended by striking ''during which he was not a member of a targeted group''.

(c) ELECTRONIC FILING OF CERTIFICATION.—Not later than July 1, 2001, the Secretary of the Treasury or the Secretary's delegate shall provide an electronic format by which employers may submit requests to designated local agencies (as defined in section 51(d)(11) of the Internal Revenue Code of 1986) for certifications that individuals are members of targeted groups for purposes of section 51 of such Code.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to individuals who begin work for the employer after June 30, 1999.

TITLE XV—REVENUE OFFSETS

SEC. 1501. RETURNS RELATING TO CANCELLATIONS OF INDEBTEDNESS BY ORGANIZATIONS LENDING MONEY.

(a) IN GENERAL.—Paragraph (2) of section 6050P(c) (relating to definitions and special rules) is amended by striking ''and'' at the end of subparagraph (B), by striking the period at the end of subparagraph (C) and inserting '', and'', and by inserting after subparagraph (C) the following new subparagraph:

''(D) any organization a significant trade or business of which is the lending of money.''

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to discharges of indebtedness after December 31, 1999.

SEC. 1502. EXTENSION OF INTERNAL REVENUE SERVICE USER FEES.

(a) IN GENERAL.—Chapter 77 (relating to miscellaneous provisions) is amended by adding at the end the following new section:

''SEC. 7527. INTERNAL REVENUE SERVICE USER FEES.

''(a) GENERAL RULE.—The Secretary shall establish a program requiring the payment of user fees for—

''(1) requests to the Internal Revenue Service for ruling letters, opinion letters, and determination letters, and

''(2) other similar requests.

''(b) PROGRAM CRITERIA.—

''(1) IN GENERAL.—The fees charged under the program required by subsection (a)—

''(A) shall vary according to categories (or subcategories) established by the Secretary,

''(B) shall be determined after taking into account the average time for (and difficulty of) complying with requests in each category (and subcategory), and

''(C) shall be payable in advance.

''(2) EXEMPTIONS, ETC.—The Secretary shall provide for such exemptions (and reduced fees) under such program as the Secretary determines to be appropriate.

''(3) AVERAGE FEE REQUIREMENT.—The average fee charged under the program required by subsection (a) shall not be less than the amount determined under the following table:

''Category	Average Fee
Employee plan ruling and opinion ..	$250
Exempt organization ruling	$350
Employee plan determination	$300
Exempt organization determination.	$275
Chief counsel ruling	$200.

''(c) TERMINATION.—No fee shall be imposed under this section with respect to requests made after September 30, 2007.''

(b) CONFORMING AMENDMENTS.—

(1) The table of sections for chapter 77 is amended by adding at the end the following new item:

''Sec. 7527. Internal Revenue Service user fees.''

(2) Section 10511 of the Revenue Act of 1987 is repealed.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to requests made after the date of the enactment of this Act.

SEC. 1503. LIMITATIONS ON WELFARE BENEFIT FUNDS OF 10 OR MORE EMPLOYER PLANS.

(a) BENEFITS TO WHICH EXCEPTION APPLIES.—Section 419A(f)(6)(A) (relating to exception for 10 or more employer plans) is amended to read as follows:

''(A) IN GENERAL.—This subpart shall not apply to a welfare benefit fund which is part of a 10 or more employer plan if the only benefits provided through the fund are 1 or more of the following:

''(i) Medical benefits.

''(ii) Disability benefits.

''(iii) Group term life insurance benefits which do not provide for any cash surrender value or other money that can be paid, assigned, borrowed, or pledged for collateral for a loan.

The preceding sentence shall not apply to any plan which maintains experience-rating arrangements with respect to individual employers.''

(b) LIMITATION ON USE OF AMOUNTS FOR OTHER PURPOSES.—Section 4976(b) (defining disqualified benefit) is amended by adding at the end the following new paragraph:

''(5) SPECIAL RULE FOR 10 OR MORE EMPLOYER PLANS EXEMPTED FROM PREFUNDING LIMITS.—For purposes of paragraph (1)(C), if—

''(A) subpart D of part I of subchapter D of chapter 1 does not apply by reason of section 419A(f)(6) to contributions to provide 1 or more welfare benefits through a welfare benefit fund under a 10 or more employer plan, and

''(B) any portion of the welfare benefit fund attributable to such contributions is used for a purpose other than that for which the contributions were made,

then such portion shall be treated as reverting to the benefit of the employers maintaining the fund.''

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to contributions paid or accrued after June 9, 1999, in taxable years ending after such date.

SEC. 1504. INCREASE IN ELECTIVE WITHHOLDING RATE FOR NONPERIODIC DISTRIBUTIONS FROM DEFERRED COMPENSATION PLANS.

(a) IN GENERAL.—Section 3405(b)(1) (relating to withholding) is amended by striking '10 percent' and inserting '15 percent'.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to distributions after December 31, 1999.

SEC. 1505. CONTROLLED ENTITIES INELIGIBLE FOR REIT STATUS.

(a) IN GENERAL.—Subsection (a) of section 856 (relating to definition of real estate investment trust) is amended by striking ''and'' at the end of paragraph (6), by redesignating paragraph (7) as paragraph (8), and by inserting after paragraph (6) the following new paragraph:

''(7) which is not a controlled entity (as defined in subsection (l)); and''.

(b) CONTROLLED ENTITY.—Section 856 is amended by adding at the end the following new subsection:

''(l) CONTROLLED ENTITY.—

''(1) IN GENERAL.—For purposes of subsection (a)(7), an entity is a controlled entity if, at any time during the taxable year, one person (other than a qualified entity)—

''(A) in the case of a corporation, owns stock—

''(i) possessing at least 50 percent of the total voting power of the stock of such corporation, or

''(ii) having a value equal to at least 50 percent of the total value of the stock of such corporation,

''(B) in the case of a partnership, owns at least 50 percent of the capital or profits interests in the partnership, or

''(C) in the case of a trust, owns at least 50 percent of the beneficial interests in the trust.

''(2) QUALIFIED ENTITY.—For purposes of paragraph (1), the term 'qualified entity' means—

''(A) any real estate investment trust, and

''(B) any partnership in which one real estate investment trust owns at least 50 percent of the capital and profits interests in the partnership.

''(3) ATTRIBUTION RULES.—For purposes of this paragraphs (1) and (2)—

''(A) IN GENERAL.—Rules similar to the rules of subsections (d)(5) and (h)(3) shall apply.

''(B) STAPLED ENTITIES.—A group of entities which are stapled entities (as defined in section 269B(c)(2)) shall be treated as 1 person.

''(4) EXCEPTION FOR CERTAIN NEW REITS.—

''(A) IN GENERAL.—The term 'controlled entity' shall not include an incubator REIT.

''(B) INCUBATOR REIT.—A corporation shall be treated as an incubator REIT for any taxable year during the eligibility period if it meets all the following requirements for such year:

''(i) The corporation elects to be treated as an incubator REIT.

''(ii) The corporation has only voting common stock outstanding.

''(iii) Not more than 50 percent of the corporation's real estate assets consist of mortgages.

''(iv) From not later than the beginning of the last half of the second taxable year, at least 10 percent of the corporation's capital is provided by lenders or equity investors who are unrelated to the corporation's largest shareholder.

''(v) The directors of the corporation adopt a resolution setting forth an intent to engage in a going public transaction.

No election may be made with respect to any REIT if an election under this subsection was in effect for any predecessor of such REIT.

''(C) ELIGIBILITY PERIOD.—The eligibility period (for which an incubator REIT election can be made) begins with the REIT's second taxable year and ends at the close of the REIT's third taxable year, but, subject to the following rules, it may be extended for an additional 2 taxable years if the REIT so elects:

''(i) A REIT cannot elect to extend the eligibility period unless it agrees that, if it does not engage in a going public transaction by the end of the extended eligibility period, it shall pay Federal income taxes for the 2 years of the extended eligibility period as if it had not made an incubator REIT election and had ceased to qualify as a REIT for those 2 taxable years.

''(ii) In the event the corporation ceases to be treated as a REIT by operation of clause (i), the corporation shall file any appropriate amended returns reflecting the change in status within 3 months of the close of the extended eligibility period. Interest would be payable but, unless there was a finding under subparagraph (D), no substantial underpayment penalties shall be imposed. The corporation shall, at the same time, also notify its shareholders and any other persons whose tax position is, or may reasonably be expected to be, affected by the change in status so they also may file any appropriate amended returns to conform their tax treatment consistent with the corporation's loss of REIT status. The Secretary shall provide appropriate regulations setting forth transferee liability and other provisions to ensure collection of tax and the proper administration of this provision.

''(iii) Clause (i) and (ii) shall not apply if the corporation allows its incubator REIT status to lapse at the end of the initial 2-year eligibility period without engaging in a going public transaction, provided the corporation satisfies the requirements of the closely-held test commencing with its fourth taxable year. In such a case, the corporation's directors may still be liable for the penalties described in subparagraph (D) during the eligibility period.

''(D) SPECIAL PENALTIES.—If the Secretary determines that an incubator REIT election was filed for a principal purpose other than as part of a reasonable plan to undertake a going public transaction, an excise tax of $20,000 would be imposed on each of the corporation's directors for each taxable year for which an election was in effect.

''(E) GOING PUBLIC TRANSACTION.—For purposes of this paragraph, a going public transaction means—

''(i) a public offering of shares of the stock of the incubator REIT;

''(ii) a transaction, or series of transactions, that results in the stock of the incubator REIT being regularly traded on an established securities market and that results in at least 50 percent of such stock being held by shareholders who are unrelated to persons who held such stock before it began to be so regularly traded; or

''(iii) any transaction resulting in ownership of the REIT by 200 or more persons (excluding the largest single shareholder) who in the aggregate own at least 50 percent of the stock of the REIT.

For the purposes of this subparagraph, the rules of section 318 shall apply in determining the ownership of stock.

''(F) DEFINITIONS.—The term ''established securities market'' shall have the meaning set forth in the regulations under section 897.''

(c) CONFORMING AMENDMENT.—Paragraph (2) of section 856(h) is amended by striking ''and (6)'' each place it appears and inserting '', (6), and (7)''.

(d) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to taxable years ending after July 12, 1999.

(2) EXCEPTION FOR EXISTING CONTROLLED ENTITIES.—The amendments made by this section shall not apply to any entity which is a controlled entity (as defined in section 856(l) of the Internal Revenue Code of 1986, as added by this section) as of July 12, 1999, and which has significant business assets or activities as of such date.

SEC. 1506. TREATMENT OF GAIN FROM CONSTRUCTIVE OWNERSHIP TRANSACTIONS.

(a) IN GENERAL.—Part IV of subchapter P of chapter 1 (relating to special rules for determining capital gains and losses) is amended by inserting after section 1259 the following new section:

''SEC. 1260. GAINS FROM CONSTRUCTIVE OWNERSHIP TRANSACTIONS.

''(a) IN GENERAL.—If the taxpayer has gain from a constructive ownership transaction with respect to any financial asset and such gain would (without regard to this section) be treated as a long-term capital gain—

''(1) such gain shall be treated as ordinary income to the extent that such gain exceeds the net underlying long-term capital gain, and

''(2) to the extent such gain is treated as a long-term capital gain after the application of paragraph (1), the determination of the capital gain rate (or rates) applicable to such gain under section 1(h) shall be determined on the basis of the respective rate (or rates) that would have been applicable to the net underlying long-term capital gain.

''(b) INTEREST CHARGE ON DEFERRAL OF GAIN RECOGNITION.—

''(1) IN GENERAL.—If any gain is treated as ordinary income for any taxable year by reason of subsection (a)(1), the tax imposed by this chapter for such taxable year shall be increased by the amount of interest determined under paragraph (2) with respect to each prior taxable year during any portion of which the constructive ownership transaction was open. Any amount payable under this paragraph shall be taken into account in computing the amount of any deduction allowable to the taxpayer for interest paid or accrued during such taxable year.

''(2) AMOUNT OF INTEREST.—The amount of interest determined under this paragraph with respect to a prior taxable year is the amount of interest which would have been imposed under section 6601 on the underpayment of tax for such year which would have resulted if the gain (which is treated as ordinary income by reason of subsection (a)(1)) had been included in gross income in the taxable years in which it accrued (determined by treating the income as accruing at a constant rate equal to the applicable Federal rate as in effect on the day the transaction closed). The period during which such interest shall accrue shall end on the due date (without extensions) for the return of tax imposed by this chapter for the taxable year in which such transaction closed.

''(3) APPLICABLE FEDERAL RATE.—For purposes of paragraph (2), the applicable Federal rate is the applicable Federal rate determined under 1274(d) (compounded semiannually) which would apply to a debt instrument with a term equal to the period the transaction was open.

''(4) NO CREDITS AGAINST INCREASE IN TAX.—Any increase in tax under paragraph (1) shall not be treated as tax imposed by this chapter for purposes of determining—

''(A) the amount of any credit allowable under this chapter, or

''(B) the amount of the tax imposed by section 55.

''(c) FINANCIAL ASSET.—For purposes of this section—

''(1) IN GENERAL.—The term 'financial asset' means—

''(A) any equity interest in any pass-thru entity, and

''(B) to the extent provided in regulations—

''(i) any debt instrument, and

''(ii) any stock in a corporation which is not a pass-thru entity.

''(2) PASS-THRU ENTITY.—For purposes of paragraph (1), the term 'pass-thru entity' means—

''(A) a regulated investment company,

''(B) a real estate investment trust,

''(C) an S corporation,

''(D) a partnership,

''(E) a trust,

''(F) a common trust fund,

''(G) a passive foreign investment company (as defined in section 1297),

''(H) a foreign personal holding company, and

''(I) a foreign investment company (as defined in section 1246(b)).

''(d) CONSTRUCTIVE OWNERSHIP TRANSACTION.—For purposes of this section—

''(1) IN GENERAL.—The taxpayer shall be treated as having entered into a constructive ownership transaction with respect to any financial asset if the taxpayer—

''(A) holds a long position under a notional principal contract with respect to the financial asset,

''(B) enters into a forward or futures contract to acquire the financial asset,

''(C) is the holder of a call option, and is the grantor of a put option, with respect to the financial asset and such options have substantially equal strike prices and substantially contemporaneous maturity dates, or

''(D) to the extent provided in regulations prescribed by the Secretary, enters into 1 or more other transactions (or acquires 1 or more positions) that have substantially the same effect as a transaction described in any of the preceding subparagraphs.

''(2) EXCEPTION FOR POSITIONS WHICH ARE MARKED TO MARKET.—This section shall not apply to any constructive ownership transaction if all of the positions which are part of such transaction are marked to market under any provision of this title or the regulations thereunder.

''(3) LONG POSITION UNDER NOTIONAL PRINCIPAL CONTRACT.—A person shall be treated as holding a long position under a notional principal contract with respect to any financial asset if such person—

''(A) has the right to be paid (or receive credit for) all or substantially all of the investment yield (including appreciation) on such financial asset for a specified period, and

''(B) is obligated to reimburse (or provide credit for) all or substantially all of any decline in the value of such financial asset.

''(4) FORWARD CONTRACT.—The term 'forward contract' means any contract to acquire in the future (or provide or receive credit for the future value of) any financial asset.

''(e) NET UNDERLYING LONG-TERM CAPITAL GAIN.—For purposes of this section, in the case of any constructive ownership transaction with respect to any financial asset, the term 'net underlying long-term capital gain' means the aggregate net capital gain that the taxpayer would have had if—

''(1) the financial asset had been acquired for fair market value on the date such transaction was opened and sold for fair market value on the date such transaction was closed, and

''(2) only gains and losses that would have resulted from the deemed ownership under paragraph (1) were taken into account.

The amount of the net underlying long-term capital gain with respect to any financial asset shall be treated as zero unless the amount thereof is established by clear and convincing evidence.

''(f) SPECIAL RULE WHERE TAXPAYER TAKES DELIVERY.—Except as provided in regulations prescribed by the Secretary, if a constructive ownership transaction is closed by reason of taking delivery, this section shall be applied as if the taxpayer had sold all the contracts, options, or other positions which are part of such transaction for fair market value on the closing date. The amount of gain recognized under the preceding sentence shall not exceed the amount of gain treated as ordinary income under subsection (a). Proper adjustments shall be made in the amount of any gain or loss subsequently realized for gain recognized and treated as ordinary income under this subsection.

''(g) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this section, including regulations—

''(1) to permit taxpayers to mark to market constructive ownership transactions in lieu of applying this section, and

''(2) to exclude certain forward contracts which do not convey substantially all of the economic return with respect to a financial asset.''

(b) CLERICAL AMENDMENT.—The table of sections for part IV of subchapter P of chapter 1 is amended by adding at the end the following new item:

''Sec. 1260. Gains from constructive ownership transactions.''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to transactions entered into after July 11, 1999.

SEC. 1507. TRANSFER OF EXCESS DEFINED BENEFIT PLAN ASSETS FOR RETIREE HEALTH BENEFITS.

(a) EXTENSION.—Paragraph (5) of section 420(b) (relating to expiration) is amended by striking ''in any taxable year beginning after December 31, 2000'' and inserting ''made after September 30, 2009''.

(b) APPLICATION OF MINIMUM COST REQUIREMENTS.—

(1) IN GENERAL.—Paragraph (3) of section 420(c) is amended to read as follows:

''(3) MINIMUM COST REQUIREMENTS.—

''(A) IN GENERAL.—The requirements of this paragraph are met if each group health plan or arrangement under which applicable health benefits are provided provides that the applicable employer cost for each taxable year during the cost maintenance period shall not be less than the higher of the applicable employer costs for each of the 2 taxable years immediately preceding the taxable year of the qualified transfer.

''(B) APPLICABLE EMPLOYER COST.—For purposes of this paragraph, the term 'applicable employer cost' means, with respect to any taxable year, the amount determined by dividing—

''(i) the qualified current retiree health liabilities of the employer for such taxable year determined—

''(I) without regard to any reduction under subsection (e)(1)(B), and

''(II) in the case of a taxable year in which there was no qualified transfer, in the same manner as if there had been such a transfer at the end of the taxable year, by

''(ii) the number of individuals to whom coverage for applicable health benefits was provided during such taxable year.

''(C) ELECTION TO COMPUTE COST SEPARATELY.—An employer may elect to have this paragraph applied separately with respect to individuals eligible for benefits under title XVIII of the Social Security Act at any time during the taxable year and with respect to individuals not so eligible.

''(D) COST MAINTENANCE PERIOD.—For purposes of this paragraph, the term 'cost maintenance period' means the period of 5 taxable years beginning with the taxable year in which the qualified transfer occurs. If a taxable year is in 2 or more overlapping cost maintenance periods, this paragraph shall be applied by taking into account the highest applicable employer cost required to be provided under subparagraph (A) for such taxable year.''

(2) CONFORMING AMENDMENTS.—

(A) Clause (iii) of section 420(b)(1)(C) is amended by striking ''benefits'' and inserting ''cost''.

(B) Subparagraph (D) of section 420(e)(1) is amended by striking ''and shall not be subject to the minimum benefit requirements of subsection (c)(3)'' and inserting ''or in calculating applicable employer cost under subsection (c)(3)(B)''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to qualified transfers occurring after the date of the enactment of this Act.

SEC. 1508. MODIFICATION OF INSTALLMENT METHOD AND REPEAL OF INSTALLMENT METHOD FOR ACCRUAL METHOD TAXPAYERS.

(a) REPEAL OF INSTALLMENT METHOD FOR ACCRUAL BASIS TAXPAYERS.—

(1) IN GENERAL.—Subsection (a) of section 453 (relating to installment method) is amended to read as follows:

''(a) USE OF INSTALLMENT METHOD.—

''(1) IN GENERAL.—Except as otherwise provided in this section, income from an installment sale shall be taken into account for purposes of this title under the installment method.

''(2) ACCRUAL METHOD TAXPAYER.—The installment method shall not apply to income from an installment sale if such income would be reported under an accrual method of accounting without regard to this section. The preceding sentence shall not apply to a disposition described in subparagraph (A) or (B) of subsection (l)(2).''

(2) CONFORMING AMENDMENTS.—Sections 453(d)(1), 453(i)(1), and 453(k) are each amended by striking ''(a)'' each place it appears and inserting ''(a)(1)''.

(b) MODIFICATION OF PLEDGE RULES.—Paragraph (4) of section 453A(d) (relating to pledges, etc., of installment obligations) is amended by adding at the end the following: ''A payment shall be treated as directly secured by an interest in an installment obligation to the extent an arrangement allows the taxpayer to satisfy all or a portion of the indebtedness with the installment obligation.''

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to sales or other dispositions occurring on or after the date of the enactment of this Act.

TITLE XVI—TECHNICAL CORRECTIONS

SEC. 1601. AMENDMENTS RELATED TO TAX AND TRADE RELIEF EXTENSION ACT OF 1998.

(a) AMENDMENT RELATED TO SECTION 1004(b) OF THE ACT.—Subsection (d) of section 6104 is amended by adding at the end the following new paragraph:

''(6) APPLICATION TO NONEXEMPT CHARITABLE TRUSTS AND NONEXEMPT PRIVATE FOUNDATIONS.—The organizations referred to in paragraphs (1) and (2) of section 6033(d) shall comply with the requirements of this subsection relating to annual returns filed under section 6033 in the same manner as the organizations referred to in paragraph (1).''

(b) AMENDMENTS RELATED TO SECTION 4003 OF THE ACT.—

(1) Subsection (b) of section 4003 of the Tax and Trade Relief Extension Act of 1998 is amended by inserting ''(7)(A)(i)(II),'' after ''(5)(A)(ii)(I),''.

(2) Subparagraph (A) of section 9510(c)(1) is amended by striking ''August 5, 1997'' and inserting ''October 21, 1998''.

(c) VACCINE TAX AND TRUST FUND.—Sections 1503 and 1504 of the Vaccine Injury Compensation Program Modification Act (and the amendments made by such sections) are hereby repealed.

(d) EFFECTIVE DATE.—The amendments made by this section shall take effect as if included in the provisions of the Tax and Trade Relief Extension Act of 1998 to which they relate.

SEC. 1602. AMENDMENTS RELATED TO INTERNAL REVENUE SERVICE RESTRUCTURING AND REFORM ACT OF 1998.

(a) AMENDMENT RELATED TO 1103 OF THE ACT.—Paragraph (6) of section 6103(k) is amended—

(1) by inserting ''and an officer or employee of the Office of Treasury Inspector General for Tax Administration'' after ''internal revenue officer or employee'', and

(2) by striking ''INTERNAL REVENUE'' in the heading and inserting ''CERTAIN''.

(b) AMENDMENT RELATED TO SECTION 3509 OF THE ACT.—Subparagraph (A) of section 6110(g)(5) is amended by inserting '', any Chief Counsel advice,'' after ''technical advice memorandum''.

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect as if included in the provisions of the Internal Revenue Service Restructuring and Reform Act of 1998 to which they relate.

SEC. 1603. AMENDMENTS RELATED TO TAXPAYER RELIEF ACT OF 1997.

(a) AMENDMENT RELATED TO SECTION 302 OF THE ACT.—The last sentence of section 3405(e)(1)(B) is amended by inserting ''(other than a Roth IRA)'' after ''individual retirement plan''.

(b) AMENDMENTS RELATED TO SECTION 1072 OF THE ACT.—

(1) Clause (ii) of section 415(c)(3)(D) and subparagraph (B) of section 403(b)(3) are each amended by striking ''section 125 or'' and inserting ''section 125, 132(f)(4), or''.

(2) Paragraph (2) of section 414(s) is amended by striking ''section 125, 402(e)(3)'' and inserting ''section 125, 132(f)(4), 402(e)(3)''.

(c) AMENDMENT RELATED TO SECTION 1454 OF THE ACT.—Subsection (a) of section 7436 is amended by inserting before the period at the end of the first sentence ''and the proper amount of employment tax under such determination''.

(d) EFFECTIVE DATE.—The amendments made by this section shall take effect as if

included in the provisions of the Taxpayer Relief of 1997 to which they relate.

SEC. 1604. OTHER TECHNICAL CORRECTIONS.

(a) AFFILIATED CORPORATIONS IN CONTEXT OF WORTHLESS SECURITIES.—

(1) Subparagraph (A) of section 165(g)(3) is amended to read as follows:

''(A) the taxpayer owns directly stock in such corporation meeting the requirements of section 1504(a)(2), and''.

(2) Paragraph (3) of section 165(g) is amended by striking the last sentence.

(3) The amendments made by this subsection shall apply to taxable years beginning after December 31, 1984.

(b) REFERENCE TO CERTAIN STATE PLANS.—

(1) Subparagraph (B) of section 51(d)(2) is amended—

(A) by striking ''plan approved'' and inserting ''program funded'', and

(B) by striking ''(relating to assistance for needy families with minor children)''.

(2) The amendment made by paragraph (1) shall take effect as if included in the amendments made by section 1201 of the Small Business Job Protection Act of 1996.

(c) AMOUNT OF IRA CONTRIBUTION OF LESSER EARNING SPOUSE.—

(1) Clause (ii) of section 219(c)(1)(B) is amended by striking ''and'' at the end of subclause (I), by redesignating subclause (II) as subclause (III), and by inserting after subclause (I) the following new subclause:

''(II) the amount of any designated nondeductible contribution (as defined in section 408(o)) on behalf of such spouse for such taxable year, and''.

(2) The amendment made by paragraph (1) shall apply to taxable years beginning after December 31, 1999.

(d) MODIFIED ENDOWMENT CONTRACTS.—

(1) Paragraph (2) of section 7702A(a) is amended by inserting ''or this paragraph'' before the period.

(2) Clause (ii) of section 7702A(c)(3)(A) is amended by striking ''under the contract'' and inserting ''under the old contract''.

(3) The amendments made by this subsection shall take effect as if included in the amendments made by section 5012 of the Technical and Miscellaneous Revenue Act of 1988.

(e) LUMP-SUM DISTRIBUTIONS.—

(1) Clause (ii) of section 401(k)(10)(B) is amended by adding at the end the following new sentence: ''Such term includes a distribution of an annuity contract from—

''(I) a trust which forms a part of a plan described in section 401(a) and which is exempt from tax under section 501(a), or

''(II) an annuity plan described in section 403(a).''

(2) The amendment made by paragraph (1) shall take effect as if included in section 1401 of the Small Business Job Protection Act of 1996.

(f) TENTATIVE CARRYBACK ADJUSTMENTS OF LOSSES FROM SECTION 1256 CONTRACTS.—

(1) Subsection (a) of section 6411 is amended by striking ''section 1212(a)(1)'' and inserting ''subsection (a)(1) or (c) of section 1212''.

(2) The amendment made by paragraph (1) shall take effect as if included in the amendments made by section 504 of the Economic Recovery Tax Act of 1981.

SEC. 1605. CLERICAL CHANGES.

(1) Subsection (f) of section 67 is amended by striking ''the last sentence'' and inserting ''the second sentence''.

(2) The heading for paragraph (5) of section 408(d) is amended to read as follows:

''(5) DISTRIBUTIONS OF EXCESS CONTRIBUTIONS AFTER DUE DATE FOR TAXABLE YEAR AND CERTAIN EXCESS ROLLOVER CONTRIBUTIONS.—''.

(3) The heading for subparagraph (B) of section 529(e)(3) is amended by striking ''UNDER GUARANTEED PLANS''.

(4)(A) Subsection (e) of section 678 is amended by striking ''an electing small business corporation'' and inserting ''an S corporation''.

(B) Clause (v) of section 6103(e)(1)(D) is amended to read as follows:

''(v) if the corporation was an S corporation, any person who was a shareholder during any part of the period covered by such return during which an election under section 1362(a) was in effect, or''.

(5) Subparagraph (B) of section 995(b)(3) is amended by striking ''the Military Security Act of 1954 (22 U.S.C. 1934)'' and inserting ''section 38 of the International Security Assistance and Arms Export Control Act of 1976 (22 U.S.C. 2778)''.

(6) Subparagraph (B) of section 4946(c)(3) is amended by striking ''the lowest rate of compensation prescribed for GS-16 of the General Schedule under section 5332'' and inserting ''the lowest rate of basic pay for the Senior Executive Service under section 5382''.

The SPEAKER pro tempore. The amendment printed in the bill, modified by the amendments printed in section 3 of House Resolution 256, is adopted.

The text of the committee amendment in the nature of a substitute, as modified, is as follows:

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

SECTION 1. SHORT TITLE; ETC.

(a) SHORT TITLE.—This Act may be cited as the ''Financial Freedom Act of 1999''.

(b) AMENDMENT OF 1986 CODE.—Except as otherwise expressly provided, whenever in this Act an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference shall be considered to be made to a section or other provision of the Internal Revenue Code of 1986.

(c) SECTION 15 NOT TO APPLY.—No amendment made by this Act shall be treated as a change in a rate of tax for purposes of section 15 of the Internal Revenue Code of 1986.

(d) TABLE OF CONTENTS.—The table of contents for this Act is as follows:

TITLE I—BROAD-BASED TAX RELIEF

Subtitle A—10-Percent Reduction in Individual Income Tax Rates

SEC. 101. 10-PERCENT REDUCTION IN INDIVIDUAL INCOME TAX RATES.

(a) REGULAR INCOME TAX RATES.—

(1) IN GENERAL.—Subsection (f) of section 1 is amended by adding at the end the following new paragraph:

''(8) RATE REDUCTIONS.—In prescribing the tables under paragraph (1) which apply with respect to taxable years beginning in a calendar year after 2000, each rate in such tables (without regard to this paragraph) shall be reduced by the number of percentage points (rounded to the next lowest tenth) equal to the applicable percentage (determined in accordance with the following table) of such rate:

''For taxable years beginning in calendar year—	***The applicable percentage is—***
2001 through 2003	*1.0*
2004	*2.5*
2005 through 2007	*5.0*
2008	*7.5*
2009 and thereafter	*10.0.''.*

In the case of taxable years beginning in calendar year 2001, the rounding referred to in the preceding sentence shall be to the next highest tenth.

''(9) POST-2001 RATE REDUCTIONS CONTINGENT ON NO INCREASE IN INTEREST ON TOTAL UNITED STATES DEBT.—

''(A) IN GENERAL.—IN THE CASE OF TAXABLE YEARS BEGINNING AFTER DECEMBER 31, 2002, PARAGRAPH (8) SHALL APPLY ONLY TO TAXABLE YEARS BEGINNING AFTER THE FIRST DEBT REDUCTION CALENDAR YEAR.

''(B) DELAY OF FURTHER RATE REDUCTIONS IF INCREASE IN INTEREST ON TOTAL UNITED STATES DEBT.—For each calendar year after 2000 which is not a debt reduction calendar year, the table in paragraph (8) shall be applied for each subsequent calendar year by substituting the calendar year which is 1 year later. The preceding sentence shall cease to apply after the earliest calendar year with respect to which the applicable percentage under paragraph (8) is 10 percent (after the application of the preceding sentence).

''(C) DEBT REDUCTION CALENDAR YEAR.—For purposes of this paragraph, the term 'debt reduction calendar year' means any calendar year after 2000 if, for the 12-month period ending July 31 of such calendar year, the interest expense on the total United States debt is not greater than such interest expense for the 12-month period ending on July 31 of the preceding calendar year.

''(D) TOTAL UNITED STATES DEBT.—For purposes of this paragraph, the term 'total United States debt' means obligations which are subject to the public debt limit in section 3101 of title 31, United States Code.''

(2) TECHNICAL AMENDMENTS.—

(A) Subparagraph (B) of section 1(f)(2) is amended by inserting ''except as provided in paragraph (8),'' before ''by not changing''.

(B) Subparagraph (C) of section 1(f)(2) is amended by inserting ''and the reductions under paragraph (8) in the rates of tax'' before the period.

(C) The heading for subsection (f) of section 1 is amended by inserting ''RATE REDUCTIONS;'' before ''ADJUSTMENTS''.

(D) Section 1(g)(7)(B)(ii)(II) is amended by striking ''15 percent'' and inserting ''the percentage applicable to the lowest income bracket in subsection (c)''.

(E) Subparagraphs (A)(ii)(I) and (B)(i) of section 1(h)(1) are each amended by striking ''28 percent'' and inserting ''25.2 percent''.

(F) Section 531 is amended by striking ''39.6 percent of the accumulated taxable income'' and inserting ''the product of the accumulated taxable income and the percentage applicable to the highest income bracket in section 1(c)''.

(G) Section 541 is amended by striking ''39.6 percent of the undistributed personal holding company income'' and inserting ''the product of the undistributed personal holding company income and the percentage applicable to the highest income bracket in section 1(c)''.

(H) Section 3402(p)(1)(B) is amended by striking ''specified is 7, 15, 28, or 31 percent'' and all that follows and inserting ''specified is—

''(i) 7 percent,

''(ii) a percentage applicable to 1 of the 3 lowest income brackets in section 1(c), or

''(iii) such other percentage as is permitted under regulations prescribed by the Secretary.''

(I) Section 3402(p)(2) is amended by striking ''15 percent of such payment'' and inserting ''the product of such payment and the percentage applicable to the lowest income bracket in section 1(c)''.

(J) Section 3402(q)(1) is amended by striking ''28 percent of such payment'' and inserting ''the product of such payment and the percentage applicable to the next to the lowest income bracket in section 1(c)''.

(K) Section 3402(r)(3) is amended by striking ''31 percent'' and inserting ''the rate applicable to the third income bracket in such section''.

(L) Section 3406(a)(1) is amended by striking ''31 percent of such payment'' and inserting ''the product of such payment and the percentage applicable to the third income bracket in section 1(c)''.

(b) MINIMUM TAX RATES.—Subparagraph (A) of section 55(b)(1) is amended by adding at the end the following new clause:

''(iv) RATE REDUCTION.—In the case of taxable years beginning after 2000, each rate in clause (i) (without regard to this clause) shall be reduced by the number of percentage points (rounded to the next lowest tenth) equal to the applicable percentage (determined in accordance with section 1(f)(8)) of such rate.''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2000.

Subtitle B—Marriage Penalty Tax Relief

SEC. 111. ELIMINATION OF MARRIAGE PENALTY IN STANDARD DEDUCTION.

(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).

(b) PHASE-IN.—Subsection (c) of section 63 is amended by adding at the end the following new paragraph:

''(7) PHASE-IN OF INCREASE IN BASIC STANDARD DEDUCTION.—In the case of taxable years beginning before January 1, 2003—

''(A) paragraph (2)(A) shall be applied by substituting for 'twice'—

''(i) '1.778 times' in the case of taxable years beginning during 2001, and

''(ii) '1.889 times' in the case of taxable years beginning during 2002, and

''(B) the basic standard deduction for a married individual filing a separate return shall be one-half of the amount applicable under paragraph (2)(A).

If any amount determined under subparagraph (A) is not a multiple of $50, such amount shall be rounded to the next lowest multiple of $50.''.

(c) TECHNICAL AMENDMENTS.—

(1) Subparagraph (B) of section 1(f)(6) is amended by striking ''(other than with'' and all that follows through ''shall be applied'' and inserting ''(other than with respect to sections 63(c)(4) and 151(d)(4)(A)) shall be applied''.

(2) Paragraph (4) of section 63(c) is amended by adding at the end the following flush sentence:

''The preceding sentence shall not apply to the amount referred to in paragraph (2)(A).''.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2000.

SEC. 112. ELIMINATION OF MARRIAGE PENALTY IN DEDUCTION FOR INTEREST ON EDUCATION LOANS.

(a) IN GENERAL.—Subparagraph (B) of section 221(b)(2) (relating to limitation based on modified adjusted gross income) is amended—

(1) by striking ''$60,000'' in clause (i)(II) and inserting ''twice such amount'', and

(2) by inserting ''($30,000 in the case of a joint return)'' after ''$15,000'' in clause (ii).

(b) CONFORMING AMENDMENT.—Paragraph (1) of section 221(g) is amended by striking ''and $60,000 amounts in subsection (b)(2) shall each'' and inserting ''amount in subsection (b)(2) shall''.

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

SEC. 113. ROLLOVER FROM REGULAR IRA TO ROTH IRA.

(a) IN GENERAL.—Clause (i) of section 408A(c)(3)(B) is amended by inserting ''($160,000 in the case of a joint return)'' after ''$100,000''.

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

Subtitle C—Repeal of Alternative Minimum Tax on Individuals

SEC. 121. REPEAL OF ALTERNATIVE MINIMUM TAX ON INDIVIDUALS.

(a) IN GENERAL.—Subsection (a) of section 55 is amended by adding at the end the following new flush sentence:

''For purposes of this title, the tentative minimum tax on any taxpayer other than a corporation for any taxable year beginning after December 31, 2008, shall be zero.''

(b) REDUCTION OF TAX ON INDIVIDUALS PRIOR TO REPEAL.—Section 55 is amended by adding at the end the following new subsection:

''(f) PHASEOUT OF TAX ON INDIVIDUALS.—

''(1) IN GENERAL.—The tax imposed by this section on a taxpayer other than a corporation for any taxable year beginning after December 31, 2004, and before January 1, 2009, shall be the applicable percentage of the tax which would be imposed but for this subsection.

''(2) APPLICABLE PERCENTAGE.—For purposes of paragraph (1), the applicable percentage shall be determined in accordance with the following table:

''For taxable years beginning in calendar year—	The applicable percentage is—
2005	80
2006	70
2007	60
2008	50.''

(c) NONREFUNDABLE PERSONAL CREDITS FULLY ALLOWED AGAINST REGULAR TAX LIABILITY.—

(1) IN GENERAL.—Subsection (a) of section 26 (relating to limitation based on amount of tax) is amended to read as follows:

''(a) LIMITATION BASED ON AMOUNT OF TAX.—The aggregate amount of credits allowed by this subpart for the taxable year shall not exceed the taxpayer's regular tax liability for the taxable year.''

(2) CHILD CREDIT.—Subsection (d) of section 24 is amended by striking paragraph (2) and by redesignating paragraph (3) as paragraph (2).

(d) LIMITATION ON USE OF CREDIT FOR PRIOR YEAR MINIMUM TAX LIABILITY.—Subsection (c) of section 53 is amended to read as follows:

''(c) LIMITATION.—

''(1) IN GENERAL.—Except as otherwise provided in this subsection, the credit allowable under subsection (a) for any taxable year shall not exceed the excess (if any) of—

''(A) the regular tax liability of the taxpayer for such taxable year reduced by the sum of the credits allowable under subparts A, B, D, E, and F of this part, over

''(B) the tentative minimum tax for the taxable year.

''(2) TAXABLE YEARS BEGINNING AFTER 2008.—In the case of any taxable year beginning after 2008, the credit allowable under subsection (a) to a taxpayer other than a corporation for any taxable year shall not exceed 90 percent of the excess (if any) of—

''(A) regular tax liability of the taxpayer for such taxable year, over

''(B) the sum of the credits allowable under subparts A, B, D, E, and F of this part.''

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 1998.

TITLE II—RELIEF FROM TAXATION ON SAVINGS AND INVESTMENTS

SEC. 201. EXEMPTION OF CERTAIN INTEREST AND DIVIDEND INCOME FROM TAX.

(a) IN GENERAL.—Part III of subchapter B of chapter 1 (relating to amounts specifically excluded from gross income) is amended by inserting after section 115 the following new section:

''SEC. 116. PARTIAL EXCLUSION OF DIVIDENDS AND INTEREST RECEIVED BY INDIVIDUALS.

''(a) EXCLUSION FROM GROSS INCOME.—Gross income does not include dividends and interest otherwise includible in gross income which are received during the taxable year by an individual.

''(b) LIMITATIONS.—

''(1) MAXIMUM AMOUNT.—The aggregate amount excluded under subsection (a) for any taxable year shall not exceed—

''(A) in the case of any taxable year beginning in 2001 or 2002, $50 ($100 in the case of a joint return),

''(B) in the case of any taxable year beginning in 2003 or 2004, $100 ($200 in the case of a joint return), and

''(C) in the case of any taxable year beginning after 2004, $200 ($400 in the case of a joint return).

''(2) CERTAIN DIVIDENDS EXCLUDED.—Subsection (a) shall not apply to any dividend from a corporation which for the taxable year of the corporation in which the distribution is made is a corporation exempt from tax under section 521 (relating to farmers' cooperative associations).

''(c) SPECIAL RULES.—For purposes of this section—

''(1) EXCLUSION NOT TO APPLY TO CAPITAL GAIN DIVIDENDS FROM REGULATED INVESTMENT COMPANIES AND REAL ESTATE INVESTMENT TRUSTS.—

''For treatment of capital gain dividends, see sections 854(a) and 857(c).

''(2) CERTAIN NONRESIDENT ALIENS INELIGIBLE FOR EXCLUSION.—In the case of a nonresident alien individual, subsection (a) shall apply only in determining the taxes imposed for the taxable year pursuant to sections 871(b)(1) and 877(b).

''(3) DIVIDENDS FROM EMPLOYEE STOCK OWNERSHIP PLANS.—Subsection (a) shall not apply to any dividend described in section 404(k).''.

(b) CONFORMING AMENDMENTS.—

(1) Subparagraph (C) of section 32(c)(5) is amended by striking ''or'' at the end of clause (i), by striking the period at the end of clause (ii) and inserting ''; or'', and by inserting after clause (ii) the following new clause:

''(iii) interest and dividends received during the taxable year which are excluded from gross income under section 116.''.

(2) Subparagraph (A) of section 32(i)(2) is amended by inserting ''(determined without regard to section 116)'' before the comma.

(3) Subparagraph (B) of section 86(b)(2) is amended to read as follows:

''(B) increased by the sum of—

''(i) the amount of interest received or accrued by the taxpayer during the taxable year which is exempt from tax, and

''(ii) the amount of interest and dividends received during the taxable year which are excluded from gross income under section 116.''.

(4) Subsection (d) of section 135 is amended by redesignating paragraph (4) as paragraph (5) and by inserting after paragraph (3) the following new paragraph:

''(4) COORDINATION WITH SECTION 116.—This section shall be applied before section 116.''.

(5) Paragraph (2) of section 265(a) is amended by inserting before the period '', or to purchase or carry obligations or shares, or to make deposits, to the extent the interest thereon is excludable from gross income under section 116''.

(6) Subsection (c) of section 584 is amended by adding at the end the following new flush sentence:

''The proportionate share of each participant in the amount of dividends or interest received by the common trust fund and to which section 116 applies shall be considered for purposes of such section as having been received by such participant.''.

(7) Subsection (a) of section 643 is amended by redesignating paragraph (7) as paragraph (8) and by inserting after paragraph (6) the following new paragraph:

''(7) DIVIDENDS OR INTEREST.—There shall be included the amount of any dividends or interest excluded from gross income pursuant to section 116.''.

(8) Section 854(a) is amended by inserting ''section 116 (relating to partial exclusion of dividends and interest received by individuals) and'' after ''For purposes of''.

(9) Section 857(c) is amended to read as follows:

''(c) RESTRICTIONS APPLICABLE TO DIVIDENDS RECEIVED FROM REAL ESTATE INVESTMENT TRUSTS.—

''(1) TREATMENT FOR SECTION 116.—For purposes of section 116 (relating to partial exclusion of dividends and interest received by individuals), a capital gain dividend (as defined in subsection (b)(3)(C)) received from a real estate investment trust which meets the requirements of this part shall not be considered as a dividend.

''(2) TREATMENT FOR SECTION 243.—For purposes of section 243 (relating to deductions for dividends received by corporations), a dividend received from a real estate investment trust which meets the requirements of this part shall not be considered as a dividend.''.

(10) The table of sections for part III of subchapter B of chapter 1 is amended by inserting after the item relating to section 115 the following new item:

''Sec. 116. Partial exclusion of dividends and interest received by individuals.''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2000.

SEC. 202. REDUCTION IN INDIVIDUAL CAPITAL GAIN TAX RATES.

(a) IN GENERAL.—

(1) Sections 1(h)(1)(B) and 55(b)(3)(B) are each amended by striking ''10 percent'' and inserting ''7.5 percent''.

(2) The following sections are each amended by striking ''20 percent'' and inserting ''15 percent'':

(A) Section 1(h)(1)(C).

(B) Section 55(b)(3)(C).

(C) Section 1445(e)(1).

(D) The second sentence of section 7518(g)(6)(A).

(E) The second sentence of section 607(h)(6)(A) of the Merchant Marine Act, 1936.

(3) Sections 1(h)(1)(D) and 55(b)(3)(D) are each amended by striking ''25 percent'' and inserting ''20 percent''.

(b) CONFORMING AMENDMENTS.—

(1) Section 311 of the Taxpayer Relief Act of 1997 is amended by striking subsection (e).

(2) Section 1(h) is amended—

(A) by striking paragraphs (2), (9), and (13),

(B) by redesignating paragraphs (3) through (8) as paragraphs (2) through (7), respectively, and

(C) by redesignating paragraphs (10), (11), and (12) as paragraphs (8), (9), and (10), respectively.

(3) Paragraph (3) of section 55(b) is amended by striking ''In the case of taxable years beginning after December 31, 2000, rules similar to the rules of section 1(h)(2) shall apply for purposes of subparagraphs (B) and (C).''.

(4) Paragraph (7) of section 57(a) is amended—

(A) by striking ''42 percent'' and inserting ''6 percent'', and

(B) by striking the last sentence.

(c) TRANSITIONAL RULES FOR TAXABLE YEARS WHICH INCLUDE JULY 1, 1999.—For purposes of applying section 1(h) of the Internal Revenue Code of 1986 in the case of a taxable year which includes July 1, 1999—

(1) The amount of tax determined under subparagraph (B) of section 1(h)(1) of such Code shall be the sum of—

(A) 7.5 percent of the lesser of—

(i) the net capital gain taking into account only gain or loss properly taken into account for the portion of the taxable year on or after such date (determined without regard to collectibles gain or loss, gain described in section (1)(h)(6)(A)(i) of such Code, and section 1202 gain), or

(ii) the amount on which a tax is determined under such subparagraph (without regard to this subsection), plus

(B) 10 percent of the excess (if any) of—

(i) the amount on which a tax is determined under such subparagraph (without regard to this subsection), over

(ii) the amount on which a tax is determined under subparagraph (A).

(2) The amount of tax determined under subparagraph (C) of section (1)(h)(1) of such Code shall be the sum of—

(A) 15 percent of the lesser of—

(i) the excess (if any) of the amount of net capital gain determined under subparagraph (A)(i) of paragraph (1) of this subsection over the amount on which a tax is determined under subparagraph (A) of paragraph (1) of this subsection, or

(ii) the amount on which a tax is determined under such subparagraph (C) (without regard to this subsection), plus

(B) 20 percent of the excess (if any) of—

(i) the amount on which a tax is determined under such subparagraph (C) (without regard to this subsection), over

(ii) the amount on which a tax is determined under subparagraph (A) of this paragraph.

(3) The amount of tax determined under subparagraph (D) of section (1)(h)(1) of such Code shall be the sum of—

(A) 20 percent of the lesser of—

(i) the amount which would be determined under section 1(h)(6)(A)(i) of such Code taking into account only gain properly taken into account for the portion of the taxable year on or after such date, or

(ii) the amount on which a tax is determined under such subparagraph (D) (without regard to this subsection), plus

(B) 25 percent of the excess (if any) of—

(i) the amount on which a tax is determined under such subparagraph (D) (without regard to this subsection), over

(ii) the amount on which a tax is determined under subparagraph (A) of this paragraph.

(4) For purposes of applying section 55(b)(3) of such Code, rules similar to the rules of paragraphs (1), (2), and (3) of this subsection shall apply.

(5) In applying this subsection with respect to any pass-thru entity, the determination of when gains and loss are properly taken into account shall be made at the entity level.

(6) Terms used in this subsection which are also used in section 1(h) of such Code shall have the respective meanings that such terms have in such section.

(d) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as otherwise provided by this subsection, the amendments made by this section shall apply to taxable years ending after June 30, 1999.

(2) WITHHOLDING.—The amendment made by subsection (a)(2)(C) shall apply to amounts paid after the date of the enactment of this Act.

(3) SMALL BUSINESS STOCK.—The amendments made by subsection (b)(4) shall apply to dispositions on or after July 1, 1999.

SEC. 203. CAPITAL GAINS TAX RATES APPLIED TO CAPITAL GAINS OF DESIGNATED SETTLEMENT FUNDS.

(a) IN GENERAL.—Paragraph (1) of section 468B(b) (relating to taxation of designated settlement funds) is amended by inserting ''(subject to section 1(h))'' after ''maximum rate''.

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

SEC. 204. SPECIAL RULE FOR MEMBERS OF UNIFORMED SERVICES AND FOREIGN SERVICE, AND OTHER EMPLOYEES, IN DETERMINING EXCLUSION OF GAIN FROM SALE OF PRINCIPAL RESIDENCE.

(a) IN GENERAL.—Subsection (d) of section 121 (relating to exclusion of gain from sale of principal residence) is amended by adding at the end the following new paragraphs:

''(9) MEMBERS OF UNIFORMED SERVICES AND FOREIGN SERVICE.—

''(A) IN GENERAL.—The running of the 5-year period described in subsection (a) shall be suspended with respect to an individual during any time that such individual or such individual's spouse is serving on qualified official extended duty as a member of the uniformed services or of the Foreign Service.

''(B) QUALIFIED OFFICIAL EXTENDED DUTY.—For purposes of this paragraph—

''(i) IN GENERAL.—The term 'qualified official extended duty' means any period of extended duty as a member of the uniformed services or a member of the Foreign Service during which the member serves at a duty station which is at least 50 miles from such property or is under Government orders to reside in Government quarters.

''(ii) UNIFORMED SERVICES.—The term 'uniformed services' has the meaning given such term by section 101(a)(5) of title 10, United States Code, as in effect on the date of the enactment of the Financial Freedom Act of 1999.

''(iii) FOREIGN SERVICE OF THE UNITED STATES.—The term 'member of the Foreign Service' has the meaning given the term 'member of the Service' by paragraph (1), (2), (3), (4), or (5) of section 103 of the Foreign Service Act of 1980, as in effect on the date of the enactment of the Financial Freedom Act of 1999.

''(iv) EXTENDED DUTY.—The term 'extended duty' means any period of active duty pursuant to a call or order to such duty for a period in excess of 90 days or for an indefinite period.

''(10) OTHER EMPLOYEES.—

''(A) IN GENERAL.—The running of the 5-year period described in subsection (a) shall be suspended with respect to an individual during any time that such individual or such individual's spouse is serving as an employee for a period in excess of 90 days in an assignment by the such employee's employer outside the United States.

''(B) LIMITATIONS AND SPECIAL RULES.—

''(i) MAXIMUM PERIOD OF SUSPENSION.—The suspension under subparagraph (A) with respect to a principal residence shall not exceed (in the aggregate) 5 years.

''(ii) MEMBERS OF UNIFORMED SERVICES AND FOREIGN SERVICE.—Subparagraph (A) shall not apply to an individual to whom paragraph (9) applies.

''(iii) SELF-EMPLOYED INDIVIDUAL NOT CONSIDERED AN EMPLOYEE.—For purposes of this paragraph, the term 'employee' does not include an individual who is an employee within the meaning of section 401(c)(1) (relating to self-employed individuals).''.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to sales and exchanges after the date of the enactment of this Act.

SEC. 205. TREATMENT OF CERTAIN DEALER DERIVATIVE FINANCIAL INSTRUMENTS, HEDGING TRANSACTIONS, AND SUPPLIES AS ORDINARY ASSETS.

(a) IN GENERAL.—Section 1221 (defining capital assets) is amended—

(1) by striking ''For purposes'' and inserting the following:

''(a) IN GENERAL.—For purposes'',

(2) by striking the period at the end of paragraph (5) and inserting a semicolon, and

(3) by adding at the end the following:

''(6) any commodities derivative financial instrument held by a commodities derivatives dealer, unless—

''(A) it is established to the satisfaction of the Secretary that such instrument has no connection to the activities of such dealer as a dealer, and

''(B) such instrument is clearly identified in such dealer's records as being described in subparagraph (A) before the close of the day on which it was acquired, originated, or entered into (or such other time as the Secretary may by regulations prescribe);

''(7) any hedging transaction which is clearly identified as such before the close of the day on which it was acquired, originated, or entered into (or such other time as the Secretary may by regulations prescribe); or

''(8) supplies of a type regularly used or consumed by the taxpayer in the ordinary course of a trade or business of the taxpayer.

''(b) DEFINITIONS AND SPECIAL RULES.—

''(1) COMMODITIES DERIVATIVE FINANCIAL INSTRUMENTS.—For purposes of subsection (a)(6)—

''(A) COMMODITIES DERIVATIVES DEALER.—The term 'commodities derivatives dealer' means a person which regularly offers to enter into, assume, offset, assign, or terminate positions in commodities derivative financial instruments with customers in the ordinary course of a trade or business.

''(B) COMMODITIES DERIVATIVE FINANCIAL INSTRUMENT.—

''(i) IN GENERAL.—The term 'commodities derivative financial instrument' means any contract or financial instrument with respect to commodities (other than a share of stock in a corporation, a beneficial interest in a partnership or trust, a note, bond, debenture, or other evidence of indebtedness, or a section 1256 contract (as defined in section 1256(b)) the value or settlement price of which is calculated by or determined by reference to a specified index.

''(ii) SPECIFIED INDEX.—The term 'specified index' means any one or more or any combination of—

''(I) a fixed rate, price, or amount, or

''(II) a variable rate, price, or amount,

which is based on any current, objectively determinable financial or economic information with respect to commodities which is not within the control of any of the parties to the contract or instrument and is not unique to any of the parties' circumstances.

''(2) HEDGING TRANSACTION.—

''(A) IN GENERAL.—For purposes of this section, the term 'hedging transaction' means any transaction entered into by the taxpayer in the normal course of the taxpayer's trade or business primarily—

''(i) to manage risk of price changes or currency fluctuations with respect to ordinary property which is held or to be held by the taxpayer, or

''(ii) to manage risk of interest rate or price changes or currency fluctuations with respect to borrowings made or to be made, or ordinary obligations incurred or to be incurred, by the taxpayer.

''(B) TREATMENT OF NONIDENTIFICATION OR IMPROPER IDENTIFICATION OF HEDGING TRANSACTIONS.—Notwithstanding subsection (a)(7), the Secretary shall prescribe regulations to properly characterize of any income, gain, expense, or loss arising from a transaction—

''(i) which is a hedging transaction but which was not identified as such in accordance with subsection (a)(7), or

''(ii) which was so identified but is not a hedging transaction.

''(3) REGULATIONS.—The Secretary shall prescribe such regulations as are appropriate to carry out the purposes of paragraph (6) and (7) of subsection (a) in the case of transactions involving related parties.''.

(b) MANAGEMENT OF RISK.—

(1) Section 475(c)(3) is amended by striking ''reduces'' and inserting ''manages''.

(2) Section 871(h)(4)(C)(iv) is amended by striking ''to reduce'' and inserting ''to manage''.

(3) Clauses (i) and (ii) of section 988(d)(2)(A) are each amended by striking ''to reduce'' and inserting ''to manage''.

(4) Paragraph (2) of section 1256(e) is amended to read as follows:

''(2) DEFINITION OF HEDGING TRANSACTION.—For purposes of this subsection, the term 'hedging transaction' means any hedging transaction (as defined in section 1221(b)(2)(A)) if, before the close of the day on which such transaction was entered into (or such earlier time as the Secretary may prescribe by regulations), the taxpayer clearly identifies such transaction as being a hedging transaction.''

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to any instrument held, acquired, or entered into, any transaction entered into, and supplies held or acquired on or after the date of enactment of this Act.

SEC. 206. WORTHLESS SECURITIES OF FINANCIAL INSTITUTIONS.

(a) IN GENERAL.—The first sentence following section 165(g)(3)(B) (relating to securities of affiliated corporation) is amended to read as follows: ''In computing gross receipts for purposes of the preceding sentence, (i) gross receipts from sales or exchanges of stocks and securities shall be taken into account only to the extent of gains therefrom, and (ii) gross receipts from royalties, rents, dividends, interest, annuities, and gains from sales or exchanges of stocks and securities derived from (or directly related to) the conduct of an active trade or business of an insurance company subject to tax under subchapter L or a qualified financial institution (as defined in subsection (l)(3)) shall be treated as from such sources other than royalties, rents, dividends, interest, annuities, and gains.''.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to securities which become worthless in taxable years beginning after December 31, 1999.

TITLE III—INCENTIVES FOR BUSINESS INVESTMENT AND JOB CREATION

SEC. 301. REDUCTION IN CORPORATE CAPITAL GAIN TAX RATE.

(a) IN GENERAL.—Section 1201 is amended to read as follows:

''SEC. 1201. ALTERNATIVE TAX FOR CORPORATIONS.

''(a) GENERAL RULE.—If for any taxable year a corporation has a net capital gain, then, in lieu of the tax imposed by sections 11, 511, or 831(a) or (b), there is hereby imposed a tax (if such tax is less than the tax imposed by such sections) which shall consist of the sum of—

''(1) a tax computed on the taxable income reduced by the net capital gain, at the rates and in the manner as if this subsection had not been enacted, plus

''(2) a tax of 30 percent of the net capital gain (or, if less, taxable income).

''(b) CROSS REFERCENCES.—For computation of the alternative tax—

''(1) in the case of life insurance companies, see section 801(a)(2),

''(2) in the case of regulated investment companies and their shareholders, see section 852(b)(3) (A) and (D), and

''(3) in the case of real estate investment trusts, see section 857(b)(3)(A).''

(b) TECHNICAL AMENDMENTS.—

(1) Paragraphs (1) and (2) of section 1445(e) are each amended by striking ''35 percent'' and inserting ''30 percent''.

(2)(A) The second sentence of section 7518(g)(6)(A) is amended by striking ''34 percent'' and inserting ''30 percent''.

(B) The second sentence of section 607(h)(6)(A) of the Merchant Marine Act, 1936, is amended by striking ''34 percent'' and inserting ''30 percent''.

(c) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to taxable years beginning after December 31, 2004.

(2) WITHHOLDING.—The amendment made by subsection (b)(1) shall apply to amounts paid after December 31, 2004.

SEC. 302. REPEAL OF ALTERNATIVE MINIMUM TAX ON CORPORATIONS.

(a) IN GENERAL.—The last sentence of section 55(a), as amended by section 121, is amended by striking ''on any taxpayer other than a corporation''.

(b) REPEAL OF 90 PERCENT LIMITATION ON FOREIGN TAX CREDIT.—

(1) IN GENERAL.—Section 59(a) (relating to alternative minimum tax foreign tax credit) is amended by striking paragraph (2) and by redesignating paragraphs (3) and (4) as paragraphs (2) and (3), respectively.

(2) CONFORMING AMENDMENT.—Section 53(d)(1)(B)(i)(II) is amended by striking ''and if section 59(a)(2) did not apply''.

(c) LIMITATION ON USE OF CREDIT FOR PRIOR YEAR MINIMUM TAX LIABILITY.—

(1) IN GENERAL.—Subsection (c) of section 53, as amended by section 121, is amended by redesignating paragraph (2) as paragraph (3) and by inserting after paragraph (1) the following new paragraph:

''(2) CORPORATIONS FOR TAXABLE YEARS BEGINNING AFTER 2004.—In the case of a corporation for any taxable year beginning after 2004 and before 2009, the limitation under paragraph (1) shall be increased by the applicable percentage (determined in accordance with the following table) of the tentative minimum tax for the taxable year.

''For taxable years beginning in calendar year—	**The applicable percentage is—**
2005	20
2006	30
2007	40
2008	50.

In no event shall the limitation determined under this paragraph be greater than the sum of the tax imposed by section 55 and the regular tax reduced by the sum of the credits allowed under subparts A, B, D, E, and F of this part.''

(2) CONFORMING AMENDMENTS.—

(A) Section 55(e) is amended by striking paragraph (5).

(B) Paragraph (3) of section 53(c), as redesignated by paragraph (1), is amended by striking ''to a taxpayer other than a corporation''.

(d) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in paragraphs (2) and (3), the amendments made by this section shall apply to taxable years beginning after December 31, 2004.

(2) REPEAL OF 90 PERCENT LIMITATION ON FOREIGN TAX CREDIT.—The amendments made by subsection (b) shall apply to taxable years beginning after December 31, 2001.

(3) SUBSECTION (C)(2)(A).—The amendment made by subsection (c)(2)(A) shall apply to taxable years beginning after December 31, 2008.

TITLE IV—EDUCATION SAVINGS INCENTIVES

SEC. 401. MODIFICATIONS TO EDUCATION INDIVIDUAL RETIREMENT ACCOUNTS.

(a) MAXIMUM ANNUAL CONTRIBUTIONS.—

(1) IN GENERAL.—Section 530(b)(1)(A)(iii) (defining education individual retirement account) is amended by striking ''$500'' and inserting ''$2,000''.

(2) CONFORMING AMENDMENT.—Section 4973(e)(1)(A) is amended by striking ''$500'' and inserting ''$2,000''.

(b) TAX-FREE EXPENDITURES FOR ELEMENTARY AND SECONDARY SCHOOL EXPENSES.—

(1) IN GENERAL.—Section 530(b)(2) (defining qualified higher education expenses) is amended to read as follows:

''(2) QUALIFIED EDUCATION EXPENSES.—

''(A) IN GENERAL.—The term 'qualified education expenses' means—

''(i) qualified higher education expenses (as defined in section 529(e)(3)), and

''(ii) qualified elementary and secondary education expenses (as defined in paragraph (4)).

''(B) QUALIFIED STATE TUITION PROGRAMS.—Such term shall include any contribution to a qualified State tuition program (as defined in section 529(b)) on behalf of the designated beneficiary (as defined in section 529(e)(1)); but there shall be no increase in the investment in the contract for purposes of applying section 72 by reason of any portion of such contribution which is not includible in gross income by reason of subsection (d)(2).''

(2) QUALIFIED ELEMENTARY AND SECONDARY EDUCATION EXPENSES.—Section 530(b) (relating to definitions and special rules) is amended by adding at the end the following new paragraph:

''(4) QUALIFIED ELEMENTARY AND SECONDARY EDUCATION EXPENSES.—

''(A) IN GENERAL.—The term 'qualified elementary and secondary education expenses' means—

''(i) expenses for tuition, fees, academic tutoring, special needs services, books, supplies, computer equipment (including related software and services), and other equipment which are incurred in connection with the enrollment or attendance of the designated beneficiary of the trust as an elementary or secondary school student at a public, private, or religious school, and

''(ii) expenses for room and board, uniforms, transportation, and supplementary items and services (including extended day programs) which are required or provided by a public, private, or religious school in connection with such enrollment or attendance.

''(B) SPECIAL RULE FOR HOMESCHOOLING.—Such term shall include expenses described in subparagraph (A)(i) in connection with education provided by homeschooling if the requirements of any applicable State or local law are met with respect to such education.

''(C) SCHOOL.—The term 'school' means any school which provides elementary education or secondary education (kindergarten through grade 12), as determined under State law.''

(3) CONFORMING AMENDMENTS.—Section 530 is amended—

(A) by striking ''higher'' each place it appears in subsections (b)(1) and (d)(2), and

(B) by striking ''HIGHER'' in the heading for subsection (d)(2).

(c) WAIVER OF AGE LIMITATIONS FOR CHILDREN WITH SPECIAL NEEDS.—Section 530(b)(1) (defining education individual retirement account) is amended by adding at the end the following flush sentence:

''The age limitations in subparagraphs (A)(ii) and (E) and paragraphs (5) and (6) of subsection (d) shall not apply to any designated beneficiary with special needs (as determined under regulations prescribed by the Secretary).''

(d) ENTITIES PERMITTED TO CONTRIBUTE TO ACCOUNTS.—Section 530(c)(1) (relating to reduction in permitted contributions based on adjusted gross income) is amended by striking ''The maximum amount which a contributor'' and inserting ''In the case of a contributor who is an individual, the maximum amount the contributor''.

(e) TIME WHEN CONTRIBUTIONS DEEMED MADE.—

(1) IN GENERAL.—Section 530(b) (relating to definitions and special rules), as amended by subsection (b)(2), is amended by adding at the end the following new paragraph:

''(5) TIME WHEN CONTRIBUTIONS DEEMED MADE.—An individual shall be deemed to have made a contribution to an education individual retirement account on the last day of the preceding taxable year if the contribution is made on account of such taxable year and is made not later than the time prescribed by law for filing the return for such taxable year (not including extensions thereof).''

(2) EXTENSION OF TIME TO RETURN EXCESS CONTRIBUTIONS.—Subparagraph (C) of section 530(d)(4) (relating to additional tax for distributions not used for educational expenses) is amended—

(A) by striking clause (i) and inserting the following new clause:

''(i) such distribution is made before the 1st day of the 6th month of the taxable year following the taxable year, and'', and

(B) by striking ''DUE DATE OF RETURN'' in the heading and inserting ''CERTAIN DATE''.

(f) COORDINATION WITH HOPE AND LIFETIME LEARNING CREDITS AND QUALIFIED TUITION PROGRAMS.—

(1) IN GENERAL.—Section 530(d)(2)(C) is amended to read as follows:

''(C) COORDINATION WITH HOPE AND LIFETIME LEARNING CREDITS AND QUALIFIED TUITION PROGRAMS.—For purposes of subparagraph (A)—

''(i) CREDIT COORDINATION.—The total amount of qualified higher education expenses with respect to an individual for the taxable year shall be reduced—

''(I) as provided in section 25A(g)(2), and

''(II) by the amount of such expenses which were taken into account in determining the credit allowed to the taxpayer or any other person under section 25A.

''(ii) COORDINATION WITH QUALIFIED TUITION PROGRAMS.—If, with respect to an individual for any taxable year—

''(I) the aggregate distributions during such year to which subparagraph (A) and section 529(c)(3)(B) apply, exceed

''(II) the total amount of qualified education expenses (after the application of clause (i)) for such year,

the taxpayer shall allocate such expenses among such distributions for purposes of determining the amount of the exclusion under subparagraph (A) and section 529(c)(3)(B).''

(2) CONFORMING AMENDMENTS.—

(A) Subsection (e) of section 25A is amended to read as follows:

''(e) ELECTION NOT TO HAVE SECTION APPLY.—A taxpayer may elect not to have this section apply with respect to the qualified tuition and related expenses of an individual for any taxable year.''

(B) Section 135(d)(2)(A) is amended by striking ''allowable'' and inserting ''allowed''.

(C) Section 530(d)(2)(D) is amended—

(i) by striking ''or credit'', and

(ii) by striking ''CREDIT OR'' in the heading.

(D) Section 4973(e)(1) is amended by adding ''and'' at the end of subparagraph (A), by striking subparagraph (B), and by redesignating subparagraph (C) as subparagraph (B).

(g) RENAMING EDUCATION INDIVIDUAL RETIREMENT ACCOUNTS AS EDUCATION SAVINGS ACCOUNTS.—

(1) IN GENERAL.—

(A) Section 530 (as amended by the preceding provisions of this section) is amended by striking ''education individual retirement account'' each place it appears and inserting ''education savings account''.

(B) The heading for paragraph (1) of section 530(b) is amended by striking ''EDUCATION INDIVIDUAL RETIREMENT ACCOUNT'' and inserting ''EDUCATION SAVINGS ACCOUNT''.

(C) The heading for section 530 is amended to read as follows:

''SEC. 530. EDUCATION SAVINGS ACCOUNTS.''.

(D) The item in the table of contents for part VII of subchapter F of chapter 1 relating to section 530 is amended to read as follows:

''Sec. 530. Education savings accounts.''.

(2) CONFORMING AMENDMENTS.—

(A) The following provisions are each amended by striking ''education individual retirement'' each place it appears and inserting ''education savings'':

(i) Section 25A(e)(2).

(ii) Section 26(b)(2)(E).

(iii) Section 72(e)(9).

(iv) Section 135(c)(2)(C).

(v) Subsections (a) and (e) of section 4973.

(vi) Subsections (c) and (e) of section 4975.

(vii) Section 6693(a)(2)(D).

(B) The headings for each of the following provisions are amended by striking ''EDUCATION INDIVIDUAL RETIREMENT ACCOUNTS'' each place it appears and inserting ''EDUCATION SAVINGS ACCOUNTS''.

(i) Section 72(e)(9).

(ii) Section 135(c)(2)(C).

(iii) Section 4973(e).

(iv) Section 4975(c)(5).

(h) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to taxable years beginning after December 31, 2000.

(2) SUBSECTION (g).—The amendments made by subsection (g) shall take effect on the date of the enactment of this Act.

SEC. 402. MODIFICATIONS TO QUALIFIED TUITION PROGRAMS.

(a) ELIGIBLE EDUCATIONAL INSTITUTIONS PERMITTED TO MAINTAIN QUALIFIED TUITION PROGRAMS.—

(1) IN GENERAL.—Section 529(b)(1) (defining qualified State tuition program) is amended by inserting ''or by 1 or more eligible educational institutions'' after ''maintained by a State or agency or instrumentality thereof''.

(2) PRIVATE QUALIFIED TUITION PROGRAMS LIMITED TO BENEFIT PLANS.—Clause (ii) of section 529(b)(1)(A) is amended by inserting ''in the case of a program established and maintained by a State or agency or instrumentality thereof,'' before ''may make''.

(3) CONFORMING AMENDMENTS.—

(A) Sections 72(e)(9), 135(c)(2)(C), 135(d)(1)(D), 529, 530(b)(2)(B), 4973(e), and 6693(a)(2)(C) are each amended by striking ''qualified State tuition'' each place it appears and inserting ''qualified tuition''.

(B) The headings for sections 72(e)(9) and 135(c)(2)(C) are each amended by striking ''QUALIFIED STATE TUITION'' and inserting ''QUALIFIED TUITION''.

(C) The headings for sections 529(b) and 530(b)(2)(B) are each amended by striking ''QUALIFIED STATE TUITION'' and inserting ''QUALIFIED TUITION''.

(D) The heading for section 529 is amended by striking ''**STATE**''.

(E) The item relating to section 529 in the table of sections for part VIII of subchapter F of chapter 1 is amended by striking ''State''.

(b) EXCLUSION FROM GROSS INCOME OF EDUCATION DISTRIBUTIONS FROM QUALIFIED TUITION PROGRAMS.—

(1) IN GENERAL.—Section 529(c)(3)(B) (relating to distributions) is amended to read as follows:

''(B) DISTRIBUTIONS FOR QUALIFIED HIGHER EDUCATION EXPENSES.—

''(i) IN GENERAL.—For purposes of this paragraph—

''(I) no amount shall be includible in gross income under subparagraph (A) by reason of a distribution which consists of providing a benefit to the distributee which, if paid for by the distributee, would constitute payment of a qualified higher education expense, and

''(II) in the case of distributions not described in subclause (I), the amount otherwise includible in gross income under subparagraph (A) shall be reduced by an amount which bears the same ratio to the otherwise includible amount as the qualified higher education expenses (other than expenses paid by distributions described in subclause (I)) bear to the aggregate of such distributions.

''(ii) EXCEPTION FOR INSTITUTIONAL PROGRAMS.—In the case of any taxable year beginning before January 1, 2004, clause (i) shall not apply with respect to any distribution during such taxable year under a qualified tuition program established and maintained by 1 or more eligible educational institutions.

''(iii) IN-KIND DISTRIBUTIONS.—Any benefit furnished to a designated beneficiary under a qualified tuition program shall be treated as a distribution to the beneficiary for purposes of this paragraph.

''(iv) COORDINATION WITH HOPE AND LIFETIME LEARNING CREDITS.—The total amount of qualified higher education expenses with respect to an individual for the taxable year shall be reduced—

''(I) as provided in section 25A(g)(2), and

''(II) by the amount of such expenses which were taken into account in determining the credit allowed to the taxpayer or any other person under section 25A.

''(v) COORDINATION WITH EDUCATION SAVINGS ACCOUNTS.—If, with respect to an individual for any taxable year—

''(I) the aggregate distributions to which clause (i) and section 530(d)(2)(A) apply, exceed

''(II) the total amount of qualified higher education expenses otherwise taken into account under clause (i) (after the application of clause (iv)) for such year,

the taxpayer shall allocate such expenses among such distributions for purposes of determining the amount of the exclusion under clause (i) and section 530(d)(2)(A).''

(2) CONFORMING AMENDMENTS.—

(A) Section 135(d)(2)(B) is amended by striking ''the exclusion under section 530(d)(2)'' and inserting ''the exclusions under sections 529(c)(3)(B)(i) and 530(d)(2)''.

(B) Section 221(e)(2)(A) is amended by inserting ''529,'' after ''135,''.

(c) ROLLOVER TO DIFFERENT PROGRAM FOR BENEFIT OF SAME DESIGNATED BENEFICIARY.—Section 529(c)(3)(C) (relating to change in beneficiaries) is amended—

(1) by striking ''transferred to the credit'' in clause (i) and inserting ''transferred—

''(I) to another qualified tuition program for the benefit of the designated beneficiary, or

''(II) to the credit'',

(2) by adding at the end the following new clause:

''(iii) LIMITATION ON CERTAIN ROLLOVERS.—Clause (i)(I) shall not apply to any amount transferred with respect to a designated beneficiary if, at any time during the 1-year period ending on the day of such transfer, any other amount was transferred which was not includible in gross income by reason of clause (i)(I).'', and

(3) by inserting ''OR PROGRAMS'' after ''BENEFICIARIES'' in the heading.

(d) MEMBER OF FAMILY INCLUDES FIRST COUSIN.—Section 529(e)(2) (defining member of family) is amended by striking ''and'' at the end of subparagraph (B), by striking the period at the end of subparagraph (C) and by inserting ''; and'', and by adding at the end the following new subparagraph:

''(D) any first cousin of such beneficiary.''

(e) DEFINITION OF QUALIFIED HIGHER EDUCATION EXPENSES.—

(1) IN GENERAL.—Subparagraph (A) of section 529(e)(3) (relating to definition of qualified higher education expenses) is amended to read as follows:

''(A) IN GENERAL.—The term 'qualified higher education expenses' means—

''(i) tuition and fees required for the enrollment or attendance of a designated beneficiary at an eligible educational institution for courses of instruction of such beneficiary at such institution, and

''(ii) expenses for books, supplies, and equipment which are incurred in connection with such enrollment or attendance, but not to exceed the allowance for books and supplies included in the cost of attendance (as defined in section 472 of the Higher Education Act of 1965 (20 U.S.C. 1087ll), as in effect on the date of enactment of the Financial Freedom Act of 1999) as determined by the eligible educational institution.''.

(2) EXCEPTION FOR EDUCATION INVOLVING SPORTS, ETC..—Paragraph (3) of section 529(e) (relating to qualified higher education expenses) is amended by adding at the end the following new subparagraph:

''(C) EXCEPTION FOR EDUCATION INVOLVING SPORTS, ETC..—The term 'qualified higher education expenses' shall not include expenses with respect to any course or other education involving sports, games, or hobbies unless such course or other education is part of the beneficiary's degree program or is taken to acquire or improve job skills of the beneficiary.''.

(f) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to taxable years beginning after December 31, 2000.

(2) QUALIFIED HIGHER EDUCATION EXPENSES.—The amendments made by subsection (e) shall apply to amounts paid for education furnished after December 31, 1999.

SEC. 403. EXCLUSION OF CERTAIN AMOUNTS RECEIVED UNDER THE NATIONAL HEALTH SERVICE CORPS SCHOLARSHIP PROGRAM, THE F. EDWARD HEBERT ARMED FORCES HEALTH PROFESSIONS SCHOLARSHIP AND FINANCIAL ASSISTANCE PROGRAM, AND CERTAIN OTHER PROGRAMS.

(a) IN GENERAL.—Section 117(c) (relating to the exclusion from gross income amounts received as a qualified scholarship) is amended—

(1) by striking ''Subsections (a)'' and inserting the following:

''(1) IN GENERAL.—Except as provided in paragraph (2), subsections (a)'', and

(2) by adding at the end the following new paragraph:

''(2) EXCEPTIONS.—Paragraph (1) shall not apply to any amount received by an individual under—

''(A) the National Health Service Corps Scholarship program under section 338A(g)(1)(A) of the Public Health Service Act,

''(B) the Armed Forces Health Professions Scholarship and Financial Assistance program under subchapter I of chapter 105 of title 10, United States Code,

''(C) the National Institutes of Health Undergraduate Scholarship program under section 487D of the Public Health Service Act, or

''(D) any State program determined by the Secretary to have substantially similar objectives as such programs.''

(b) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by subsection (a) shall apply to amounts received in taxable years beginning after December 31, 1993.

(2) STATE PROGRAMS.—Section 117(c)(2)(D) of the Internal Revenue Code of 1986 (as added by the amendments made by subsection (a)) shall apply to amounts received in taxable years beginning after December 31, 1999.

SEC. 404. ADDITIONAL INCREASE IN ARBITRAGE REBATE EXCEPTION FOR GOVERNMENTAL BONDS USED TO FINANCE EDUCATIONAL FACILITIES.

(a) IN GENERAL.—Section 148(f)(4)(D)(vii) (relating to increase in exception for bonds financing public school capital expenditures) is amended by striking ''$5,000,000'' the second place it appears and inserting ''$10,000,000''.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to obligations issued in calendar years beginning after December 31, 1999.

SEC. 405. MODIFICATION OF ARBITRAGE REBATE RULES APPLICABLE TO PUBLIC SCHOOL CONSTRUCTION BONDS.

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

''(xviii) 4-YEAR SPENDING REQUIREMENT FOR PUBLIC SCHOOL CONSTRUCTION ISSUE.—

''(I) IN GENERAL.—In the case of a public school construction issue, the spending requirements of clause (ii) shall be treated as met if at least 10 percent of the available construction proceeds of the construction issue are spent for the governmental purposes of the issue within the 1-year period beginning on the date the bonds are issued, 30 percent of such proceeds are spent for such purposes within the 2-year period beginning on such date, 60 percent of such proceeds are spent for such purposes within the 3-year period beginning on such date, and 100 percent of such proceeds are spent for such purposes within the 4-year period beginning on such date.

''(II) PUBLIC SCHOOL CONSTRUCTION ISSUE.—For purposes of this clause, the term 'public school construction issue' means any construction issue if no bond which is part of such issue is a private activity bond and all of the available construction proceeds of such issue are to be used for the construction (as defined in clause (iv)) of public school facilities to provide education or training below the postsecondary level or for the acquisition of land that is functionally related and subordinate to such facilities.

''(III) OTHER RULES TO APPLY.—Rules similar to the rules of the preceding provisions of this subparagraph which apply to clause (ii) also apply to this clause.''.

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

SEC. 406. REPEAL OF 60-MONTH LIMITATION ON DEDUCTION FOR INTEREST ON EDUCATION LOANS.

(a) IN GENERAL.—Section 221 (relating to interest on education loans) is amended by striking subsection (d) and by redesignating subsections (e), (f), and (g) as subsections (d), (e), and (f), respectively.

(b) CONFORMING AMENDMENT.—Subsection (e) of section 6050S is amended by striking ''section 221(e)(1)'' and inserting ''section 221(d)(1)''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to loan interest payments made after December 31, 1999, in taxable years ending after such date.

TITLE V—HEALTH CARE PROVISIONS

SEC. 501. DEDUCTION FOR HEALTH AND LONG-TERM CARE INSURANCE COSTS OF INDIVIDUALS NOT PARTICIPATING IN EMPLOYER-SUBSIDIZED HEALTH PLANS.

(a) IN GENERAL.—Part VII of subchapter B of chapter 1 is amended by redesignating section 222 as section 223 and by inserting after section 221 the following new section:

''SEC. 222. HEALTH AND LONG-TERM CARE INSURANCE COSTS.

''(a) IN GENERAL.—In the case of an individual, there shall be allowed as a deduction an amount equal to the applicable percentage of the amount paid during the taxable year for insurance which constitutes medical care for the taxpayer, the taxpayer's spouse, and dependents.

''(b) APPLICABLE PERCENTAGE.—For purposes of subsection (a), the applicable percentage shall be determined in accordance with the following table:

''For taxable years beginning in calendar year—	The applicable percentage is—
2001	25
2002	40
2003, 2004, 2005, and 2006	50
2007	75
2008 and thereafter	100.

''(c) LIMITATION BASED ON OTHER COVERAGE.—

''(1) COVERAGE UNDER CERTAIN SUBSIDIZED EMPLOYER PLANS.—

''(A) IN GENERAL.—Subsection (a) shall not apply to any taxpayer for any calendar month for which the taxpayer participates in any health plan maintained by any employer of the taxpayer or of the spouse of the taxpayer if 50 percent or more of the cost of coverage under such plan (determined under section 4980B) is paid or incurred by the employer.

''(B) EMPLOYER CONTRIBUTIONS TO CAFETERIA PLANS, FLEXIBLE SPENDING ARRANGEMENTS, AND MEDICAL SAVINGS ACCOUNTS.—Employer contributions to a cafeteria plan, a flexible spending or similar arrangement, or a medical savings

account which are excluded from gross income under section 106 shall be treated for purposes of subparagraph (A) as paid by the employer.

''(C) AGGREGATION OF PLANS OF EMPLOYER.—A health plan which is not otherwise described in subparagraph (A) shall be treated as described in such subparagraph if such plan would be so described if all health plans of persons treated as a single employer under subsections (b), (c), (m), or (o) of section 414 were treated as one health plan.

''(D) SEPARATE APPLICATION TO HEALTH INSURANCE AND LONG-TERM CARE INSURANCE.—Subparagraphs (A) and (C) shall be applied separately with respect to—

''(i) plans which include primarily coverage for qualified long-term care services or are qualified long-term care insurance contracts, and

''(ii) plans which do not include such coverage and are not such contracts.

''(2) COVERAGE UNDER CERTAIN FEDERAL PROGRAMS.—

''(A) IN GENERAL.—Subsection (a) shall not apply to any amount paid for any coverage for an individual for any calendar month if, as of the first day of such month, the individual is covered under any medical care program described in—

''(i) title XVIII, XIX, or XXI of the Social Security Act,

''(ii) chapter 55 of title 10, United States Code,

''(iii) chapter 17 of title 38, United States Code,

''(iv) chapter 89 of title 5, United States Code, or

''(v) the Indian Health Care Improvement Act.

''(B) EXCEPTIONS.—

''(i) QUALIFIED LONG-TERM CARE.—Subparagraph (A) shall not apply to amounts paid for coverage under a qualified long-term care insurance contract.

''(ii) CONTINUATION COVERAGE OF FEHBP.—Subparagraph (A)(iv) shall not apply to coverage which is comparable to continuation coverage under section 4980B.

''(d) LONG-TERM CARE DEDUCTION LIMITED TO QUALIFIED LONG-TERM CARE INSURANCE CONTRACTS.—In the case of a qualified long-term care insurance contract, only eligible long-term care premiums (as defined in section 213(d)(10)) may be taken into account under subsection (a).

''(e) SPECIAL RULES.—

''(1) COORDINATION WITH DEDUCTION FOR HEALTH INSURANCE COSTS OF SELF-EMPLOYED INDIVIDUALS.—The amount taken into account by the taxpayer in computing the deduction under section 162(l) shall not be taken into account under this section.

''(2) COORDINATION WITH MEDICAL EXPENSE DEDUCTION.—The amount taken into account by the taxpayer in computing the deduction under this section shall not be taken into account under section 213.

''(f) REGULATIONS.—The Secretary shall prescribe such regulations as may be appropriate to carry out this section, including regulations requiring employers to report to their employees and the Secretary such information as the Secretary determines to be appropriate.''

(b) DEDUCTION ALLOWED WHETHER OR NOT TAXPAYER ITEMIZES OTHER DEDUCTIONS.—Subsection (a) of section 62 is amended by inserting after paragraph (17) the following new item:

''(18) HEALTH AND LONG-TERM CARE INSURANCE COSTS.—The deduction allowed by section 222.''

(c) CLERICAL AMENDMENT.—The table of sections for part VII of subchapter B of chapter 1 is amended by striking the last item and inserting the following new items:

''Sec. 222. Health and long-term care insurance costs.

''Sec. 223. Cross reference.''

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2000.

SEC. 502. LONG-TERM CARE INSURANCE PERMITTED TO BE OFFERED UNDER CAFETERIA PLANS AND FLEXIBLE SPENDING ARRANGEMENTS.

(a) CAFETERIA PLANS.—Subsection (f) of section 125 (defining qualified benefits) is amended by inserting before the period at the end ''unless such product is a qualified long-term care insurance contract (as defined in section 7702B)''.

(b) FLEXIBLE SPENDING ARRANGEMENTS.—Section 106 (relating to contributions by employer to accident and health plans) is amended by striking subsection (c).

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2000.

SEC. 503. EXPANSION OF AVAILABILITY OF MEDICAL SAVINGS ACCOUNTS.

(a) REPEAL OF LIMITATIONS ON NUMBER OF MEDICAL SAVINGS ACCOUNTS.—

(1) IN GENERAL.—Subsections (i) and (j) of section 220 are hereby repealed.

(2) CONFORMING AMENDMENT.—Paragraph (1) of section 220(c) is amended by striking subparagraph (D).

(b) ALL EMPLOYERS MAY OFFER MEDICAL SAVINGS ACCOUNTS.—

(1) IN GENERAL.—Subclause (I) of section 220(c)(1)(A)(iii) (defining eligible individual) is amended by striking ''and such employer is a small employer''.

(2) CONFORMING AMENDMENTS.—

(A) Paragraph (1) of section 220(c) is amended by striking subparagraph (C).

(B) Subsection (c) of section 220 is amended by striking paragraph (4) and by redesignating paragraph (5) as paragraph (4).

(c) INCREASE IN AMOUNT OF DEDUCTION ALLOWED FOR CONTRIBUTIONS TO MEDICAL SAVINGS ACCOUNTS.—

(1) IN GENERAL.—Paragraph (2) of section 220(b) is amended to read as follows:

''(2) MONTHLY LIMITATION.—The monthly limitation for any month is the amount equal to 1/12 of the annual deductible (as of the first day of such month) of the individual's coverage under the high deductible health plan.''.

(2) CONFORMING AMENDMENT.—Clause (ii) of section 220(d)(1)(A) is amended by striking ''75 percent of''.

(d) BOTH EMPLOYERS AND EMPLOYEES MAY CONTRIBUTE TO MEDICAL SAVINGS ACCOUNTS.—Paragraph (5) of section 220(b) is amended to read as follows:

''(5) COORDINATION WITH EXCLUSION FOR EMPLOYER CONTRIBUTIONS.—The limitation which would (but for this paragraph) apply under this subsection to the taxpayer for any taxable year shall be reduced (but not below zero) by the amount which would (but for section 106(b)) be includible in the taxpayer's gross income for such taxable year.''.

(e) REDUCTION OF PERMITTED DEDUCTIBLES UNDER HIGH DEDUCTIBLE HEALTH PLANS.—

(1) IN GENERAL.—Subparagraph (A) of section 220(c)(2) (defining high deductible health plan) is amended—

(A) by striking ''$1,500'' in clause (i) and inserting ''$1,000'', and

(B) by striking ''$3,000'' in clause (ii) and inserting ''$2,000''.

(2) CONFORMING AMENDMENT.—Subsection (g) of section 220 is amended to read as follows:

''(g) COST-OF-LIVING ADJUSTMENT.—

''(1) IN GENERAL.—In the case of any taxable year beginning in a calendar year after 1998, each dollar amount in subsection (c)(2) shall be increased by an amount equal to—

''(A) such dollar amount, multiplied by

''(B) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which such taxable year begins by substituting 'calendar year 1997' for 'calendar year 1992' in subparagraph (B) thereof.

''(2) SPECIAL RULES.—In the case of the $1,000 amount in subsection (c)(2)(A)(i) and the $2,000 amount in subsection (c)(2)(A)(ii), paragraph (1)(B) shall be applied by substituting 'calendar year 1999' for 'calendar year 1997'.

''(3) ROUNDING.—If any increase under paragraph (1) or (2) is not a multiple of $50, such increase shall be rounded to the nearest multiple of $50.

(f) MEDICAL SAVINGS ACCOUNTS MAY BE OFFERED UNDER CAFETERIA PLANS.—Subsection (f) of section 125 is amended by striking ''106(b),''.

(g) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2000.

SEC. 504. ADDITIONAL PERSONAL EXEMPTION FOR TAXPAYER CARING FOR ELDERLY FAMILY MEMBER IN TAXPAYER'S HOME.

(a) IN GENERAL.—Section 151 (relating to allowance of deductions for personal exemptions) is amended by adding at the end redesignating subsection (e) as subsection (f) and by inserting after subsection (d) the following new subsection:

''(e) ADDITIONAL EXEMPTION FOR CERTAIN ELDERLY FAMILY MEMBERS RESIDING WITH TAXPAYER.—

''(1) IN GENERAL.—An exemption of the exemption amount for each qualified family member of the taxpayer.

''(2) QUALIFIED FAMILY MEMBER.—For purposes of this subsection, the term 'qualified family member' means, with respect to any taxable year, any individual—

''(A) who is an ancestor of the taxpayer or of the taxpayer's spouse or who is the spouse of any such ancestor,

''(B) who is a member for the entire taxable year of a household maintained by the taxpayer, and

''(C) who has been certified, before the due date for filing the return of tax for the taxable year (without extensions), by a physician (as defined in section 1861(r)(1) of the Social Security Act) as being an individual with long-term care needs described in paragraph (3) for a period—

''(i) which is at least 180 consecutive days, and

''(ii) a portion of which occurs within the taxable year.

Such term shall not include any individual otherwise meeting the requirements of the preceding sentence unless within the 39½ month period ending on such due date (or such other period as the Secretary prescribes) a physician (as so defined) has certified that such individual meets such requirements.

''(3) INDIVIDUALS WITH LONG-TERM CARE NEEDS.—An individual is described in this paragraph if the individual—

''(A) is unable to perform (without substantial assistance from another individual) at least 2 activities of daily living (as defined in section 7702B(c)(2)(B)) due to a loss of functional capacity, or

''(B) requires substantial supervision to protect such individual from threats to health and safety due to severe cognitive impairment and is unable to perform, without reminding or cuing assistance, at least 1 activity of at least 1 activity of daily living (as so defined) or to the extent provided in regulations prescribed by the Secretary (in consultation with the Secretary of Health and Human Services), is unable to engage in age appropriate activities.

''(4) SPECIAL RULES.—Rules similar to the rules of paragraphs (1), (2), (3), (4), and (5) of section 21(e) shall apply for purposes of this subsection.''

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

SEC. 505. EXPANDED HUMAN CLINICAL TRIALS QUALIFYING FOR ORPHAN DRUG CREDIT.

(a) IN GENERAL.—Subclause (I) of section 45C(b)(2)(A)(ii) is amended to read as follows:

''(I) after the date that the application is filed for designation under such section 526, and''.

(b) CONFORMING AMENDMENT.—Clause (i) of section 45C(b)(2)(A) is amended by inserting

''which is'' before ''being'' and by inserting before the comma at the end ''and which is designated under section 526 of such Act''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to amounts paid or incurred after December 31, 1999.

SEC. 506. INCLUSION OF CERTAIN VACCINES AGAINST STREPTOCOCCUS PNEUMONIAE TO LIST OF TAXABLE VACCINES.

(a) IN GENERAL.—Section 4132(a)(1) (defining taxable vaccine) is amended by adding at the end the following new subparagraph:

''(L) Any conjugate vaccine against streptococcus pneumoniae.''

(b) EFFECTIVE DATE.—

(1) SALES.—The amendment made by this section shall apply to vaccine sales beginning on the day after the date on which the Centers for Disease Control makes a final recommendation for routine administration to children of any conjugate vaccine against streptococcus pneumoniae.

(2) DELIVERIES.—For purposes of paragraph (1), in the case of sales on or before the date described in such paragraph for which delivery is made after such date, the delivery date shall be considered the sale date.

(c) REPORT.—Not later than December 31, 1999, the Comptroller General of the United States shall prepare and submit a report to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate on the operation of the Vaccine Injury Compensation Trust Fund and on the adequacy of such Fund to meet future claims made under the Vaccine Injury Compensation Program.

SEC. 507. ABOVE-THE-LINE DEDUCTION FOR PRESCRIPTION DRUG INSURANCE COVERAGE OF MEDICARE BENEFICIARIES IF CERTAIN MEDICARE AND LOW-INCOME ASSISTANCE PROVISIONS IN EFFECT.

(a) IN GENERAL.—Subsection (a) of section 213 is amended by adding at the end the following new sentence: ''The 7.5 percent adjusted gross income threshold in the preceding sentence shall not apply to the expenses paid during the taxable year for prescription drug insurance coverage of a medicare beneficiary who is the taxpayer, the taxpayer's spouse, or a dependent (as defined in section 152) if—

''(1) the Secretary certifies that, throughout such taxable year, the conditions specified in subsection (e) are met, and

''(2) the amount paid for such coverage is either separately stated in the contract or furnished to the policyholder by the insurance company in a separate statement.

Expenses to which the preceding sentence applies shall not be taken into account in applying such threshold to other expenses. For purposes of this subsection, the term 'medicare beneficiary' means an individual who is entitled to benefits under part A, B, or C of title XVIII of the Social Security Act.''

(b) CONDITIONS.—Section 213 is amended by redesignating subsection (e) as subsection (f) and by inserting after subsection (d) the following new subsection:

''(e) CONDITIONS FOR SEPARATE DEDUCTION FOR PRESCRIPTION DRUG INSURANCE COVERAGE.—For purposes of subsection (a), the conditions specified in this subsection are met if all of the following are in effect:

''(1) ASSISTANCE FOR PRESCRIPTION DRUGS FOR LOW-INCOME MEDICARE BENEFICIARIES.—

''(A) Low-income assistance to enable the purchase of coverage of prescription drugs as described in paragraph (2) or (3) for medicare beneficiaries with incomes under 135 percent of the applicable Federal poverty level, with such assistance phasing out for beneficiaries with incomes between 135 percent and 150 percent of such level.

''(B) The Federal Government provides funding for the costs of such assistance.

''(2) SUPPLEMENTAL COVERAGE OF PRESCRIPTION DRUGS.—All policies supplemental to Medicare include coverage for costs of prescription drugs.

''(3) STRUCTURAL MEDICARE REFORM.—Coverage for outpatient prescription drugs for medicare beneficiaries is provided only through integrated comprehensive health plans which offer current Medicare covered services and maximum limitations on out-of-pocket spending and such comprehensive plans sponsored by the Health Care Financing Administration compete on the same basis as private plans.''

(c) DEDUCTION FOR PRESCRIPTION DRUG INSURANCE COVERAGE ALLOWED WHETHER OR NOT TAXPAYER ITEMIZES OTHER DEDUCTIONS.—Subsection (a) of section 62 (defining adjusted gross income) is amended by inserting after paragraph (18) the following new paragraph:

''(19) PRESCRIPTION DRUG INSURANCE COVERAGE.—The deduction allowed by section 213(a) to the extent of the expenses described in the second sentence thereof.''

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after the date of the enactment of this Act.

TITLE VI—ESTATE TAX RELIEF

Subtitle A—Repeal of Estate, Gift, and Generation-Skipping Taxes; Repeal of Step Up in Basis At Death

SEC. 601. REPEAL OF ESTATE, GIFT, AND GENERATION-SKIPPING TAXES.

(a) IN GENERAL.—Subtitle B is hereby repealed.

(b) EFFECTIVE DATE.—The repeal made by subsection (a) shall apply to the estates of decedents dying, and gifts and generation-skipping transfers made, after December 31, 2008.

SEC. 602. TERMINATION OF STEP UP IN BASIS AT DEATH.

(a) TERMINATION OF APPLICATION OF SECTION 1014.—Section 1014 (relating to basis of property acquired from a decedent) is amended by adding at the end the following:

''(f) TERMINATION.—In the case of a decedent dying after December 31, 2008, this section shall not apply to property for which basis is provided by section 1022.''

(b) CONFORMING AMENDMENT.—Subsection (a) of section 1016 (relating to adjustments to basis) is amended by striking ''and'' at the end of paragraph (26), by striking the period at the end of paragraph (27) and inserting ''; and'', and by adding at the end the following:

''(28) to the extent provided in section 1022 (relating to basis for certain property acquired from a decedent dying after December 31, 2008).''

SEC. 603. CARRYOVER BASIS AT DEATH.

(a) GENERAL RULE.—Part II of subchapter O of chapter 1 (relating to basis rules of general application) is amended by inserting after section 1021 the following:

''SEC. 1022. CARRYOVER BASIS FOR CERTAIN PROPERTY ACQUIRED FROM A DECEDENT DYING AFTER DECEMBER 31, 2008.

''(a) CARRYOVER BASIS.—Except as otherwise provided in this section, the basis of carryover basis property in the hands of a person acquiring such property from a decedent shall be determined under section 1015.

''(b) CARRYOVER BASIS PROPERTY DEFINED.—

''(1) IN GENERAL.—For purposes of this section, the term 'carryover basis property' means any property—

''(A) which is acquired from or passed from a decedent who died after December 31, 2008, and

''(B) which is not excluded pursuant to paragraph (2).

The property taken into account under subparagraph (A) shall be determined under section 1014(b) without regard to subparagraph (A) of the last sentence of paragraph (9) thereof.

''(2) CERTAIN PROPERTY NOT CARRYOVER BASIS PROPERTY.—The term 'carryover basis property' does not include—

''(A) any item of gross income in respect of a decedent described in section 691,

''(B) property which was acquired from the decedent by the surviving spouse of the decedent, the value of which would have been deductible from the value of the taxable estate of the decedent under section 2056, as in effect on the day before the date of enactment of the Financial Freedom Act of 1999, and

''(C) any includible property of the decedent if the aggregate adjusted fair market value of such property does not exceed $2,000,000.

For purposes of this paragraph and paragraph (3), the term 'adjusted fair market value' means, with respect to any property, fair market value reduced by any indebtedness secured by such property.

''(3) PHASEIN OF CARRYOVER BASIS IF INCLUDIBLE PROPERTY EXCEEDS $1,300,000.—

''(A) IN GENERAL.—If the adjusted fair market value of the includible property of the decedent exceeds $1,300,000, but does not exceed $2,000,000, the amount of the increase in the basis of such property which would (but for this paragraph) result under section 1014 shall be reduced by the amount which bears the same ratio to such increase as such excess bears to $700,000.

''(B) ALLOCATION OF REDUCTION.—The reduction under subparagraph (A) shall be allocated among only the includible property having net appreciation and shall be allocated in proportion to the respective amounts of such net appreciation. For purposes of the preceding sentence, the term 'net appreciation' means the excess of the adjusted fair market value over the decedent's adjusted basis immediately before such decedent's death.

''(4) INCLUDIBLE PROPERTY.—

''(A) IN GENERAL.—For purposes of this subsection, the term 'includible property' means property which would be included in the gross estate of the decedent under any of the following provisions as in effect on the day before the date of the enactment of the Financial Freedom Act of 1999:

''(i) Section 2033.

''(ii) Section 2038.

''(iii) Section 2040.

''(iv) Section 2041.

''(v) Section 2042(a)(1).

''(B) EXCLUSION OF PROPERTY ACQUIRED BY SPOUSE.—Such term shall not include property described in paragraph (2)(B).

''(c) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary to carry out the purposes of this section.''

(b) MISCELLANEOUS AMENDMENTS RELATED TO CARRYOVER BASIS.—

(1) CAPITAL GAIN TREATMENT FOR INHERITED ART WORK OR SIMILAR PROPERTY.—

(A) IN GENERAL.—Subparagraph (C) of section 1221(3) (defining capital asset) is amended by inserting ''(other than by reason of section 1022)'' after ''is determined''.

(B) COORDINATION WITH SECTION 170.—Paragraph (1) of section 170(e) (relating to certain contributions of ordinary income and capital gain property) is amended by adding at the end the following: ''For purposes of this paragraph, the determination of whether property is a capital asset shall be made without regard to the exception contained in section 1221(3)(C) for basis determined under section 1022.''

(2) DEFINITION OF EXECUTOR.—Section 7701(a) (relating to definitions) is amended by adding at the end the following:

''(47) EXECUTOR.—The term 'executor' means the executor or administrator of the decedent, or, if there is no executor or administrator appointed, qualified, and acting within the United States, then any person in actual or constructive possession of any property of the decedent.''

(3) CLERICAL AMENDMENT.—The table of sections for part II of subchapter O of chapter 1 is amended by adding at the end the following new item:

''Sec. 1022. Carryover basis for certain property acquired from a decedent dying after December 31, 2008.''

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to estates of decedents dying after December 31, 2008.

Subtitle B—Reductions of Estate and Gift Tax Rates Prior to Repeal

SEC. 611. ADDITIONAL REDUCTIONS OF ESTATE AND GIFT TAX RATES.

(a) MAXIMUM RATE OF TAX REDUCED TO 50 PERCENT.—

(1) IN GENERAL.—The table contained in section 2001(c)(1) is amended by striking the 2 highest brackets and inserting the following:

Over $2,500,000	$1,025,800, plus 50% of the excess over $2,500,000.''

(2) PHASE-IN OF REDUCED RATE.—Subsection (c) of section 2001 is amended by adding at the end the following new paragraph:

''(3) PHASE-IN OF REDUCED RATE.—In the case of decedents dying, and gifts made, during 2001, the last item in the table contained in paragraph (1) shall be applied by substituting '53%' for '50%' ''

(b) REPEAL OF PHASEOUT OF GRADUATED RATES.—Subsection (c) of section 2001 is amended by striking paragraph (2) and redesignating paragraph (3), as added by subsection (a), as paragraph (2).

(c) ADDITIONAL REDUCTIONS OF RATES OF TAX.—Subsection (c) of section 2001, as so amended, is amended by adding at the end the following new paragraph:

''(3) PHASEDOWN OF TAX.—In the case of estates of decedents dying, and gifts made, during any calendar year after 2001 and before 2009—

''(A) IN GENERAL.—Except as provided in subparagraph (C), the tentative tax under this subsection shall be determined by using a table prescribed by the Secretary (in lieu of using the table contained in paragraph (1)) which is the same as such table; except that—

''(i) each of the rates of tax shall be reduced by the number of percentage points determined under subparagraph (B), and

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

''(B) PERCENTAGE POINTS OF REDUCTION.—

''For calendar year:	The number of percentage points is:
2003	1.0
2004	2.0
2005	3.0
2006	4.0
2007	5.5
2008	7.5.

''(C) COORDINATION WITH INCOME TAX RATES.—The reductions under subparagraph (A)—

''(i) shall not reduce any rate under paragraph (1) below the lowest rate in section 1(c), and

''(ii) shall not reduce the highest rate under paragraph (1) below the highest rate in section 1(c).

''(D) COORDINATION WITH CREDIT FOR STATE DEATH TAXES.—Rules similar to the rules of subparagraph (A) shall apply to the table contained in section 2011(b) except that the Secretary shall prescribe percentage point reductions which maintain the proportionate relationship (as in effect before any reduction under this paragraph) between the credit under section 2011 and the tax rates under subsection (c).''

(d) EFFECTIVE DATES.—

(1) SUBSECTIONS (a) AND (b).—The amendments made by subsections (a) and (b) shall apply to estates of decedents dying, and gifts made, after December 31, 2000.

(2) SUBSECTION (c).—The amendment made by subsection (c) shall apply to estates of decedents dying, and gifts made, after December 31, 2004.

Subtitle C—Unified Credit Replaced With Unified Exemption Amount

SEC. 621. UNIFIED CREDIT AGAINST ESTATE AND GIFT TAXES REPLACED WITH UNIFIED EXEMPTION AMOUNT.

(a) IN GENERAL.—

(1) ESTATE TAX.—Part IV of subchapter A of chapter 11 is amended by inserting after section 2051 the following new section:

''SEC. 2052. EXEMPTION.

''(a) IN GENERAL.—For purposes of the tax imposed by section 2001, the value of the taxable estate shall be determined by deducting from the value of the gross estate an amount equal to the excess (if any) of—

''(1) the exemption amount for the calendar year in which the decedent died, over

''(2) the sum of—

''(A) the aggregate amount allowed as an exemption under section 2521 with respect to gifts made by the decedent after December 31, 2000, and

''(B) the aggregate amount of gifts made by the decedent for which credit was allowed by section 2505 (as in effect on the day before the date of the enactment of the Financial Freedom Act of 1999).

Gifts which are includible in the gross estate of the decedent shall not be taken into account in determining the amounts under paragraph (2).

''(b) EXEMPTION AMOUNT.—For purposes of subsection (a), the term 'exemption amount' means the amount determined in accordance with the following table:

''In the case of calendar year:	The exemption amount is:
2001	$675,000
2002 and 2003	$700,000
2004	$850,000
2005	$950,000
2006 or thereafter	$1,000,000.''

(2) GIFT TAX.—Subchapter C of chapter 12 (relating to deductions) is amended by inserting before section 2522 the following new section:

''SEC. 2521. EXEMPTION.

''(a) IN GENERAL.—In computing taxable gifts for any calendar year, there shall be allowed as a deduction in the case of a citizen or resident of the United States an amount equal to the excess of—

''(1) the exemption amount determined under section 2052 for such calendar year, over

''(2) the sum of—

''(A) the aggregate amount allowed as an exemption under this section for all preceding calendar years after 2000, and

''(B) the aggregate amount of gifts for which credit was allowed by section 2505 (as in effect on the day before the date of the enactment of the Financial Freedom Act of 1999).''

(b) REPEAL OF UNIFIED CREDITS.—

(1) Section 2010 (relating to unified credit against estate tax) is hereby repealed.

(2) Section 2505 (relating to unified credit against gift tax) is hereby repealed.

(c) CONFORMING AMENDMENTS.—

(1)(A) Subparagraph (B) of section 2001(b)(1) is amended by inserting before the comma ''reduced by the amount of described in section 2052(a)(2)''.

(B) Subsection (b) of section 2001 is amended by adding at the end the following new sentence: ''For purposes of paragraph (2), the amount of the tax payable under chapter 12 shall be determined without regard to the credit provided by section 2505 (as in effect on the day before the date of the enactment of the Financial Freedom Act of 1999).''

(2) Subsection (f) of section 2011 is amended by striking '', reduced by the amount of the unified credit provided by section 2010''.

(3) Subsection (a) of section 2012 is amended by striking ''and the unified credit provided by section 2010''.

(4) Subsection (b) of section 2013 is amended by inserting before the period at the end of the first sentence ''and increased by the exemption allowed under section 2052 or 2106(a)(4) (or the corresponding provisions of prior law) in determining the taxable estate of the transferor for purposes of the estate tax''.

(5) Subparagraph (A) of section 2013(c)(1) is amended by striking ''2010,''.

(6) Paragraph (2) of section 2014(b) is amended by striking ''2010,''.

(7) Clause (ii) of section 2056A(b)(12)(C) is amended to read as follows:

''(ii) to treat any reduction in the tax imposed by paragraph (1)(A) by reason of the credit allowable under section 2010 (as in effect on the day before the date of the enactment of the Financial Freedom Act of 1999) or the exemption allowable under section 2052 with respect to the decedent as such a credit or exemption (as the case may be) allowable to such surviving spouse for purposes of determining the amount of the exemption allowable under section 2521 with respect to taxable gifts made by the surviving spouse during the year in which the spouse becomes a citizen or any subsequent year,''.

(8) Section 2102 is amended by striking subsection (c).

(9) Subsection (a) of section 2106 is amended by adding at the end the following new paragraph:

''(4) EXEMPTION.—

''(A) IN GENERAL.—An exemption of $60,000.

''(B) RESIDENTS OF POSSESSIONS OF THE UNITED STATES.—In the case of a decedent who is considered to be a nonresident not a citizen of the United States under section 2209, the exemption under this paragraph shall be the greater of—

''(i) $60,000, or

''(ii) that proportion of $175,000 which the value of that part of the decedent's gross estate which at the time of his death is situated in the United States bears to the value of his entire gross estate wherever situated.

''(C) SPECIAL RULES.—

''(i) COORDINATION WITH TREATIES.—To the extent required under any treaty obligation of the United States, the exemption allowed under this paragraph shall be equal to the amount which bears the same ratio to the exemption amount under section 2052 (for the calendar year in which the decedent died) as the value of the part of the decedent's gross estate which at the time of his death is situated in the United States bears to the value of his entire gross estate wherever situated. For purposes of the preceding sentence, property shall not be treated as situated in the United States if such property is exempt from the tax imposed by this subchapter under any treaty obligation of the United States.

''(ii) COORDINATION WITH GIFT TAX EXEMPTION AND UNIFIED CREDIT.—If an exemption has been allowed under section 2521 (or a credit has been allowed under section 2505 as in effect on the day before the date of the enactment of the Financial Freedom Act of 1999) with respect to any gift made by the decedent, each dollar amount contained in subparagraph (A) or (B) or the exemption amount applicable under clause (i) of this subparagraph (whichever applies) shall be reduced by the exemption so allowed under 2521 (or, in the case of such a credit, by the amount of the gift for which the credit was so allowed).''

(10) Subsection (c) of section 2107 is amended—

(A) by striking paragraph (1) and by redesignating paragraphs (2) and (3) as paragraphs (1) and (2), respectively, and

(B) by striking the second sentence of paragraph (2) (as so redesignated).

(11) Section 2206 is amended by striking ''the taxable estate'' in the first sentence and inserting ''the sum of the taxable estate and the amount of the exemption allowed under section 2052 or 2106(a)(4) in computing the taxable estate''.

(12) Section 2207 is amended by striking ''the taxable estate'' in the first sentence and inserting ''the sum of the taxable estate and the amount of the exemption allowed under section 2052 or 2106(a)(4) in computing the taxable estate''.

(13) Subparagraph (B) of section 2207B(a)(1) is amended to read as follows:

''(B) the sum of the taxable estate and the amount of the exemption allowed under section 2052 or 2106(a)(4) in computing the taxable estate.''

(14) Subsection (a) of section 2503 is amended by striking ''section 2522'' and inserting ''section 2521''.

(15) Paragraph (1) of section 6018(a) is amended by striking ''$600,000'' and inserting ''the exemption amount under section 2052 for the calendar year which includes the date of death''.

(16) Subparagraph (A) of section 6601(j)(2) is amended to read as follows:

''(A) the amount of the tax which would be imposed by chapter 11 on an amount of taxable estate equal to the excess of $1,000,000 over the exemption amount allowable under section 2052, or''.

(17) The table of sections for part II of subchapter A of chapter 11 is amended by striking the item relating to section 2010.

(18) The table of sections for subchapter A of chapter 12 is amended by striking the item relating to section 2505.

(d) EFFECTIVE DATE.—The amendments made by this section—

(1) insofar as they relate to the tax imposed by chapter 11 of the Internal Revenue Code of 1986, shall apply to estates of decedents dying after December 31, 2000, and

(2) insofar as they relate to the tax imposed by chapter 12 of such Code, shall apply to gifts made after December 31, 2000.

Subtitle D—Modifications of Generation-Skipping Transfer Tax

SEC. 631. DEEMED ALLOCATION OF GST EXEMPTION TO LIFETIME TRANSFERS TO TRUSTS; RETROACTIVE ALLOCATIONS.

(a) IN GENERAL.—Section 2632 (relating to special rules for allocation of GST exemption) is amended by redesignating subsection (c) as subsection (e) and by inserting after subsection (b) the following new subsections:

''(c) DEEMED ALLOCATION TO CERTAIN LIFETIME TRANSFERS TO GST TRUSTS.—

''(1) IN GENERAL.—If any individual makes an indirect skip during such individual's lifetime, any unused portion of such individual's GST exemption shall be allocated to the property transferred to the extent necessary to make the inclusion ratio for such property zero. If the amount of the indirect skip exceeds such unused portion, the entire unused portion shall be allocated to the property transferred.

''(2) UNUSED PORTION.—For purposes of paragraph (1), the unused portion of an individual's GST exemption is that portion of such exemption which has not previously been—

''(A) allocated by such individual,

''(B) treated as allocated under subsection (b) with respect to a direct skip occurring during or before the calendar year in which the indirect skip is made, or

''(C) treated as allocated under paragraph (1) with respect to a prior indirect skip.

''(3) DEFINITIONS.—

''(A) INDIRECT SKIP.—For purposes of this subsection, the term 'indirect skip' means any transfer of property (other than a direct skip) subject to the tax imposed by chapter 12 made to a GST trust.

''(B) GST TRUST.—The term 'GST trust' means a trust that could have a generation-skipping transfer with respect to the transferor unless—

''(i) the trust instrument provides that more than 25 percent of the trust corpus must be distributed to or may be withdrawn by 1 or more individuals who are non-skip persons—

''(I) before the date that the individual attains age 46,

''(II) on or before 1 or more dates specified in the trust instrument that will occur before the date that such individual attains age 46, or

''(III) upon the occurrence of an event that, in accordance with regulations prescribed by the Secretary, may reasonably be expected to occur before the date that such individual attains age 46;

''(ii) the trust instrument provides that more than 25 percent of the trust corpus must be distributed to or may be withdrawn by 1 or more individuals who are non-skip persons and who are living on the date of death of another person identified in the instrument (by name or by class) who is more than 10 years older than such individuals;

''(iii) the trust instrument provides that, if 1 or more individuals who are non-skip persons die on or before a date or event described in clause (i) or (ii), more than 25 percent of the trust corpus either must be distributed to the estate or estates of 1 or more of such individuals or is subject to a general power of appointment exercisable by 1 or more of such individuals;

''(iv) the trust is a trust any portion of which would be included in the gross estate of a non-skip person (other than the transferor) if such person died immediately after the transfer;

''(v) the trust is a charitable lead annuity trust (within the meaning of section 2642(e)(3)(A)) or a charitable remainder annuity trust or a charitable remainder unitrust (within the meaning of section 664(d)); or

''(vi) the trust is a trust with respect to which a deduction was allowed under section 2522 for the amount of an interest in the form of the right to receive annual payments of a fixed percentage of the net fair market value of the trust property (determined yearly) and which is required to pay principal to a non-skip person if such person is alive when the yearly payments for which the deduction was allowed terminate. For purposes of this subparagraph, the value of transferred property shall not be considered to be includible in the gross estate of a non-skip person or subject to a right of withdrawal by reason of such person holding a right to withdraw so much of such property as does not exceed the amount referred to in section 2503(b) with respect to any transferor, and it shall be assumed that powers of appointment held by non-skip persons will not be exercised.

''(4) AUTOMATIC ALLOCATIONS TO CERTAIN GST TRUSTS.—For purposes of this subsection, an indirect skip to which section 2642(f) applies shall be deemed to have been made only at the close of the estate tax inclusion period. The fair market value of such transfer shall be the fair market value of the trust property at the close of the estate tax inclusion period.

''(5) APPLICABILITY AND EFFECT.—

''(A) IN GENERAL.—An individual—

''(i) may elect to have this subsection not apply to—

''(I) an indirect skip, or

''(II) any or all transfers made by such individual to a particular trust, and

''(ii) may elect to treat any trust as a GST trust for purposes of this subsection with respect to any or all transfers made by such individual to such trust.

''(B) ELECTIONS.—

''(i) ELECTIONS WITH RESPECT TO INDIRECT SKIPS.—An election under subparagraph (A)(i)(I) shall be deemed to be timely if filed on a timely filed gift tax return for the calendar year in which the transfer was made or deemed to have been made pursuant to paragraph (4) or on such later date or dates as may be prescribed by the Secretary.

''(ii) OTHER ELECTIONS.—An election under clause (i)(II) or (ii) of subparagraph (A) may be made on a timely filed gift tax return for the calendar year for which the election is to become effective.

''(d) RETROACTIVE ALLOCATIONS.—

''(1) IN GENERAL.—If—

''(A) a non-skip person has an interest or a future interest in a trust to which any transfer has been made,

''(B) such person—

''(i) is a lineal descendant of a grandparent of the transferor or of a grandparent of the transferor's spouse or former spouse, and

''(ii) is assigned to a generation below the generation assignment of the transferor, and

''(C) such person predeceases the transferor,

then the transferor may make an allocation of any of such transferor's unused GST exemption to any previous transfer or transfers to the trust on a chronological basis.

''(2) SPECIAL RULES.—If the allocation under paragraph (1) by the transferor is made on a gift tax return filed on or before the date prescribed by section 6075(b) for gifts made within the calendar year within which the non-skip person's death occurred—

''(A) the value of such transfer or transfers for purposes of section 2642(a) shall be determined as if such allocation had been made on a timely filed gift tax return for each calendar year within which each transfer was made,

''(B) such allocation shall be effective immediately before such death, and

''(C) the amount of the transferor's unused GST exemption available to be allocated shall be determined immediately before such death.

''(3) FUTURE INTEREST.—For purposes of this subsection, a person has a future interest in a trust if the trust may permit income or corpus to be paid to such person on a date or dates in the future.''.

(b) CONFORMING AMENDMENT.—Paragraph (2) of section 2632(b) is amended by striking ''with respect to a direct skip'' and inserting ''or subsection (c)(1)''.

(c) EFFECTIVE DATES.—

(1) DEEMED ALLOCATION.—Section 2632(c) of the Internal Revenue Code of 1986 (as added by subsection (a)), and the amendment made by subsection (b), shall apply to transfers subject to chapter 11 or 12 made after December 31, 1999, and to estate tax inclusion periods ending after December 31, 1999.

(2) RETROACTIVE ALLOCATIONS.—Section 2632(d) of the Internal Revenue Code of 1986 (as added by subsection (a)) shall apply to deaths of non-skip persons occurring after the date of the enactment of this Act.

SEC. 632. SEVERING OF TRUSTS.

(a) IN GENERAL.—Subsection (a) of section 2642 (relating to inclusion ratio) is amended by adding at the end the following new paragraph:

''(3) SEVERING OF TRUSTS.—

''(A) IN GENERAL.—If a trust is severed in a qualified severance, the trusts resulting from such severance shall be treated as separate trusts thereafter for purposes of this chapter.

''(B) QUALIFIED SEVERANCE.—For purposes of subparagraph (A)—

''(i) IN GENERAL.—The term 'qualified severance' means the division of a single trust and the creation (by any means available under the governing instrument or under local law) of 2 or more trusts if—

''(I) the single trust was divided on a fractional basis, and

''(II) the terms of the new trusts, in the aggregate, provide for the same succession of interests of beneficiaries as are provided in the original trust.

''(ii) TRUSTS WITH INCLUSION RATIO GREATER THAN ZERO.—If a trust has an inclusion ratio of greater than zero and less than 1, a severance is a qualified severance only if the single trust is divided into 2 trusts, one of which receives a fractional share of the total value of all trust assets equal to the applicable fraction of the single trust immediately before the severance. In such case, the trust receiving such fractional share shall have an inclusion ratio of zero and the other trust shall have an inclusion ratio of 1.

''(iii) REGULATIONS.—The term 'qualified severance' includes any other severance permitted under regulations prescribed by the Secretary.

''(C) TIMING AND MANNER OF SEVERANCES.—A severance pursuant to this paragraph may be made at any time. The Secretary shall prescribe by forms or regulations the manner in which the qualified severance shall be reported to the Secretary.''.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to severances after the date of the enactment of this Act.

SEC. 633. MODIFICATION OF CERTAIN VALUATION RULES.

(a) GIFTS FOR WHICH GIFT TAX RETURN FILED OR DEEMED ALLOCATION MADE.—Paragraph (1) of section 2642(b) (relating to valuation rules, etc.) is amended to read as follows:

''(1) GIFTS FOR WHICH GIFT TAX RETURN FILED OR DEEMED ALLOCATION MADE.—If the allocation of the GST exemption to any transfers of property is made on a gift tax return filed on or before the date prescribed by section 6075(b) for such transfer or is deemed to be made under section 2632 (b)(1) or (c)(1)—

''(A) the value of such property for purposes of subsection (a) shall be its value as finally determined for purposes of chapter 12 (within the meaning of section 2001(f)(2)), or, in the case of an allocation deemed to have been made at the close of an estate tax inclusion period, its value at the time of the close of the estate tax inclusion period, and

''(B) such allocation shall be effective on and after the date of such transfer, or, in the case of an allocation deemed to have been made at the close of an estate tax inclusion period, on and after the close of such estate tax inclusion period.''.

(b) TRANSFERS AT DEATH.—Subparagraph (A) of section 2642(b)(2) is amended to read as follows:

''(A) TRANSFERS AT DEATH.—If property is transferred as a result of the death of the transferor, the value of such property for purposes of subsection (a) shall be its value as finally determined for purposes of chapter 11; except that, if the requirements prescribed by the Secretary respecting allocation of post-death changes in value are not met, the value of such property shall be determined as of the time of the distribution concerned.''.

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect as if included in the amendments made by section 1431 of the Tax Reform Act of 1986.

SEC. 634. RELIEF PROVISIONS.

(a) IN GENERAL.—Section 2642 is amended by adding at the end the following new subsection:

''(g) RELIEF PROVISIONS.—

''(1) RELIEF FOR LATE ELECTIONS.—

''(A) IN GENERAL.—The Secretary shall by regulation prescribe such circumstances and procedures under which extensions of time will be granted to make—

''(i) an allocation of GST exemption described in paragraph (1) or (2) of subsection (b), and

''(ii) an election under subsection (b)(3) or (c)(5) of section 2632.

Such regulations shall include procedures for requesting comparable relief with respect to transfers made before the date of enactment of this paragraph.

''(B) BASIS FOR DETERMINATIONS.—In determining whether to grant relief under this paragraph, the Secretary shall take into account all relevant circumstances, including evidence of intent contained in the trust instrument or instrument of transfer and such other factors as the Secretary deems relevant. For purposes of determining whether to grant relief under this paragraph, the time for making the allocation (or election) shall be treated as if not expressly prescribed by statute.

''(2) SUBSTANTIAL COMPLIANCE.—An allocation of GST exemption under section 2632 that demonstrates an intent to have the lowest possible inclusion ratio with respect to a transfer or a trust shall be deemed to be an allocation of so much of the transferor's unused GST exemption as produces the lowest possible inclusion ratio. In determining whether there has been substantial compliance, all relevant circumstances shall be taken into account, including evidence of intent contained in the trust instrument or instrument of transfer and such other factors as the Secretary deems relevant.''.

(b) EFFECTIVE DATES.—

(1) RELIEF FOR LATE ELECTIONS.—Section 2642(g)(1) of the Internal Revenue Code of 1986 (as added by subsection (a)) shall apply to requests pending on, or filed after, the date of the enactment of this Act.

(2) SUBSTANTIAL COMPLIANCE.—Section 2642(g)(2) of such Code (as so added) shall take effect on the date of the enactment of this Act and shall apply to allocations made prior to such date for purposes of determining the tax consequences of generation-skipping transfers with respect to which the period of time for filing claims for refund has not expired. No negative implication is intended with respect to the availability of relief for late elections or the application of a rule of substantial compliance prior to the enactment of this amendment.

TITLE VII—TAX RELIEF FOR DISTRESSED COMMUNITIES AND INDUSTRIES

Subtitle A—American Community Renewal Act of 1999

SEC. 701. SHORT TITLE.

This subtitle may be cited as the ''American Community Renewal Act of 1999''.

SEC. 702. DESIGNATION OF AND TAX INCENTIVES FOR RENEWAL COMMUNITIES.

(a) IN GENERAL.—Chapter 1 is amended by adding at the end the following new subchapter:

''Subchapter X—Renewal Communities

''PART I—DESIGNATION

''SEC. 1400E. DESIGNATION OF RENEWAL COMMUNITIES.

''(a) DESIGNATION.—

''(1) DEFINITIONS.—For purposes of this title, the term 'renewal community' means any area—

''(A) which is nominated by one or more local governments and the State or States in which it is located for designation as a renewal community (hereinafter in this section referred to as a 'nominated area'); and

''(B) which the Secretary of Housing and Urban Development designates as a renewal community, after consultation with—

''(i) the Secretaries of Agriculture, Commerce, Labor, and the Treasury; the Director of the Office of Management and Budget; and the Administrator of the Small Business Administration; and

''(ii) in the case of an area on an Indian reservation, the Secretary of the Interior.

''(2) NUMBER OF DESIGNATIONS.—

''(A) IN GENERAL.—The Secretary of Housing and Urban Development may designate not more than 20 nominated areas as renewal communities.

''(B) MINIMUM DESIGNATION IN RURAL AREAS.—Of the areas designated under paragraph (1), at least 4 must be areas—

''(i) which are within a local government jurisdiction or jurisdictions with a population of less than 50,000,

''(ii) which are outside of a metropolitan statistical area (within the meaning of section 143(k)(2)(B)), or

''(iii) which are determined by the Secretary of Housing and Urban Development, after consultation with the Secretary of Commerce, to be rural areas.

''(3) AREAS DESIGNATED BASED ON DEGREE OF POVERTY, ETC.—

''(A) IN GENERAL.—Except as otherwise provided in this section, the nominated areas designated as renewal communities under this subsection shall be those nominated areas with the highest average ranking with respect to the criteria described in subparagraphs (B), (C), and (D) of subsection (c)(3). For purposes of the preceding sentence, an area shall be ranked within each such criterion on the basis of the amount by which the area exceeds such criterion, with the area which exceeds such criterion by the greatest amount given the highest ranking.

''(B) EXCEPTION WHERE INADEQUATE COURSE OF ACTION, ETC.—An area shall not be designated under subparagraph (A) if the Secretary of Housing and Urban Development determines that the course of action described in subsection (d)(2) with respect to such area is inadequate.

''(C) PRIORITY FOR EMPOWERMENT ZONES AND ENTERPRISE COMMUNITIES WITH RESPECT TO FIRST HALF OF DESIGNATIONS.—With respect to the first 10 designations made under this section—

''(i) all shall be chosen from nominated areas which are empowerment zones or enterprise communities (and are otherwise eligible for designation under this section); and

''(ii) 2 shall be areas described in paragraph (2)(B).

''(4) LIMITATION ON DESIGNATIONS.—

''(A) PUBLICATION OF REGULATIONS.—The Secretary of Housing and Urban Development shall prescribe by regulation no later than 4 months after the date of the enactment of this section, after consultation with the officials described in paragraph (1)(B)—

''(i) the procedures for nominating an area under paragraph (1)(A);

''(ii) the parameters relating to the size and population characteristics of a renewal community; and

''(iii) the manner in which nominated areas will be evaluated based on the criteria specified in subsection (d).

''(B) TIME LIMITATIONS.—The Secretary of Housing and Urban Development may designate nominated areas as renewal communities only during the 24-month period beginning on the first day of the first month following the month in which the regulations described in subparagraph (A) are prescribed.

''(C) PROCEDURAL RULES.—The Secretary of Housing and Urban Development shall not make any designation of a nominated area as a renewal community under paragraph (2) unless—

''(i) the local governments and the States in which the nominated area is located have the authority—

''(I) to nominate such area for designation as a renewal community;

''(II) to make the State and local commitments described in subsection (d); and

''(III) to provide assurances satisfactory to the Secretary of Housing and Urban Development that such commitments will be fulfilled,

''(ii) a nomination regarding such area is submitted in such a manner and in such form, and contains such information, as the Secretary of Housing and Urban Development shall by regulation prescribe; and

''(iii) the Secretary of Housing and Urban Development determines that any information furnished is reasonably accurate.

''(5) NOMINATION PROCESS FOR INDIAN RESERVATIONS.—For purposes of this subchapter, in the case of a nominated area on an Indian reservation, the reservation governing body (as determined by the Secretary of the Interior) shall be treated as being both the State and local governments with respect to such area.

''(b) PERIOD FOR WHICH DESIGNATION IS IN EFFECT.—

''(1) IN GENERAL.—Any designation of an area as a renewal community shall remain in effect during the period beginning on the date of the designation and ending on the earliest of—

''(A) December 31, 2007,

''(B) the termination date designated by the State and local governments in their nomination, or

''(C) the date the Secretary of Housing and Urban Development revokes such designation.

''(2) REVOCATION OF DESIGNATION.—The Secretary of Housing and Urban Development may revoke the designation under this section of an

area if such Secretary determines that the local government or the State in which the area is located—

''(A) has modified the boundaries of the area, or

''(B) is not complying substantially with, or fails to make progress in achieving, the State or local commitments, respectively, described in subsection (d).

''(c) AREA AND ELIGIBILITY REQUIREMENTS.—

''(1) IN GENERAL.—The Secretary of Housing and Urban Development may designate a nominated area as a renewal community under subsection (a) only if the area meets the requirements of paragraphs (2) and (3) of this subsection.

''(2) AREA REQUIREMENTS.—A nominated area meets the requirements of this paragraph if—

''(A) the area is within the jurisdiction of one or more local governments;

''(B) the boundary of the area is continuous; and

''(C) the area—

''(i) has a population, of at least—

''(I) 4,000 if any portion of such area (other than a rural area described in subsection (a)(2)(B)(i)) is located within a metropolitan statistical area (within the meaning of section 143(k)(2)(B)) which has a population of 50,000 or greater; or

''(II) 1,000 in any other case; or

''(ii) is entirely within an Indian reservation (as determined by the Secretary of the Interior).

''(3) ELIGIBILITY REQUIREMENTS.—A nominated area meets the requirements of this paragraph if the State and the local governments in which it is located certify (and the Secretary of Housing and Urban Development, after such review of supporting data as he deems appropriate, accepts such certification) that—

''(A) the area is one of pervasive poverty, unemployment, and general distress;

''(B) the unemployment rate in the area, as determined by the most recent available data, was at least 1½ times the national unemployment rate for the period to which such data relate;

''(C) the poverty rate for each population census tract within the nominated area is at least 20 percent; and

''(D) in the case of an urban area, at least 70 percent of the households living in the area have incomes below 80 percent of the median income of households within the jurisdiction of the local government (determined in the same manner as under section 119(b)(2) of the Housing and Community Development Act of 1974).

''(4) CONSIDERATION OF HIGH INCIDENCE OF CRIME.—The Secretary of Housing and Urban Development shall take into account, in selecting nominated areas for designation as renewal communities under this section, the extent to which such areas have a high incidence of crime.

''(5) CONSIDERATION OF COMMUNITIES IDENTIFIED IN GAO STUDY.—The Secretary of Housing and Urban Development shall take into account, in selecting nominated areas for designation as renewal communities under this section, if the area has census tracts identified in the May 12, 1998, report of the Government Accounting Office regarding the identification of economically distressed areas.

''(d) REQUIRED STATE AND LOCAL COMMITMENTS.—

''(1) IN GENERAL.—The Secretary of Housing and Urban Development may designate any nominated area as a renewal community under subsection (a) only if—

''(A) the local government and the State in which the area is located agree in writing that, during any period during which the area is a renewal community, such governments will follow a specified course of action which meets the requirements of paragraph (2) and is designed to reduce the various burdens borne by employers or employees in such area; and

''(B) the economic growth promotion requirements of paragraph (3) are met.

''(2) COURSE OF ACTION.—

''(A) IN GENERAL.—A course of action meets the requirements of this paragraph if such course of action is a written document, signed by a State (or local government) and neighborhood organizations, which evidences a partnership between such State or government and community-based organizations and which commits each signatory to specific and measurable goals, actions, and timetables. Such course of action shall include at least five of the following:

''(i) A reduction of tax rates or fees applying within the renewal community.

''(ii) An increase in the level of efficiency of local services within the renewal community.

''(iii) Crime reduction strategies, such as crime prevention (including the provision of such services by nongovernmental entities).

''(iv) Actions to reduce, remove, simplify, or streamline governmental requirements applying within the renewal community.

''(v) Involvement in the program by private entities, organizations, neighborhood organizations, and community groups, particularly those in the renewal community, including a commitment from such private entities to provide jobs and job training for, and technical, financial, or other assistance to, employers, employees, and residents from the renewal community.

''(vi) State or local income tax benefits for fees paid for services performed by a nongovernmental entity which were formerly performed by a governmental entity.

''(vii) The gift (or sale at below fair market value) of surplus real property (such as land, homes, and commercial or industrial structures) in the renewal community to neighborhood organizations, community development corporations, or private companies.

''(B) RECOGNITION OF PAST EFFORTS.—For purposes of this section, in evaluating the course of action agreed to by any State or local government, the Secretary of Housing and Urban Development shall take into account the past efforts of such State or local government in reducing the various burdens borne by employers and employees in the area involved.

''(3) ECONOMIC GROWTH PROMOTION REQUIREMENTS.—The economic growth promotion requirements of this paragraph are met with respect to a nominated area if the local government and the State in which such area is located certify in writing that such government and State, respectively, have repealed or otherwise will not enforce within the area, if such area is designated as a renewal community—

''(A) licensing requirements for occupations that do not ordinarily require a professional degree;

''(B) zoning restrictions on home-based businesses which do not create a public nuisance;

''(C) permit requirements for street vendors who do not create a public nuisance;

''(D) zoning or other restrictions that impede the formation of schools or child care centers; and

''(E) franchises or other restrictions on competition for businesses providing public services, including but not limited to taxicabs, jitneys, cable television, or trash hauling,

except to the extent that such regulation of businesses and occupations is necessary for and well-tailored to the protection of health and safety.

''(e) COORDINATION WITH TREATMENT OF EMPOWERMENT ZONES AND ENTERPRISE COMMUNITIES.—For purposes of this title, if there are in effect with respect to the same area both—

''(1) a designation as a renewal community; and

''(2) a designation as an empowerment zone or enterprise community,

both of such designations shall be given full effect with respect to such area.

''(f) DEFINITIONS AND SPECIAL RULES.—For purposes of this subchapter—

''(1) GOVERNMENTS.—If more than one government seeks to nominate an area as a renewal community, any reference to, or requirement of, this section shall apply to all such governments.

''(2) STATE.—The term 'State' includes Puerto Rico, the Virgin Islands of the United States, Guam, American Samoa, the Northern Mariana Islands, and any other possession of the United States.

''(3) LOCAL GOVERNMENT.—The term 'local government' means—

''(A) any county, city, town, township, parish, village, or other general purpose political subdivision of a State;

''(B) any combination of political subdivisions described in subparagraph (A) recognized by the Secretary of Housing and Urban Development; and

''(C) the District of Columbia.

''(4) APPLICATION OF RULES RELATING TO CENSUS TRACTS AND CENSUS DATA.—The rules of sections 1392(b)(4) and 1393(a)(9) shall apply.

''PART II—RENEWAL COMMUNITY CAPITAL GAIN; RENEWAL COMMUNITY BUSINESS

''Sec. 1400F. Renewal community capital gain.

''Sec. 1400G. Renewal community business defined.

''SEC. 1400F. RENEWAL COMMUNITY CAPITAL GAIN.

''(a) GENERAL RULE.—Gross income does not include any qualified capital gain recognized on the sale or exchange of a qualified community asset held for more than 5 years.

''(b) QUALIFIED COMMUNITY ASSET.—For purposes of this section—

''(1) IN GENERAL.—The term 'qualified community asset' means—

''(A) any qualified community stock;

''(B) any qualified community partnership interest; and

''(C) any qualified community business property.

''(2) QUALIFIED COMMUNITY STOCK.—

''(A) IN GENERAL.—Except as provided in subparagraph (B), the term 'qualified community stock' means any stock in a domestic corporation if—

''(i) such stock is acquired by the taxpayer after December 31, 2000, and before January 1, 2008, at its original issue (directly or through an underwriter) from the corporation solely in exchange for cash;

''(ii) as of the time such stock was issued, such corporation was a renewal community business (or, in the case of a new corporation, such corporation was being organized for purposes of being a renewal community business); and

''(iii) during substantially all of the taxpayer's holding period for such stock, such corporation qualified as a renewal community business.

''(B) REDEMPTIONS.—A rule similar to the rule of section 1202(c)(3) shall apply for purposes of this paragraph.

''(3) QUALIFIED COMMUNITY PARTNERSHIP INTEREST.—The term 'qualified community partnership interest' means any capital or profits interest in a domestic partnership if—

''(A) such interest is acquired by the taxpayer after December 31, 2000, and before January 1, 2008;

''(B) as of the time such interest was acquired, such partnership was a renewal community business (or, in the case of a new partnership, such partnership was being organized for purposes of being a renewal community business); and

''(C) during substantially all of the taxpayer's holding period for such interest, such partnership qualified as a renewal community business.

A rule similar to the rule of paragraph (2)(B) shall apply for purposes of this paragraph.

''(4) QUALIFIED COMMUNITY BUSINESS PROPERTY.—

''(A) IN GENERAL.—The term 'qualified community business property' means tangible property if—

''(i) such property was acquired by the taxpayer by purchase (as defined in section 179(d)(2)) after December 31, 2000, and before January 1, 2008;

''(ii) the original use of such property in the renewal community commences with the taxpayer; and

''(iii) during substantially all of the taxpayer's holding period for such property, substantially all of the use of such property was in a renewal community business of the taxpayer.

''(B) SPECIAL RULE FOR SUBSTANTIAL IMPROVEMENTS.—The requirements of clauses (i) and (ii) of subparagraph (A) shall be treated as satisfied with respect to—

''(i) property which is substantially improved (within the meaning of section 1400B(b)(4)(B)(ii)) by the taxpayer before January 1, 2008; and

''(ii) any land on which such property is located.

''(c) CERTAIN RULES TO APPLY.—Rules similar to the rules of paragraphs (5), (6), and (7) of subsection (b), and subsections (e), (f), and (g), of section 1400B shall apply for purposes of this section.

''SEC. 1400G. RENEWAL COMMUNITY BUSINESS DEFINED.

''For purposes of this part, the term 'renewal community business' means any entity or proprietorship which would be a qualified business entity or qualified proprietorship under section 1397B if—

''(1) references to renewal communities were substituted for references to empowerment zones in such section; and

''(2) '80 percent' were substituted for '50 percent' in subsections (b)(2) and (c)(1) of such section.

''PART III—FAMILY DEVELOPMENT ACCOUNTS

''SEC. 1400H. FAMILY DEVELOPMENT ACCOUNTS FOR RENEWAL COMMUNITY EITC RECIPIENTS.

''(a) ALLOWANCE OF DEDUCTION.—

''(1) IN GENERAL.—There shall be allowed as a deduction—

''(A) in the case of a qualified individual, the amount paid in cash for the taxable year by such individual to any family development account for such individual's benefit; and

''(B) in the case of any person other than a qualified individual, the amount paid in cash for the taxable year by such person to any family development account for the benefit of a qualified individual but only if the amount so paid is designated for purposes of this section by such individual.

No deduction shall be allowed under this paragraph for any amount deposited in a family development account under section 1400I (relating to demonstration program to provide matching amounts in renewal communities).

''(2) LIMITATION.—

''(A) IN GENERAL.—The amount allowable as a deduction to any individual for any taxable year by reason of paragraph (1)(A) shall not exceed the lesser of—

''(i) $2,000, or

''(ii) an amount equal to the compensation includible in the individual's gross income for such taxable year.

''(B) PERSONS DONATING TO FAMILY DEVELOPMENT ACCOUNTS OF OTHERS.—The amount which may be designated under paragraph (1)(B) by any qualified individual for any taxable year of such individual shall not exceed $1,000.

''(3) SPECIAL RULES FOR CERTAIN MARRIED INDIVIDUALS.—Rules similar to rules of section 219(c) shall apply to the limitation in paragraph (2)(A).

''(4) COORDINATION WITH IRAS.—No deduction shall be allowed under this section for any taxable year to any person by reason of a payment to an account for the benefit of a qualified individual if any amount is paid for such taxable year into an individual retirement account (including a Roth IRA) for the benefit of such individual.

''(5) ROLLOVERS.—No deduction shall be allowed under this section with respect to any rollover contribution.

''(b) TAX TREATMENT OF DISTRIBUTIONS.—

''(1) INCLUSION OF AMOUNTS IN GROSS INCOME.—Except as otherwise provided in this subsection, any amount paid or distributed out of a family development account shall be included in gross income by the payee or distributee, as the case may be.

''(2) EXCLUSION OF QUALIFIED FAMILY DEVELOPMENT DISTRIBUTIONS.—Paragraph (1) shall not apply to any qualified family development distribution.

''(c) QUALIFIED FAMILY DEVELOPMENT DISTRIBUTION.—For purposes of this section—

''(1) IN GENERAL.—The term 'qualified family development distribution' means any amount paid or distributed out of a family development account which would otherwise be includible in gross income, to the extent that such payment or distribution is used exclusively to pay qualified family development expenses for the holder of the account or the spouse or dependent (as defined in section 152) of such holder.

''(2) QUALIFIED FAMILY DEVELOPMENT EXPENSES.—The term 'qualified family development expenses' means any of the following:

''(A) Qualified higher education expenses.

''(B) Qualified first-time homebuyer costs.

''(C) Qualified business capitalization costs.

''(D) Qualified medical expenses.

''(E) Qualified rollovers.

''(3) QUALIFIED HIGHER EDUCATION EXPENSES.—

''(A) IN GENERAL.—The term 'qualified higher education expenses' has the meaning given such term by section 72(t)(7), determined by treating postsecondary vocational educational schools as eligible educational institutions.

''(B) POSTSECONDARY VOCATIONAL EDUCATION SCHOOL.—The term 'postsecondary vocational educational school' means an area vocational education school (as defined in subparagraph (C) or (D) of section 521(4) of the Carl D. Perkins Vocational and Applied Technology Education Act (20 U.S.C. 2471(4))) which is in any State (as defined in section 521(33) of such Act), as such sections are in effect on the date of the enactment of this section.

''(C) COORDINATION WITH OTHER BENEFITS.—The amount of qualified higher education expenses for any taxable year shall be reduced as provided in section 25A(g)(2).

''(4) QUALIFIED FIRST-TIME HOMEBUYER COSTS.—The term 'qualified first-time homebuyer costs' means qualified acquisition costs (as defined in section 72(t)(8) without regard to subparagraph (B) thereof) with respect to a principal residence (within the meaning of section 121) for a qualified first-time homebuyer (as defined in section 72(t)(8)).

''(5) QUALIFIED BUSINESS CAPITALIZATION COSTS.—

''(A) IN GENERAL.—The term 'qualified business capitalization costs' means qualified expenditures for the capitalization of a qualified business pursuant to a qualified plan.

''(B) QUALIFIED EXPENDITURES.—The term 'qualified expenditures' means expenditures included in a qualified plan, including capital, plant, equipment, working capital, and inventory expenses.

''(C) QUALIFIED BUSINESS.—The term 'qualified business' means any trade or business other than any trade or business—

''(i) which consists of the operation of any facility described in section 144(c)(6)(B), or

''(ii) which contravenes any law.

''(D) QUALIFIED PLAN.—The term 'qualified plan' means a business plan which meets such requirements as the Secretary may specify.

''(6) QUALIFIED MEDICAL EXPENSES.—The term 'qualified medical expenses' means any amount paid during the taxable year, not compensated for by insurance or otherwise, for medical care (as defined in section 213(d)) of the taxpayer, his spouse, or his dependent (as defined in section 152).

''(7) QUALIFIED ROLLOVERS.—The term 'qualified rollover' means any amount paid from a family development account of a taxpayer into another such account established for the benefit of—

''(A) such taxpayer, or

''(B) any qualified individual who is—

''(i) the spouse of such taxpayer, or

''(ii) any dependent (as defined in section 152) of the taxpayer.

Rules similar to the rules of section 408(d)(3) shall apply for purposes of this paragraph.

''(d) TAX TREATMENT OF ACCOUNTS.—

''(1) IN GENERAL.—Any family development account is exempt from taxation under this subtitle unless such account has ceased to be a family development account by reason of paragraph (2). Notwithstanding the preceding sentence, any such account is subject to the taxes imposed by section 511 (relating to imposition of tax on unrelated business income of charitable, etc., organizations). Notwithstanding any other provision of this title (including chapters 11 and 12), the basis of any person in such an account is zero.

''(2) LOSS OF EXEMPTION IN CASE OF PROHIBITED TRANSACTIONS.—For purposes of this section, rules similar to the rules of section 408(e) shall apply.

''(3) OTHER RULES TO APPLY.—Rules similar to the rules of paragraphs (4), (5), and (6) of section 408(d) shall apply for purposes of this section.

''(e) FAMILY DEVELOPMENT ACCOUNT.—For purposes of this title, the term 'family development account' means a trust created or organized in the United States for the exclusive benefit of a qualified individual or his beneficiaries, but only if the written governing instrument creating the trust meets the following requirements:

''(1) Except in the case of a qualified rollover (as defined in subsection (c)(7))—

''(A) no contribution will be accepted unless it is in cash; and

''(B) contributions will not be accepted for the taxable year in excess of $3,000 (determined without regard to any contribution made under section 1400I (relating to demonstration program to provide matching amounts in renewal communities)).

''(2) The requirements of paragraphs (2) through (6) of section 408(a) are met.

''(f) QUALIFIED INDIVIDUAL.—For purposes of this section, the term 'qualified individual' means, for any taxable year, an individual—

''(1) who is a bona fide resident of a renewal community throughout the taxable year; and

''(2) to whom a credit was allowed under section 32 for the preceding taxable year.

''(g) OTHER DEFINITIONS AND SPECIAL RULES.—

''(1) COMPENSATION.—The term 'compensation' has the meaning given such term by section 219(f)(1).

''(2) MARRIED INDIVIDUALS.—The maximum deduction under subsection (a) shall be computed separately for each individual, and this section shall be applied without regard to any community property laws.

''(3) TIME WHEN CONTRIBUTIONS DEEMED MADE.—For purposes of this section, a taxpayer shall be deemed to have made a contribution to a family development account on the last day of the preceding taxable year if the contribution is

made on account of such taxable year and is made not later than the time prescribed by law for filing the return for such taxable year (not including extensions thereof).

''(4) EMPLOYER PAYMENTS; CUSTODIAL ACCOUNTS.—Rules similar to the rules of sections 219(f)(5) and 408(h) shall apply for purposes of this section.

''(5) REPORTS.—The trustee of a family development account shall make such reports regarding such account to the Secretary and to the individual for whom the account is maintained with respect to contributions (and the years to which they relate), distributions, and such other matters as the Secretary may require under regulations. The reports required by this paragraph—

''(A) shall be filed at such time and in such manner as the Secretary prescribes in such regulations; and

''(B) shall be furnished to individuals—

''(i) not later than January 31 of the calendar year following the calendar year to which such reports relate; and

''(ii) in such manner as the Secretary prescribes in such regulations.

''(6) INVESTMENT IN COLLECTIBLES TREATED AS DISTRIBUTIONS.—Rules similar to the rules of section 408(m) shall apply for purposes of this section.

''(h) PENALTY FOR DISTRIBUTIONS NOT USED FOR QUALIFIED FAMILY DEVELOPMENT EXPENSES.—

''(1) IN GENERAL.—If any amount is distributed from a family development account and is not used exclusively to pay qualified family development expenses for the holder of the account or the spouse or dependent (as defined in section 152) of such holder, the tax imposed by this chapter for the taxable year of such distribution shall be increased by the sum of—

''(A) 100 percent of the portion of such amount which is includible in gross income and is attributable to amounts contributed under section 1400I (relating to demonstration program to provide matching amounts in renewal communities); and

''(B) 10 percent of the portion of such amount which is includible in gross income and is not described in subparagraph (A).

For purposes of this subsection, distributions which are includable in gross income shall be treated as attributable to amounts contributed under section 1400I to the extent thereof. For purposes of the preceding sentence, all family development accounts of an individual shall be treated as one account.

''(2) EXCEPTION FOR CERTAIN DISTRIBUTIONS.—Paragraph (1) shall not apply to distributions which are—

''(A) made on or after the date on which the account holder attains age 59½,

''(B) made to a beneficiary (or the estate of the account holder) on or after the death of the account holder, or

''(C) attributable to the account holder's being disabled within the meaning of section 72(m)(7).

''(i) APPLICATION OF SECTION.—This section shall apply to amounts paid to a family development account for any taxable year beginning after December 31, 2000, and before January 1, 2008.

''SEC. 1400I. DEMONSTRATION PROGRAM TO PROVIDE MATCHING CONTRIBUTIONS TO FAMILY DEVELOPMENT ACCOUNTS IN CERTAIN RENEWAL COMMUNITIES.

''(a) DESIGNATION.—

''(1) DEFINITIONS.—For purposes of this section, the term 'FDA matching demonstration area' means any renewal community—

''(A) which is nominated under this section by each of the local governments and States which nominated such community for designation as a renewal community under section 1400E(a)(1)(A); and

''(B) which the Secretary of Housing and Urban Development designates as an FDA matching demonstration area after consultation with—

''(i) the Secretaries of Agriculture, Commerce, Labor, and the Treasury, the Director of the Office of Management and Budget, and the Administrator of the Small Business Administration; and

''(ii) in the case of a community on an Indian reservation, the Secretary of the Interior.

''(2) NUMBER OF DESIGNATIONS.—

''(A) IN GENERAL.—The Secretary of Housing and Urban Development may designate not more than 5 renewal communities as FDA matching demonstration areas.

''(B) MINIMUM DESIGNATION IN RURAL AREAS.—Of the areas designated under subparagraph (A), at least 2 must be areas described in section 1400E(a)(2)(B).

''(3) LIMITATIONS ON DESIGNATIONS.—

''(A) PUBLICATION OF REGULATIONS.—The Secretary of Housing and Urban Development shall prescribe by regulation no later than 4 months after the date of the enactment of this section, after consultation with the officials described in paragraph (1)(B)—

''(i) the procedures for nominating a renewal community under paragraph (1)(A) (including procedures for coordinating such nomination with the nomination of an area for designation as a renewal community under section 1400E); and

''(ii) the manner in which nominated renewal communities will be evaluated for purposes of this section.

''(B) TIME LIMITATIONS.—The Secretary of Housing and Urban Development may designate renewal communities as FDA matching demonstration areas only during the 24-month period beginning on the first day of the first month following the month in which the regulations described in subparagraph (A) are prescribed.

''(4) DESIGNATION BASED ON DEGREE OF POVERTY, ETC.—The rules of section 1400E(a)(3) shall apply for purposes of designations of FDA matching demonstration areas under this section.

''(b) PERIOD FOR WHICH DESIGNATION IS IN EFFECT.—Any designation of a renewal community as an FDA matching demonstration area shall remain in effect during the period beginning on the date of such designation and ending on the date on which such area ceases to be a renewal community.

''(c) MATCHING CONTRIBUTIONS TO FAMILY DEVELOPMENT ACCOUNTS.—

''(1) IN GENERAL.—Not less than once each taxable year, the Secretary shall deposit (to the extent provided in appropriation Acts) into a family development account of each qualified individual (as defined in section 1400H(f))—

''(A) who is a resident throughout the taxable year of an FDA matching demonstration area; and

''(B) who requests (in such form and manner as the Secretary prescribes) such deposit for the taxable year,

an amount equal to the sum of the amounts deposited into all of the family development accounts of such individual during such taxable year (determined without regard to any amount contributed under this section).

''(2) LIMITATIONS.—

''(A) ANNUAL LIMIT.—The Secretary shall not deposit more than $1000 under paragraph (1) with respect to any individual for any taxable year.

''(B) AGGREGATE LIMIT.—The Secretary shall not deposit more than $2000 under paragraph (1) with respect to any individual for all taxable years.

''(3) EXCLUSION FROM INCOME.—Except as provided in section 1400H, gross income shall not include any amount deposited into a family development account under paragraph (1).

''(d) NOTICE OF PROGRAM.—The Secretary shall provide appropriate notice to residents of FDA matching demonstration areas of the availability of the benefits under this section.

''(e) TERMINATION.—No amount may be deposited under this section for any taxable year beginning after December 31, 2007.

''SEC. 1400J. DESIGNATION OF EARNED INCOME TAX CREDIT PAYMENTS FOR DEPOSIT TO FAMILY DEVELOPMENT ACCOUNT.

''(a) IN GENERAL.—With respect to the return of any qualified individual (as defined in section 1400H(f)) for the taxable year of the tax imposed by this chapter, such individual may designate that a specified portion (not less than $1) of any overpayment of tax for such taxable year which is attributable to the earned income tax credit shall be deposited by the Secretary into a family development account of such individual. The Secretary shall so deposit such portion designated under this subsection.

''(b) MANNER AND TIME OF DESIGNATION.—A designation under subsection (a) may be made with respect to any taxable year—

''(1) at the time of filing the return of the tax imposed by this chapter for such taxable year, or

''(2) at any other time (after the time of filing the return of the tax imposed by this chapter for such taxable year) specified in regulations prescribed by the Secretary.

Such designation shall be made in such manner as the Secretary prescribes by regulations.

''(c) PORTION ATTRIBUTABLE TO EARNED INCOME TAX CREDIT.—For purposes of subsection (a), an overpayment for any taxable year shall be treated as attributable to the earned income tax credit to the extent that such overpayment does not exceed the credit allowed to the taxpayer under section 32 for such taxable year.

''(d) OVERPAYMENTS TREATED AS REFUNDED.—For purposes of this title, any portion of an overpayment of tax designated under subsection (a) shall be treated as being refunded to the taxpayer as of the last date prescribed for filing the return of tax imposed by this chapter (determined without regard to extensions) or, if later, the date the return is filed.

''(e) TERMINATION.—This section shall not apply to any taxable year beginning after December 31, 2007.

''PART IV—ADDITIONAL INCENTIVES

''SEC. 1400K. COMMERCIAL REVITALIZATION DEDUCTION.

''(a) GENERAL RULE.—At the election of the taxpayer, either—

''(1) one-half of any qualified revitalization expenditures chargeable to capital account with respect to any qualified revitalization building shall be allowable as a deduction for the taxable year in which the building is placed in service, or

''(2) a deduction for all such expenditures shall be allowable ratably over the 120-month period beginning with the month in which the building is placed in service.

The deduction provided by this section with respect to such expenditure shall be in lieu of any depreciation deduction otherwise allowable on account of such expenditure.

''(b) QUALIFIED REVITALIZATION BUILDINGS AND EXPENDITURES.—For purposes of this section—

''(1) QUALIFIED REVITALIZATION BUILDING.—The term 'qualified revitalization building' means any building (and its structural components) if—

''(A) such building is located in a renewal community and is placed in service after December 31, 2000;

''(B) a commercial revitalization deduction amount is allocated to the building under subsection (d); and

''(C) depreciation (or amortization in lieu of depreciation) is allowable with respect to the building (without regard to this section).

''(2) QUALIFIED REVITALIZATION EXPENDITURE.—

''(A) IN GENERAL.—The term 'qualified revitalization expenditure' means any amount properly chargeable to capital account—

''(i) for property for which depreciation is allowable under section 168 (without regard to this section) and which is—

''(I) nonresidential real property; or

''(II) an addition or improvement to property described in subclause (I);

''(ii) in connection with the construction of any qualified revitalization building which was not previously placed in service or in connection with the substantial rehabilitation (within the meaning of section 47(c)(1)(C)) of a building which was placed in service before the beginning of such rehabilitation; and

''(iii) for land (including land which is functionally related to such property and subordinate thereto).

''(B) DOLLAR LIMITATION.—The aggregate amount which may be treated as qualified revitalization expenditures with respect to any qualified revitalization building for any taxable year shall not exceed the excess of—

''(i) $10,000,000, reduced by

''(ii) any such expenditures with respect to the building taken into account by the taxpayer or any predecessor in determining the amount of the deduction under this section for all preceding taxable years.

''(C) CERTAIN EXPENDITURES NOT INCLUDED.—The term 'qualified revitalization expenditure' does not include—

''(i) ACQUISITION COSTS.—The costs of acquiring any building or interest therein and any land in connection with such building to the extent that such costs exceed 30 percent of the qualified revitalization expenditures determined without regard to this clause.

''(ii) CREDITS.—Any expenditure which the taxpayer may take into account in computing any credit allowable under this title unless the taxpayer elects to take the expenditure into account only for purposes of this section.

''(c) WHEN EXPENDITURES TAKEN INTO ACCOUNT.—Qualified revitalization expenditures with respect to any qualified revitalization building shall be taken into account for the taxable year in which the qualified revitalization building is placed in service. For purposes of the preceding sentence, a substantial rehabilitation of a building shall be treated as a separate building.

''(d) LIMITATION ON AGGREGATE DEDUCTIONS ALLOWABLE WITH RESPECT TO BUILDINGS LOCATED IN A STATE.—

''(1) IN GENERAL.—The amount of the deduction determined under this section for any taxable year with respect to any building shall not exceed the commercial revitalization deduction amount (in the case of an amount determined under subsection (a)(2), the present value of such amount as determined under the rules of section 42(b)(2)(C) by substituting '100 percent' for '72 percent' in clause (ii) thereof) allocated to such building under this subsection by the commercial revitalization agency. Such allocation shall be made at the same time and in the same manner as under paragraphs (1) and (7) of section 42(h).

''(2) COMMERCIAL REVITALIZATION DEDUCTION AMOUNT FOR AGENCIES.—

''(A) IN GENERAL.—The aggregate commercial revitalization deduction amount which a commercial revitalization agency may allocate for any calendar year is the amount of the State commercial revitalization deduction ceiling determined under this paragraph for such calendar year for such agency.

''(B) STATE COMMERCIAL REVITALIZATION DEDUCTION CEILING.—The State commercial revitalization deduction ceiling applicable to any State—

''(i) for each calendar year after 2000 and before 2008 is $6,000,000 for each renewal community in the State; and

''(ii) zero for each calendar year thereafter.

''(C) COMMERCIAL REVITALIZATION AGENCY.—For purposes of this section, the term 'commercial revitalization agency' means any agency authorized by a State to carry out this section.

''(e) RESPONSIBILITIES OF COMMERCIAL REVITALIZATION AGENCIES.—

''(1) PLANS FOR ALLOCATION.—Notwithstanding any other provision of this section, the commercial revitalization deduction amount with respect to any building shall be zero unless—

''(A) such amount was allocated pursuant to a qualified allocation plan of the commercial revitalization agency which is approved (in accordance with rules similar to the rules of section 147(f)(2) (other than subparagraph (B)(ii) thereof)) by the governmental unit of which such agency is a part; and

''(B) such agency notifies the chief executive officer (or its equivalent) of the local jurisdiction within which the building is located of such allocation and provides such individual a reasonable opportunity to comment on the allocation.

''(2) QUALIFIED ALLOCATION PLAN.—For purposes of this subsection, the term 'qualified allocation plan' means any plan—

''(A) which sets forth selection criteria to be used to determine priorities of the commercial revitalization agency which are appropriate to local conditions;

''(B) which considers—

''(i) the degree to which a project contributes to the implementation of a strategic plan that is devised for a renewal community through a citizen participation process;

''(ii) the amount of any increase in permanent, full-time employment by reason of any project; and

''(iii) the active involvement of residents and nonprofit groups within the renewal community; and

''(C) which provides a procedure that the agency (or its agent) will follow in monitoring compliance with this section.

''(f) REGULATIONS.—For purposes of this section, the Secretary shall, by regulations, provide for the application of rules similar to the rules of section 49 and subsections (a) and (b) of section 50.

''(g) TERMINATION.—This section shall not apply to any building placed in service after December 31, 2007.

''SEC. 1400L. INCREASE IN EXPENSING UNDER SECTION 179.

''(a) GENERAL RULE.—In the case of a renewal community business (as defined in section 1400G), for purposes of section 179—

''(1) the limitation under section 179(b)(1) shall be increased by the lesser of—

''(A) $35,000; or

''(B) the cost of section 179 property which is qualified renewal property placed in service during the taxable year; and

''(2) the amount taken into account under section 179(b)(2) with respect to any section 179 property which is qualified renewal property shall be 50 percent of the cost thereof.

''(b) RECAPTURE.—Rules similar to the rules under section 179(d)(10) shall apply with respect to any qualified renewal property which ceases to be used in a renewal community by a renewal community business.

''(c) QUALIFIED RENEWAL PROPERTY.—For purposes of this section—

''(1) IN GENERAL.—The term 'qualified renewal property' means any property to which section 168 applies (or would apply but for section 179) if—

''(A) such property was acquired by the taxpayer by purchase (as defined in section 179(d)(2)) after December 31, 2000, and before January 1, 2008; and

''(B) such property would be qualified zone property (as defined in section 1397C) if references to renewal communities were substituted for references to empowerment zones in section 1397C.

''(2) CERTAIN RULES TO APPLY.—The rules of subsections (a)(2) and (b) of section 1397C shall apply for purposes of this section.''.

SEC. 703. EXTENSION OF EXPENSING OF ENVIRONMENTAL REMEDIATION COSTS TO RENEWAL COMMUNITIES.

(a) EXTENSION.—Paragraph (2) of section 198(c) (defining targeted area) is amended by redesignating subparagraph (C) as subparagraph (D) and by inserting after subparagraph (B) the following new subparagraph:

''(C) RENEWAL COMMUNITIES INCLUDED.—Except as provided in subparagraph (B), such term shall include a renewal community (as defined in section 1400E) with respect to expenditures paid or incurred after December 31, 2000.''.

(b) EXTENSION OF TERMINATION DATE FOR RENEWAL COMMUNITIES.—Subsection (h) of section 198 is amended by inserting before the period ''(December 31, 2007, in the case of a renewal community, as defined in section 1400E).''.

SEC. 704. EXTENSION OF WORK OPPORTUNITY TAX CREDIT FOR RENEWAL COMMUNITIES

(a) EXTENSION.—Subsection (c) of section 51 (relating to termination) is amended by adding at the end the following new paragraph:

''(5) EXTENSION OF CREDIT FOR RENEWAL COMMUNITIES.—

''(A) IN GENERAL.—In the case of an individual who begins work for the employer after the date contained in paragraph (4)(B), for purposes of section 38—

''(i) in lieu of applying subsection (a), the amount of the work opportunity credit determined under this section for the taxable year shall be equal to—

''(I) 15 percent of the qualified first-year wages for such year; and

''(II) 30 percent of the qualified second-year wages for such year;

''(ii) subsection (b)(3) shall be applied by substituting '$10,000' for '$6,000';

''(iii) paragraph (4)(B) shall be applied by substituting for the date contained therein the last day for which the designation under section 1400E of the renewal community referred to in subparagraph (B)(i) is in effect; and

''(iv) rules similar to the rules of section 51A(b)(5)(C) shall apply.

''(B) QUALIFIED FIRST- AND SECOND-YEAR WAGES.—For purposes of subparagraph (A)—

''(i) IN GENERAL.—The term 'qualified wages' means, with respect to each 1-year period referred to in clause (ii) or (iii), as the case may be, the wages paid or incurred by the employer during the taxable year to any individual but only if—

''(I) the employer is engaged in a trade or business in a renewal community throughout such 1-year period;

''(II) the principal place of abode of such individual is in such renewal community throughout such 1-year period; and

''(III) substantially all of the services which such individual performs for the employer during such 1-year period are performed in such renewal community.

''(ii) QUALIFIED FIRST-YEAR WAGES.—The term 'qualified first-year wages' means, with respect to any individual, qualified wages attributable to service rendered during the 1-year period beginning with the day the individual begins work for the employer.

''(iii) QUALIFIED SECOND-YEAR WAGES.—The term 'qualified second-year wages' means, with respect to any individual, qualified wages attributable to service rendered during the 1-year period beginning on the day after the last day of the 1-year period with respect to such individual determined under clause (ii).''.

(b) CONGRUENT TREATMENT OF RENEWAL COMMUNITIES AND ENTERPRISE ZONES FOR PURPOSES OF YOUTH RESIDENCE REQUIREMENTS.—

(1) HIGH-RISK YOUTH.—Subparagraphs (A)(ii) and (B) of section 51(d)(5) are each amended by

striking ''empowerment zone or enterprise community'' and inserting ''empowerment zone, enterprise community, or renewal community''.

(2) QUALIFIED SUMMER YOUTH EMPLOYEE.—Clause (iv) of section 51(d)(7)(A) is amended by striking ''empowerment zone or enterprise community'' and inserting ''empowerment zone, enterprise community, or renewal community''.

(3) HEADINGS.—Paragraphs (5)(B) and (7)(C) of section 51(d) are each amended by inserting ''OR COMMUNITY'' in the heading after ''ZONE''.

(4) EFFECTIVE DATE.—The amendments made by this subsection shall apply to individuals who begin work for the employer after December 31, 2000.

SEC. 705. CONFORMING AND CLERICAL AMENDMENTS.

(a) DEDUCTION FOR CONTRIBUTIONS TO FAMILY DEVELOPMENT ACCOUNTS ALLOWABLE WHETHER OR NOT TAXPAYER ITEMIZES.—Subsection (a) of section 62 (relating to adjusted gross income defined) is amended by inserting after paragraph (19) the following new paragraph:

''(20) FAMILY DEVELOPMENT ACCOUNTS.—The deduction allowed by section 1400H(a)(1).''.

(b) TAX ON EXCESS CONTRIBUTIONS.—

(1) TAX IMPOSED.—Subsection (a) of section 4973 is amended by striking ''or'' at the end of paragraph (3), adding ''or'' at the end of paragraph (4), and inserting after paragraph (4) the following new paragraph:

''(5) a family development account (within the meaning of section 1400H(e)),''.

(2) EXCESS CONTRIBUTIONS.—Section 4973 is amended by adding at the end the following new subsection:

''(g) FAMILY DEVELOPMENT ACCOUNTS.—For purposes of this section, in the case of family development accounts, the term 'excess contributions' means the sum of—

''(1) the excess (if any) of—

''(A) the amount contributed for the taxable year to the accounts (other than a qualified rollover, as defined in section 1400H(c)(7), or a contribution under section 1400I), over

''(B) the amount allowable as a deduction under section 1400H for such contributions; and

''(2) the amount determined under this subsection for the preceding taxable year reduced by the sum of—

''(A) the distributions out of the accounts for the taxable year which were included in the gross income of the payee under section 1400H(b)(1);

''(B) the distributions out of the accounts for the taxable year to which rules similar to the rules of section 408(d)(5) apply by reason of section 1400H(d)(3); and

''(C) the excess (if any) of the maximum amount allowable as a deduction under section 1400H for the taxable year over the amount contributed to the account for the taxable year (other than a contribution under section 1400I).

For purposes of this subsection, any contribution which is distributed from the family development account in a distribution to which rules similar to the rules of section 408(d)(4) apply by reason of section 1400H(d)(3) shall be treated as an amount not contributed.''.

(c) TAX ON PROHIBITED TRANSACTIONS.—Section 4975 is amended—

(1) by adding at the end of subsection (c) the following new paragraph:

''(6) SPECIAL RULE FOR FAMILY DEVELOPMENT ACCOUNTS.—An individual for whose benefit a family development account is established and any contributor to such account shall be exempt from the tax imposed by this section with respect to any transaction concerning such account (which would otherwise be taxable under this section) if, with respect to such transaction, the account ceases to be a family development account by reason of the application of section 1400H(d)(2) to such account.''; and

(2) in subsection (e)(1), by striking ''or'' at the end of subparagraph (E), by redesignating subparagraph (F) as subparagraph (G), and by inserting after subparagraph (E) the following new subparagraph:

''(F) a family development account described in section 1400H(e), or''.

(d) INFORMATION RELATING TO CERTAIN TRUSTS AND ANNUITY PLANS.—Subsection (c) of section 6047 is amended—

(1) by inserting ''or section 1400H'' after ''section 219''; and

(2) by inserting '', of any family development account described in section 1400H(e),'', after ''section 408(a)''.

(e) INSPECTION OF APPLICATIONS FOR TAX EXEMPTION.—Clause (i) of section 6104(a)(1)(B) is amended by inserting ''a family development account described in section 1400H(e),'' after ''section 408(a),''.

(f) FAILURE TO PROVIDE REPORTS ON FAMILY DEVELOPMENT ACCOUNTS.—Paragraph (2) of section 6693(a) is amended by striking ''and'' at the end of subparagraph (C), by striking the period and inserting '', and'' at the end of subparagraph (D), and by adding at the end the following new subparagraph:

''(E) section 1400H(g)(6) (relating to family development accounts).''.

(g) CONFORMING AMENDMENTS REGARDING COMMERCIAL REVITALIZATION DEDUCTION.—

(1) Section 172 is amended by redesignating subsection (j) as subsection (k) and by inserting after subsection (i) the following new subsection:

''(j) NO CARRYBACK OF SECTION 1400K DEDUCTION BEFORE DATE OF ENACTMENT.—No portion of the net operating loss for any taxable year which is attributable to any commercial revitalization deduction determined under section 1400K may be carried back to a taxable year ending before the date of the enactment of section 1400K.''.

(2) Subparagraph (B) of section 48(a)(2) is amended by inserting ''or commercial revitalization'' after ''rehabilitation'' each place it appears in the text and heading.

(3) Subparagraph (C) of section 469(i)(3) is amended—

(A) by inserting ''or section 1400K'' after ''section 42''; and

(B) by inserting ''AND COMMERCIAL REVITALIZATION DEDUCTION'' after ''CREDIT'' in the heading.

(h) CLERICAL AMENDMENTS.—The table of subchapters for chapter 1 is amended by adding at the end the following new item:

''Subchapter X. Renewal Communities.''.

SEC. 706. EVALUATION AND REPORTING REQUIREMENTS.

Not later than the close of the fourth calendar year after the year in which the Secretary of Housing and Urban Development first designates an area as a renewal community under section 1400E of the Internal Revenue Code of 1986, and at the close of each fourth calendar year thereafter, such Secretary shall prepare and submit to the Congress a report on the effects of such designations in stimulating the creation of new jobs, particularly for disadvantaged workers and long-term unemployed individuals, and promoting the revitalization of economically distressed areas.

Subtitle B—Farming Incentive

SEC. 711. PRODUCTION FLEXIBILITY CONTRACT PAYMENTS.

Any option to accelerate the receipt of any payment under a production flexibility contract which is payable under the Federal Agriculture Improvement and Reform Act of 1996 (7 U.S.C. 7200 et seq.), as in effect on the date of the enactment of this Act, shall be disregarded in determining the taxable year for which such payment is properly includible in gross income for purposes of the Internal Revenue Code of 1986.

Subtitle C—Oil and Gas Incentives

SEC. 721. 5-YEAR NET OPERATING LOSS CARRYBACK FOR LOSSES ATTRIBUTABLE TO OPERATING MINERAL INTERESTS OF INDEPENDENT OIL AND GAS PRODUCERS.

(a) IN GENERAL.—Paragraph (1) of section 172(b) (relating to years to which loss may be carried) is amended by adding at the end the following new subparagraph:

''(H) LOSSES ON OPERATING MINERAL INTERESTS OF INDEPENDENT OIL AND GAS PRODUCERS.—In the case of a taxpayer—

''(i) which has an eligible oil and gas loss (as defined in subsection (j)) for a taxable year, and

''(ii) which is not an integrated oil company (as defined in section 291(b)(4)),

such eligible oil and gas loss shall be a net operating loss carryback to each of the 5 taxable years preceding the taxable year of such loss.''

(b) ELIGIBLE OIL AND GAS LOSS.—Section 172 is amended by redesignating subsection (j) as subsection (k) and by inserting after subsection (i) the following new subsection:

''(j) ELIGIBLE OIL AND GAS LOSS.—For purposes of this section—

''(1) IN GENERAL.—The term 'eligible oil and gas loss' means the lesser of—

''(A) the amount which would be the net operating loss for the taxable year if only income and deductions attributable to operating mineral interests (as defined in section 614(d)) in oil and gas wells are taken into account, or

''(B) the amount of the net operating loss for such taxable year.

''(2) COORDINATION WITH SUBSECTION (b)(2).—For purposes of applying subsection (b)(2), an eligible oil and gas loss for any taxable year shall be treated in a manner similar to the manner in which a specified liability loss is treated.

''(3) ELECTION.—Any taxpayer entitled to a 5-year carryback under subsection (b)(1)(H) from any loss year may elect to have the carryback period with respect to such loss year determined without regard to subsection (b)(1)(H).''

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to net operating losses for taxable years beginning after December 31, 1998.

SEC. 722. DEDUCTION FOR DELAY RENTAL PAYMENTS.

(a) IN GENERAL.—Section 263 (relating to capital expenditures) is amended by adding after subsection (i) the following new subsection:

''(j) DELAY RENTAL PAYMENTS FOR DOMESTIC OIL AND GAS WELLS.—

''(1) IN GENERAL.—Notwithstanding subsection (a), a taxpayer may elect to treat delay rental payments incurred in connection with the development of oil or gas within the United States (as defined in section 638) as payments which are not chargeable to capital account. Any payments so treated shall be allowed as a deduction in the taxable year in which paid or incurred.

''(2) DELAY RENTAL PAYMENTS.—For purposes of paragraph (1), the term 'delay rental payment' means an amount paid for the privilege of deferring development of an oil or gas well.''

(b) CONFORMING AMENDMENT.—Section 263A(c)(3) is amended by inserting ''263(j),'' after ''263(i),''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to amounts paid or incurred in taxable years beginning after December 31, 1999.

SEC. 723. ELECTION TO EXPENSE GEOLOGICAL AND GEOPHYSICAL EXPENDITURES.

(a) IN GENERAL.—Section 263 (relating to capital expenditures) is amended by adding after subsection (j) the following new subsection:

''(k) GEOLOGICAL AND GEOPHYSICAL EXPENDITURES FOR DOMESTIC OIL AND GAS WELLS.—Notwithstanding subsection (a), a taxpayer may elect to treat geological and geophysical expenses incurred in connection with the exploration for, or development of, oil or gas within the United States (as defined in section 638) as

expenses which are not chargeable to capital account. Any expenses so treated shall be allowed as a deduction in the taxable year in which paid or incurred.''

(b) CONFORMING AMENDMENT.—Section 263A(c)(3) is amended by inserting ''263(k),'' after ''263(j),''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to costs paid or incurred in taxable years beginning after December 31, 1999.

SEC. 724. TEMPORARY SUSPENSION OF LIMITATION BASED ON 65 PERCENT OF TAXABLE INCOME.

(a) IN GENERAL.—Subsection (d) of section 613A (relating to limitation on percentage depletion in case of oil and gas wells) is amended by adding at the end the following new paragraph:

''(6) TEMPORARY SUSPENSION OF TAXABLE INCOME LIMIT.—Paragraph (1) shall not apply to taxable years beginning after December 31, 1998, and before January 1, 2005, including with respect to amounts carried under the second sentence of paragraph (1) to such taxable years.''

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years beginning after December 31, 1998.

SEC. 725. DETERMINATION OF SMALL REFINER EXCEPTION TO OIL DEPLETION DEDUCTION.

(a) IN GENERAL.—Paragraph (4) of section 613A(d) (relating to certain refiners excluded) is amended to read as follows:

''(4) CERTAIN REFINERS EXCLUDED.—If the taxpayer or a related person engages in the refining of crude oil, subsection (c) shall not apply to the taxpayer for a taxable year if the average daily refinery runs of the taxpayer and the related person for the taxable year exceed 50,000 barrels. For purposes of this paragraph, the average daily refinery runs for any taxable year shall be determined by dividing the aggregate refinery runs for the taxable year by the number of days in the taxable year.''

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

Subtitle D—Timber Incentives

SEC. 731. TEMPORARY SUSPENSION OF MAXIMUM AMOUNT OF AMORTIZABLE REFORESTATION EXPENDITURES.

(a) INCREASE IN DOLLAR LIMITATION.—Paragraph (1) of section 194(b) (relating to amortization of reforestation expenditures) is amended by striking ''$10,000 ($5,000'' and inserting ''$25,000 ($12,500''.

(b) TEMPORARY SUSPENSION OF INCREASED DOLLAR LIMITATION.—Subsection (b) of section 194(b) (relating to amortization of reforestation expenditures) is amended by adding at the end the following new paragraph:

''(5) SUSPENSION OF DOLLAR LIMITATION.—Paragraph (1) shall not apply to taxable years beginning after December 31, 1999, and before January 1, 2004.

(c) CONFORMING AMENDMENT.—Paragraph (1) of section 48(b) is amended by striking ''section 194(b)(1)'' and inserting ''section 194(b)(1) and without regard to section 194(b)(5)''.''.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 1998.

SEC. 732. CAPITAL GAIN TREATMENT UNDER SECTION 631(b) TO APPLY TO OUTRIGHT SALES BY LAND OWNER.

(a) IN GENERAL.—Subsection (b) of section 631 (relating to disposal of timber with a retained economic interest) is amended—

(1) by inserting ''AND OUTRIGHT SALES OF TIMBER'' after ECONOMIC INTEREST'' in the subsection heading, and

(2) by adding before the last sentence the following new sentence: ''The requirement in the first sentence of this subsection to retain an economic interest in timber shall not apply to an outright sale of such timber by the owner thereof if such owner owned the land (at the time of such sale) from which the timber is cut.''

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to sales after the date of the enactment of this Act.

Subtitle E—Steel Industry Incentive

SEC. 741. MINIMUM TAX RELIEF FOR STEEL INDUSTRY.

(a) IN GENERAL.—Subsection (c) of section 53 (as amended by section 302) is amended by adding at the end the following new paragraph:

''(4) STEEL COMPANIES.—

''(A) IN GENERAL.—In the case of a corporation engaged in the trade or business of manufacturing steel in the United States for sale to customers, in lieu of applying paragraph (2), the limitation under paragraph (1) for any taxable year beginning after December 31, 1998, shall be increased (subject to the rule of the last sentence of paragraph (2)) by 90 percent of the tentative minimum tax.

''(B) LIMITATION.—The increase in the credit allowed by this section by reason of this paragraph for any taxable year shall not exceed the increase in the credit which would be so allowed if the trade or business of such corporation of manufacturing steel in the United States for sale to customers were a separate taxpayer.

''(C) REGULATIONS.—The Secretary shall prescribe regulations to prevent the abuse of the purposes of this paragraph, including regulations to prevent the benefits of this paragraph from becoming available to any other corporation through any reorganization or other acquisition.''

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years beginning after December 31, 1998.

TITLE VIII—RELIEF FOR SMALL BUSINESSES

SEC. 801. DEDUCTION FOR 100 PERCENT OF HEALTH INSURANCE COSTS OF SELF-EMPLOYED INDIVIDUALS.

(a) IN GENERAL.—Paragraph (1) of section 162(l) is amended to read as follows:

''(1) ALLOWANCE OF DEDUCTION.—In the case of an individual who is an employee within the meaning of section 401(c)(1), there shall be allowed as a deduction under this section an amount equal to 100 percent of the amount paid during the taxable year for insurance which constitutes medical care for the taxpayer, his spouse, and dependents.''

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

SEC. 802. INCREASE IN EXPENSE TREATMENT FOR SMALL BUSINESSES.

(a) IN GENERAL.—Paragraph (1) of section 179(b) (relating to dollar limitation) is amended to read as follows:

''(1) DOLLAR LIMITATION.—The aggregate cost which may be taken into account under subsection (a) for any taxable year shall not exceed $30,000.''.

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

SEC. 803. REPEAL OF FEDERAL UNEMPLOYMENT SURTAX.

(a) IN GENERAL.—Section 3301 (relating to rate of Federal unemployment tax) is amended—

(1) by striking ''2007'' and inserting ''2004'', and

(2) by striking ''2008'' and inserting ''2005''.

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

SEC. 804. RESTORATION OF 80 PERCENT DEDUCTION FOR MEAL EXPENSES.

(a) IN GENERAL.—Paragraph (1) of section 274(n) (relating to only 50 percent of meal and entertainment expenses allowed as deduction) is amended by striking ''50 percent'' in the text and inserting ''the allowable percentage''.

(b) ALLOWABLE PERCENTAGES.—Subsection (n) of section 274 is amended by redesignating paragraphs (2) and (3) as paragraphs (3) and (4), respectively, and by inserting after paragraph (2) the following new paragraph:

''(2) ALLOWABLE PERCENTAGE.—For purposes of paragraph (1), the allowable percentage is—

''(A) in the case of amounts for items described in paragraph (1)(B), 50 percent, and

''(B) in the case of expenses for food or beverages, the percentage determined in accordance with the following table:

''For taxable years beginning in calendar year—	***The allowable percentage is—***
2000 through 2004	*50*
2005	*55*
2006	*60*
2007	*65*
2008	*70*
2009	*75*
2010 and thereafter	*80.''*

(b) CONFORMING AMENDMENTS.—

(1) The heading for subsection (n) of section 274 is amended by striking ''50 PERCENT'' and inserting ''LIMITED PERCENTAGES''.

(2) Subparagraph (A) of section 274(n)(4), as redesignated by subsection (a), is amended by striking ''50 percent'' and inserting ''the allowable percentage''.

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

TITLE IX—INTERNATIONAL TAX RELIEF

SEC. 901. INTEREST ALLOCATION RULES.

(a) ELECTION TO ALLOCATE INTEREST ON A WORLDWIDE BASIS.—Subsection (e) of section 864 (relating to rules for allocating interest, etc.) is amended by redesignating paragraphs (6) and (7) as paragraphs (7) and (8), respectively, and by inserting after paragraph (5) the following new paragraph:

''(6) ELECTION TO ALLOCATE INTEREST ON A WORLDWIDE BASIS.—

''(A) IN GENERAL.—Except as provided in this paragraph, this subsection shall be applied by treating each worldwide affiliated group for which an election under this paragraph is in effect as an affiliated group solely for purposes of allocating and apportioning interest expense of domestic corporations which are members of such group.

''(B) WORLDWIDE AFFILIATED GROUP.—For purposes of this paragraph, the term 'worldwide affiliated group' means the group of corporations which consists of—

''(i) all corporations in an affiliated group (as defined in paragraph (5)), and

''(ii) all foreign corporations (other than a FSC, as defined in section 922(a)) with respect to which corporations described in clause (i) own stock meeting the ownership requirements of section 957(a) (without regard to stock considered as owned under section 958(b)).

''(C) ALLOCATION.—

''(i) IN GENERAL.—For purposes of paragraph (1), only the applicable percentage of the interest expense and assets of a foreign corporation described in subparagraph (B)(ii) shall be taken into account.

''(ii) APPLICABLE PERCENTAGE.—For purposes of this paragraph, the term 'applicable percentage' means, with respect to any foreign corporation, the percentage equal to the ratio which the value of the stock in such corporation taken into account under subparagraph (B)(ii) bears to the aggregate value of all stock in such corporation.

''(D) TREATMENT OF FOREIGN INTEREST EXPENSE.—Interest expense of domestic corporations which are members of an electing worldwide affiliated group which is allocated to foreign source income under this subsection shall be reduced (but not below zero) by the applicable percentage of the interest expense incurred by any foreign corporation in the electing worldwide affiliated group to the extent such interest expense of such foreign corporation would have been allocated and apportioned to foreign

source income of such foreign corporation if this subsection were applied to a group consisting of all the foreign corporations in such affiliated group.

''(E) ELECTION.—An election under this paragraph with respect to any worldwide affiliated group may be made only by the common parent of the affiliated group referred to in subparagraph (B)(i) and may be made only for the first taxable year beginning after December 31, 2001, in which a worldwide affiliated group exists which includes such affiliated group and at least 1 corporation described in subparagraph (B)(ii). Such an election, once made, shall apply to such parent and all other corporations which are included in such worldwide affiliated group for such taxable year and all subsequent years unless revoked with the consent of the Secretary.''.

(b) ELECTION TO ALLOCATE INTEREST WITHIN FINANCIAL INSTITUTION GROUPS AND SUBSIDIARY GROUPS.—Section 864 is amended by redesignating subsection (f) as subsection (g) and by inserting after subsection (e) the following new subsection:

''(f) ELECTION TO APPLY SUBSECTION (e) ON BASIS OF FINANCIAL INSTITUTION GROUP AND SUBSIDIARY GROUPS.—

''(1) IN GENERAL.—Subsection (e) shall be applied—

''(A) as if the electing financial institution group were a separate affiliated group, and

''(B) for purposes of allocating interest expense with respect to qualified indebtedness of members of an electing subsidiary group, as if each electing subsidiary group were a separate affiliated group.

Subsection (e) shall apply to any such electing group in the same manner as subsection (e) applies to the pre-election affiliated group of which such electing group is a part.

''(2) ELECTING FINANCIAL INSTITUTION GROUP.—For purposes of this subsection—

''(A) IN GENERAL.—The term 'electing financial institution group' means any group of corporations if—

''(i) such group consists only of all of the financial corporations in the pre-election affiliated group, and

''(ii) an election under this paragraph is in effect for such group of corporations.

''(B) FINANCIAL CORPORATION.—The term 'financial corporation' means any corporation if at least 80 percent of its gross income is income described in section 904(d)(2)(C)(ii) and the regulations thereunder. To the extent provided in regulations prescribed by the Secretary, such term includes a bank holding company (within the meaning of section 2(a) of the Bank Holding Company Act of 1956).

''(C) EFFECT OF CERTAIN TRANSACTIONS.—Rules similar to the rules of paragraph (3)(D) shall apply to transactions between any member of the electing financial institution group and any member of the pre-election affiliated group (other than a member of the electing financial institution group).

''(D) ELECTION.—An election under this paragraph with respect to any financial institution group may be made only by the common parent of the pre-election affiliated group. Such an election, once made, shall apply only to the taxable year for which made.

''(3) ELECTING SUBSIDIARY GROUPS.—

''(A) IN GENERAL.—The term 'electing subsidiary group' means any group of corporations if—

''(i) such group consists only of corporations in the pre-election affiliated group,

''(ii) such group includes—

''(I) a domestic corporation (which is not the common parent of the pre-election affiliated group or a member of an electing financial institution group) which incurs interest expense with respect to qualified indebtedness, and

''(II) every other corporation (other than a member of an electing financial institution group) which is in the pre-election affiliated group and which would be a member of an affiliated group having such domestic corporation as the common parent, and

''(iii) an election under this paragraph is in effect for such group.

''(B) EQUALIZATION RULE.—All interest expense of a domestic corporation which is a member of a pre-election affiliated group (other than subsidiary group interest expense) shall be treated as allocated to foreign source income to the extent such expense does not exceed the excess (if any) of—

''(i) the interest expense of the pre-election affiliated group (including subsidiary group interest expense) which would (but for any election under this paragraph) be allocated to foreign source income, over

''(ii) the subsidiary group interest expense allocated to foreign source income.

For purposes of the preceding sentence, the subsidiary group interest expense is the interest expense to which subsection (e) applies separately by reason of paragraph (1)(B).

''(C) QUALIFIED INDEBTEDNESS.—For purposes of this subsection, the term 'qualified indebtedness' means any indebtedness of a domestic corporation—

''(i) which is held by an unrelated person, and

''(ii) which is not guaranteed (or otherwise supported) by any corporation which is a member of the pre-election affiliated group other than a corporation which is a member of the electing subsidiary group.

For purposes of this subparagraph, the term 'unrelated person' means any person not bearing a relationship specified in section 267(b) or 707(b)(1) to the corporation.

''(D) EFFECT OF CERTAIN TRANSACTIONS ON QUALIFIED INDEBTEDNESS.—In the case of a corporation which is a member of an electing subsidiary group, to the extent that such corporation—

''(i) distributes dividends or makes other distributions with respect to its stock after the date of the enactment of this paragraph to any member of the pre-election affiliated group (other than to a member of the electing subsidiary group) in excess of the greater of—

''(I) its average annual dividend (expressed as a percentage of current earnings and profits) during the 5-taxable-year period ending with the taxable year preceding the taxable year, or

''(II) 25 percent of its average annual earnings and profits for such 5 taxable year period, or

''(ii) deals with any person in any manner not clearly reflecting the income of the corporation (as determined under principles similar to the principles of section 482),

an amount of qualified indebtedness equal to the excess distribution or the understatement or overstatement of income, as the case may be, shall be recharacterized (for the taxable year and subsequent taxable years) for purposes of this subsection as indebtedness which is not qualified indebtedness. If a corporation has not been in existence for 5 taxable years, this subparagraph shall be applied with respect to the period it was in existence.

''(E) ELECTION.—An election under this paragraph with respect to any electing subsidiary group may be made only by the common parent of the pre-election affiliated group. Such an election, once made, shall apply only to the taxable year for which made. No election may be made under this paragraph if the effect of the election would be to have the same member of the pre-election affiliated group included in more than 1 electing subsidiary group.

''(4) PRE-ELECTION AFFILIATED GROUP.—For purposes of this subsection, the term 'pre-election affiliated group' means, with respect to a corporation, the affiliated group or electing worldwide affiliated group of which such corporation would (but for an election under this subsection) be a member for purposes of applying subsection (e).

''(5) REGULATIONS.—The Secretary shall prescribe such regulations as may be appropriate to carry out this subsection and subsection (e), including regulations—

''(A) providing for the direct allocation of interest expense in other circumstances where such allocation would be appropriate to carry out the purposes of this subsection,

''(B) preventing assets or interest expense from being taken into account more than once, and

''(C) dealing with changes in members of any group (through acquisitions or otherwise) treated under this subsection as an affiliated group for purposes of subsection (e).''

(c) INSURANCE COMPANIES INCLUDED IN AFFILIATED GROUPS.—Paragraph (5) of section 864(e) is amended to read as follows:

''(5) AFFILIATED GROUP.—The term 'affiliated group' has the meaning given such term by section 1504 (determined without regard to paragraphs (2) and (4) of section 1504(b)).''.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2001.

SEC. 902. LOOK-THRU RULES TO APPLY TO DIVIDENDS FROM NONCONTROLLED SECTION 902 CORPORATIONS.

(a) IN GENERAL.—Section 904(d)(4) (relating to application of look-thru rules to dividends from noncontrolled section 902 corporations) is amended to read as follows:

''(4) LOOK-THRU APPLIES TO DIVIDENDS FROM NONCONTROLLED SECTION 902 CORPORATIONS.—

''(A) IN GENERAL.—For purposes of this subsection, any dividend from a noncontrolled section 902 corporation with respect to the taxpayer shall be treated as income in a separate category in proportion to the ratio of—

''(i) the portion of earnings and profits attributable to income in such category, to

''(ii) the total amount of earnings and profits.

''(B) SPECIAL RULES.—For purposes of this paragraph—

''(i) IN GENERAL.—Rules similar to the rules of paragraph (3)(F) shall apply; except that the term 'separate category' shall include the category of income described in paragraph (1)(I).

''(ii) EARNINGS AND PROFITS.—

''(I) IN GENERAL.—The rules of section 316 shall apply.

''(II) REGULATIONS.—The Secretary may prescribe regulations regarding the treatment of distributions out of earnings and profits for periods before the taxpayer's acquisition of the stock to which the distributions relate.

''(iii) DIVIDENDS NOT ALLOCABLE TO SEPARATE CATEGORY.—The portion of any dividend from a noncontrolled section 902 corporation which is not treated as income in a separate category under subparagraph (A) shall be treated as a dividend to which subparagraph (A) does not apply.

''(iv) LOOK-THRU WITH RESPECT TO CARRYFORWARDS OF CREDIT.—Rules similar to subparagraph (A) also shall apply to any carryforward under subsection (c) from a taxable year beginning before January 1, 2002, of tax allocable to a dividend from a noncontrolled section 902 corporation with respect to the taxpayer.''

(b) CONFORMING AMENDMENTS.—

(1) Subparagraph (E) of section 904(d)(1), as in effect both before and after the amendments made by section 1105 of the Taxpayer Relief Act of 1997, is hereby repealed.

(2) Section 904(d)(2)(C)(iii), as so in effect, is amended by striking subclause (II) and by redesignating subclause (III) as subclause (II).

(3) The last sentence of section 904(d)(2)(D), as so in effect, is amended to read as follows: ''Such term does not include any financial services income.''

(4) Section 904(d)(2)(E) is amended by striking clauses (ii) and (iv) and by redesignating clause (iii) as clause (ii).

(5) Section 904(d)(3)(F) is amended by striking ''(D), or (E)'' and inserting ''or (D)''.

(6) Section 864(d)(5)(A)(i) is amended by striking ''(C)(iii)(III)'' and inserting ''(C)(iii)(II)''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2001.

SEC. 903. CLARIFICATION OF TREATMENT OF PIPELINE TRANSPORTATION INCOME.

(a) IN GENERAL.—Section 954(g)(1) (defining foreign base company oil related income) 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 inserting after subparagraph (B) the following new subparagraph:

''(C) the pipeline transportation of oil or gas within such foreign country.''

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years of controlled foreign corporations beginning after December 31, 2001, and taxable years of United States shareholders with or within which such taxable years of controlled foreign corporations end.

SEC. 904. SUBPART F TREATMENT OF INCOME FROM TRANSMISSION OF HIGH VOLTAGE ELECTRICITY.

(a) IN GENERAL.—Paragraph (2) of section 954(e) (relating to foreign base company services income) 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 inserting after subparagraph (B) the following new subparagraph:

''(C) the transmission of high voltage electricity.''

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years of controlled foreign corporations beginning after December 31, 2001, and taxable years of United States shareholders with or within which such taxable years of controlled foreign corporations end.

SEC. 905. RECHARACTERIZATION OF OVERALL DOMESTIC LOSS.

(a) GENERAL RULE.—Section 904 is amended by redesignating subsections (g), (h), (i), (j), and (k) as subsections (h), (i), (j), (k), and (l), respectively, and by inserting after subsection (f) the following new subsection:

''(g) RECHARACTERIZATION OF OVERALL DOMESTIC LOSS.—

''(1) GENERAL RULE.—For purposes of this subpart and section 936, in the case of any taxpayer who sustains an overall domestic loss for any taxable year beginning after December 31, 2004, that portion of the taxpayer's taxable income from sources within the United States for each succeeding taxable year which is equal to the lesser of—

''(A) the amount of such loss (to the extent not used under this paragraph in prior taxable years), or

''(B) 50 percent of the taxpayer's taxable income from sources within the United States for such succeeding taxable year,

shall be treated as income from sources without the United States (and not as income from sources within the United States).

''(2) OVERALL DOMESTIC LOSS DEFINED.—For purposes of this subsection—

''(A) IN GENERAL.—The term 'overall domestic loss' means any domestic loss to the extent such loss offsets taxable income from sources without the United States for the taxable year or for any preceding taxable year by reason of a carryback. For purposes of the preceding sentence, the term 'domestic loss' means the amount by which the gross income for the taxable year from sources within the United States is exceeded by the sum of the deductions properly apportioned or allocated thereto (determined without regard to any carryback from a subsequent taxable year).

''(B) TAXPAYER MUST HAVE ELECTED FOREIGN TAX CREDIT FOR YEAR OF LOSS.—The term 'overall domestic loss' shall not include any loss for any taxable year unless the taxpayer chose the benefits of this subpart for such taxable year.

''(3) CHARACTERIZATION OF SUBSEQUENT INCOME.—

''(A) IN GENERAL.—Any income from sources within the United States that is treated as income from sources without the United States under paragraph (1) shall be allocated among and increase the income categories in proportion to the loss from sources within the United States previously allocated to those income categories.

''(B) INCOME CATEGORY.—For purposes of this paragraph, the term 'income category' has the meaning given such term by subsection (f)(5)(E)(i).

''(4) COORDINATION WITH SUBSECTION (f).—The Secretary shall prescribe such regulations as may be necessary to coordinate the provisions of this subsection with the provisions of subsection (f).''

(b) CONFORMING AMENDMENTS.—

(1) Section 535(d)(2) is amended by striking ''section 904(g)(6)'' and inserting ''section 904(h)(6)''.

(2) Subparagraph (A) of section 936(a)(2) is amended by striking ''section 904(f)'' and inserting ''subsections (f) and (g) of section 904''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to losses for taxable years beginning after December 31, 2004.

SEC. 906. TREATMENT OF MILITARY PROPERTY OF FOREIGN SALES CORPORATIONS.

(a) IN GENERAL.—Section 923(a) (defining exempt foreign trade income) is amended by striking paragraph (5) and by redesignating paragraph (6) as paragraph (5).

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years beginning after December 31, 2001.

SEC. 907. TREATMENT OF CERTAIN DIVIDENDS OF REGULATED INVESTMENT COMPANIES.

(a) TREATMENT OF CERTAIN DIVIDENDS.—

(1) NONRESIDENT ALIEN INDIVIDUALS.—Section 871 (relating to tax on nonresident alien individuals) is amended by redesignating subsection (k) as subsection (l) and by inserting after subsection (j) the following new subsection:

''(k) EXEMPTION FOR CERTAIN DIVIDENDS OF REGULATED INVESTMENT COMPANIES.—

''(1) INTEREST-RELATED DIVIDENDS.—

''(A) IN GENERAL.—Except as provided in subparagraph (B), no tax shall be imposed under paragraph (1)(A) of subsection (a) on any interest-related dividend received from a regulated investment company.

''(B) EXCEPTIONS.—Subparagraph (A) shall not apply—

''(i) to any interest-related dividend received from a regulated investment company by a person to the extent such dividend is attributable to interest (other than interest described in clause (i), (iii), or the last sentence of subparagraph (E)) received by such company on indebtedness issued by such person or by any corporation or partnership with respect to which such person is a 10-percent shareholder,

''(ii) to any interest-related dividend with respect to stock of a regulated investment company unless the person who would otherwise be required to deduct and withhold tax from such dividend under chapter 3 receives a statement (which meets requirements similar to the requirements of subsection (h)(5)) that the beneficial owner of such stock is not a United States person, and

''(iii) to any interest-related dividend paid to any person within a foreign country (or any interest-related dividend payment addressed to, or for the account of, persons within such foreign country) during any period described in subsection (h)(6) with respect to such country.

Clause (iii) shall not apply to any dividend with respect to any stock the holding period of which begins on or before the date of the publication of the Secretary's determination under subsection (h)(6).

''(C) INTEREST-RELATED DIVIDEND.—For purposes of this paragraph, an interest-related dividend is any dividend (or part thereof) which is designated by the regulated investment company as an interest-related dividend in a written notice mailed to its shareholders not later than 60 days after the close of its taxable year. If the aggregate amount so designated with respect to a taxable year of the company (including amounts so designated with respect to dividends paid after the close of the taxable year described in section 855) is greater than the qualified net interest income of the company for such taxable year, the portion of each distribution which shall be an interest-related dividend shall be only that portion of the amounts so designated which such qualified net interest income bears to the aggregate amount so designated.

''(D) QUALIFIED NET INTEREST INCOME.—For purposes of subparagraph (C), the term 'qualified net interest income' means the qualified interest income of the regulated investment company reduced by the deductions properly allocable to such income.

''(E) QUALIFIED INTEREST INCOME.—For purposes of subparagraph (D), the term 'qualified interest income' means the sum of the following amounts derived by the regulated investment company from sources within the United States:

''(i) Any amount includible in gross income as original issue discount (within the meaning of section 1273) on an obligation payable 183 days or less from the date of original issue (without regard to the period held by the company).

''(ii) Any interest includible in gross income (including amounts recognized as ordinary income in respect of original issue discount or market discount or acquisition discount under part V of subchapter P and such other amounts as regulations may provide) on an obligation which is in registered form; except that this clause shall not apply to—

''(I) any interest on an obligation issued by a corporation or partnership if the regulated investment company is a 10-percent shareholder in such corporation or partnership, and

''(II) any interest which is treated as not being portfolio interest under the rules of subsection (h)(4).

''(iii) Any interest referred to in subsection (i)(2)(A) (without regard to the trade or business of the regulated investment company).

''(iv) Any interest-related dividend includable in gross income with respect to stock of another regulated investment company.

Such term includes any interest derived by the regulated investment company from sources outside the United States other than interest that is subject to a tax imposed by a foreign jurisdiction if the amount of such tax is reduced (or eliminated) by a treaty with the United States.

''(F) 10-PERCENT SHAREHOLDER.—For purposes of this paragraph, the term '10-percent shareholder' has the meaning given such term by subsection (h)(3)(B).

''(2) SHORT-TERM CAPITAL GAIN DIVIDENDS.—

''(A) IN GENERAL.—Except as provided in subparagraph (B), no tax shall be imposed under paragraph (1)(A) of subsection (a) on any short-term capital gain dividend received from a regulated investment company.

''(B) EXCEPTION FOR ALIENS TAXABLE UNDER SUBSECTION (a)(2).—Subparagraph (A) shall not apply in the case of any nonresident alien individual subject to tax under subsection (a)(2).

''(C) SHORT-TERM CAPITAL GAIN DIVIDEND.—For purposes of this paragraph, a short-term capital gain dividend is any dividend (or part thereof) which is designated by the regulated investment company as a short-term capital gain dividend in a written notice mailed to its shareholders not later than 60 days after the close of its taxable year. If the aggregate amount so designated with respect to a taxable year of the company (including amounts so designated with respect to dividends paid after the close of the taxable year described in section 855) is greater than the qualified short-term gain of the company for such taxable year, the portion of each distribution which shall be a short-term capital gain dividend shall be only that portion of the amounts so designated which such qualified short-term gain bears to the aggregate amount so designated.

''(D) QUALIFIED SHORT-TERM GAIN.—For purposes of subparagraph (C), the term 'qualified short-term gain' means the excess of the net short-term capital gain of the regulated investment company for the taxable year over the net long-term capital loss (if any) of such company for such taxable year. For purposes of this subparagraph—

''(i) the net short-term capital gain of the regulated investment company shall be computed by treating any short-term capital gain dividend includible in gross income with respect to stock of another regulated investment company as a short-term capital gain, and

''(ii) the excess of the net short-term capital gain for a taxable year over the net long-term capital loss for a taxable year (to which an election under section 4982(e)(4) does not apply) shall be determined without regard to any net capital loss or net short-term capital loss attributable to transactions after October 31 of such year, and any such net capital loss or net short-term capital loss shall be treated as arising on the 1st day of the next taxable year.

To the extent provided in regulations, clause (ii) shall apply also for purposes of computing the taxable income of the regulated investment company.''

(2) FOREIGN CORPORATIONS.—Section 881 (relating to tax on income of foreign corporations not connected with United States business) is amended by redesignating subsection (e) as subsection (f) and by inserting after subsection (d) the following new subsection:

''(e) TAX NOT TO APPLY TO CERTAIN DIVIDENDS OF REGULATED INVESTMENT COMPANIES.—

''(1) INTEREST-RELATED DIVIDENDS.—

''(A) IN GENERAL.—Except as provided in subparagraph (B), no tax shall be imposed under paragraph (1) of subsection (a) on any interest-related dividend (as defined in section 871(k)(1)) received from a regulated investment company.

''(B) EXCEPTION.—Subparagraph (A) shall not apply—

''(i) to any dividend referred to in section 871(k)(1)(B), and

''(ii) to any interest-related dividend received by a controlled foreign corporation (within the meaning of section 957(a)) to the extent such dividend is attributable to interest received by the regulated investment company from a person who is a related person (within the meaning of section 864(d)(4)) with respect to such controlled foreign corporation.

''(C) TREATMENT OF DIVIDENDS RECEIVED BY CONTROLLED FOREIGN CORPORATIONS.—The rules of subsection (c)(5)(A) shall apply to any interest-related dividend received by a controlled foreign corporation (within the meaning of section 957(a)) to the extent such dividend is attributable to interest received by the regulated investment company which is described in clause (ii) of section 871(k)(1)(E) (and not described in clause (i), (iii), or the last sentence of such section).

''(2) SHORT-TERM CAPITAL GAIN DIVIDENDS.—No tax shall be imposed under paragraph (1) of subsection (a) on any short-term capital gain dividend (as defined in section 871(k)(2)) received from a regulated investment company.''

(3) WITHHOLDING TAXES.—

(A) Section 1441(c) (relating to exceptions) is amended by adding at the end the following new paragraph:

''(12) CERTAIN DIVIDENDS RECEIVED FROM REGULATED INVESTMENT COMPANIES.—

''(A) IN GENERAL.—No tax shall be required to be deducted and withheld under subsection (a) from any amount exempt from the tax imposed by section 871(a)(1)(A) by reason of section 871(k).

''(B) SPECIAL RULE.—For purposes of subparagraph (A), clause (i) of section 871(k)(1)(B) shall not apply to any dividend unless the regulated investment company knows that such dividend is a dividend referred to in such clause. A similar rule shall apply with respect to the exception contained in section 871(k)(2)(B).''

(B) Section 1442(a) (relating to withholding of tax on foreign corporations) is amended—

(i) by striking ''and the reference in section 1441(c)(10)'' and inserting ''the reference in section 1441(c)(10)'', and

(ii) by inserting before the period at the end the following: '', and the references in section 1441(c)(12) to sections 871(a) and 871(k) shall be treated as referring to sections 881(a) and 881(e) (except that for purposes of applying subparagraph (A) of section 1441(c)(12), as so modified, clause (ii) of section 881(e)(1)(B) shall not apply to any dividend unless the regulated investment company knows that such dividend is a dividend referred to in such clause)''.

(b) ESTATE TAX TREATMENT OF INTEREST IN CERTAIN REGULATED INVESTMENT COMPANIES.—Section 2105 (relating to property without the United States for estate tax purposes) is amended by adding at the end the following new subsection:

''(d) STOCK IN A RIC.—

''(1) IN GENERAL.—For purposes of this subchapter, stock in a regulated investment company (as defined in section 851) owned by a nonresident not a citizen of the United States shall not be deemed property within the United States in the proportion that, at the end of the quarter of such investment company's taxable year immediately preceding a decedent's date of death (or at such other time as the Secretary may designate in regulations), the assets of the investment company that were qualifying assets with respect to the decedent bore to the total assets of the investment company.

''(2) QUALIFYING ASSETS.—For purposes of this subsection, qualifying assets with respect to a decedent are assets that, if owned directly by the decedent, would have been—

''(A) amounts, deposits, or debt obligations described in subsection (b) of this section,

''(B) debt obligations described in the last sentence of section 2104(c), or

''(C) other property not within the United States.''

(c) TREATMENT OF REGULATED INVESTMENT COMPANIES UNDER SECTION 897.—

(1) Paragraph (1) of section 897(h) is amended by striking ''REIT'' each place it appears and inserting ''qualified investment entity''.

(2) Paragraphs (2) and (3) of section 897(h) are amended to read as follows:

''(2) SALE OF STOCK IN DOMESTICALLY CONTROLLED ENTITY NOT TAXED.—The term 'United States real property interest' does not include any interest in a domestically controlled qualified investment entity.

''(3) DISTRIBUTIONS BY DOMESTICALLY CONTROLLED QUALIFIED INVESTMENT ENTITIES.—In the case of a domestically controlled qualified investment entity, rules similar to the rules of subsection (d) shall apply to the foreign ownership percentage of any gain.''

(3) Subparagraphs (A) and (B) of section 897(h)(4) are amended to read as follows:

''(A) QUALIFIED INVESTMENT ENTITY.—The term 'qualified investment entity' means any real estate investment trust and any regulated investment company.

''(B) DOMESTICALLY CONTROLLED.—The term 'domestically controlled qualified investment entity' means any qualified investment entity in which at all times during the testing period less than 50 percent in value of the stock was held directly or indirectly by foreign persons.''

(4) Subparagraphs (C) and (D) of section 897(h)(4) are each amended by striking ''REIT'' and inserting ''qualified investment entity''.

(5) The subsection heading for subsection (h) of section 897 is amended by striking ''REITS'' and inserting ''CERTAIN INVESTMENT ENTITIES''.

(d) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as otherwise provided in this subsection, the amendments made by this section shall apply to dividends with respect to taxable years of regulated investment companies beginning after December 31, 2004.

(2) ESTATE TAX TREATMENT.—The amendment made by subsection (b) shall apply to estates of decedents dying after December 31, 2004.

(3) CERTAIN OTHER PROVISIONS.—The amendments made by subsection (c) (other than paragraph (1) thereof) shall take effect on January 1, 2005.

SEC. 908. REPEAL OF SPECIAL RULES FOR APPLYING FOREIGN TAX CREDIT IN CASE OF FOREIGN OIL AND GAS INCOME.

(a) IN GENERAL.—Section 907 (relating to special rules in case of foreign oil and gas income) is repealed.

(b) CONFORMING AMENDMENTS.—

(1) Each of the following provisions are amended by striking ''907,'':

(A) Section 245(a)(10).

(B) Section 865(h)(1)(B).

(C) Section 904(d)(1).

(D) Section 904(g)(10)(A).

(2) Section 904(f)(5)(E)(iii) is amended by inserting '', as in effect before its repeal by the Financial Freedom Act of 1999'' after ''section 907(c)(4)(B)''.

(3) Section 954(g)(1) is amended by inserting '', as in effect before its repeal by the Financial Freedom Act of 1999'' after ''907(c)''.

(4) Section 6501(i) is amended—

(A) by striking '', or under section 907(f) (relating to carryback and carryover of disallowed oil and gas extraction taxes)'', and

(B) by striking ''or 907(f)''.

(5) The table of sections for subpart A of part III of subchapter N of chapter 1 is amended by striking the item relating to section 907.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2004.

SEC. 909. STUDY OF PROPER TREATMENT OF EUROPEAN UNION UNDER SAME COUNTRY EXCEPTIONS.

(a) STUDY.—The Secretary of the Treasury or the Secretary's delegate shall conduct a study on the feasibility of treating all countries included in the European Union as 1 country for purposes of applying the same country exceptions under subpart F of part III of subchapter N of chapter 1 of the Internal Revenue Code of 1986.

(b) REPORT.—Not later than 6 months after the date of the enactment of this Act, the Secretary of the Treasury shall report to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate the results of the study conducted under subsection (a), including recommendations (if any) for legislation.

SEC. 910. APPLICATION OF DENIAL OF FOREIGN TAX CREDIT WITH RESPECT TO CERTAIN FOREIGN COUNTRIES.

(a) IN GENERAL.—Clause (ii) of section 901(j)(2)(B) (relating to denial of foreign tax credit, etc., with respect to certain foreign countries) is amended by inserting before the period ''or, if earlier, ending on the date that the President determines that the application of this subsection to such foreign country is no longer in the national interests of the United States''.

(b) EFFECTIVE DATE.—The amendment made by this section shall take effect on the date of the enactment of this Act.

SEC. 911. ADVANCE PRICING AGREEMENTS TREATED AS CONFIDENTIAL TAXPAYER INFORMATION.

(a) IN GENERAL.—

(1) TREATMENT AS RETURN INFORMATION.—Paragraph (2) of section 6103(b) (defining return information) is amended by striking ''and'' at the end of subparagraph (A), by inserting ''and'' at the end of subparagraph (B), and by inserting after subparagraph (B) the following new subparagraph:

''(C) any advance pricing agreement entered into by a taxpayer and the Secretary and any background information related to such agreement or any application for an advance pricing agreement,''.

(2) EXCEPTION FROM PUBLIC INSPECTION AS WRITTEN DETERMINATION.—Paragraph (1) of section 6110(b) (defining written determination) is amended by adding at the end the following

new sentence: ''Such term shall not include any advance pricing agreement entered into by a taxpayer and the Secretary and any background information related to such agreement or any application for an advance pricing agreement.''.

(3) EFFECTIVE DATE.—The amendments made by this subsection shall take effect on the date of the enactment of this Act.

(b) ANNUAL REPORT REGARDING ADVANCE PRICING AGREEMENTS.—

(1) IN GENERAL.—Not later than 90 days after the end of each calendar year, the Secretary of the Treasury shall prepare and publish a report regarding advance pricing agreements.

(2) CONTENTS OF REPORT.—The report shall include the following for the calendar year to which such report relates:

(A) Information about the structure, composition, and operation of the advance pricing agreement program office.

(B) A copy of each model advance pricing agreement.

(C) The number of—

(i) applications filed during such calendar year for advanced pricing agreements;

(ii) advance pricing agreements executed cumulatively to date and during such calendar year;

(iii) renewals of advanced pricing agreements issued;

(iv) pending requests for advance pricing agreements;

(v) pending renewals of advance pricing agreements;

(vi) for each of the items in clauses (ii) through (v), the number that are unilateral, bilateral, and multilateral, respectively;

(vii) advance pricing agreements revoked or canceled, and the number of withdrawals from the advance pricing agreement program; and

(viii) advanced pricing agreements finalized or renewed by industry.

(D) General descriptions of—

(i) the nature of the relationships between the related organizations, trades, or businesses covered by advance pricing agreements;

(ii) the covered transactions and the business functions performed and risks assumed by such organizations, trades, or businesses;

(iii) the related organizations, trades, or businesses whose prices or results are tested to determine compliance with transfer pricing methodologies prescribed in advanced pricing agreements;

(iv) methodologies used to evaluate tested parties and transactions and the circumstances leading to the use of those methodologies;

(v) critical assumptions made and sources of comparables used;

(vi) comparable selection criteria and the rationale used in determining such criteria;

(vii) the nature of adjustments to comparables or tested parties;

(viii) the nature of any ranges agreed to, including information regarding when no range was used and why, when interquartile ranges were used, and when there was a statistical narrowing of the comparables;

(ix) adjustment mechanisms provided to rectify results that fall outside of the agreed upon advance pricing agreement range;

(x) the various term lengths for advance pricing agreements, including rollback years, and the number of advance pricing agreements with each such term length;

(xi) the nature of documentation required; and

(xii) approaches for sharing of currency or other risks.

(E) Statistics regarding the amount of time taken to complete new and renewal advance pricing agreements.

(3) CONFIDENTIALITY.—The reports required by this subsection shall be treated as authorized by the Internal Revenue Code of 1986 for purposes of section 6103 of such Code, but the reports shall not include information—

(A) which would not be permitted to be disclosed under section 6110(c) of such Code if such report were a written determination as defined in section 6110 of such Code, or

(B) which can be associated with, or otherwise identify, directly or indirectly, a particular taxpayer.

(4) FIRST REPORT.—The report for calendar year 1999 shall include prior calendar years after 1990.

(c) USER FEE.—Section 7527, as added by title XV of this Act, is amended by redesignating subsection (c) as subsection (d) and by inserting after subsection (b) the following new subsection:

''(c) ADVANCE PRICING AGREEMENTS.—

''(1) IN GENERAL.—In addition to any fee otherwise imposed under this section, the fee imposed for requests for advance pricing agreements shall be increased by $500.

''(2) REDUCED FEE FOR SMALL BUSINESSES.—The Secretary shall provide an appropriate reduction in the amount imposed by reason of paragraph (1) for requests for advance pricing agreements for small businesses.''

(d) REGULATIONS.—The Secretary of the Treasury or the Secretary's delegate shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of section 6103(b)(2)(C), and the last sentence of section 6110(b)(1), of the Internal Revenue Code of 1986, as added by this section.

SEC. 912. INCREASE IN DOLLAR LIMITATION ON SECTION 911 EXCLUSION.

(a) GENERAL RULE.—The table contained in clause (i) of section 911(b)(2)(D) is amended to read as follows:

''For calendar year—	*The exclusion amount is—*
2000	*$76,000*
2001	*78,000*
2002	*80,000*
2003	*83,000*
2004	*86,000*
2005	*89,000*
2006	*92,000*
2007 and thereafter	*95,000.''*

(b) CONFORMING AMENDMENT.—Clause (ii) of section 911(b)(2)(D) is amended by striking ''$80,000'' and inserting ''$95,000''.

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

TITLE X—PROVISIONS RELATING TO TAX-EXEMPT ORGANIZATIONS

SEC. 1001. EXEMPTION FROM INCOME TAX FOR STATE-CREATED ORGANIZATIONS PROVIDING PROPERTY AND CASUALTY INSURANCE FOR PROPERTY FOR WHICH SUCH COVERAGE IS OTHERWISE UNAVAILABLE.

(a) IN GENERAL.—Subsection (c) of section 501 (relating to exemption from tax on corporations, certain trusts, etc.) is amended by adding at the end the following new paragraph:

''(28)(A) Any association created before January 1, 1999, by State law and organized and operated exclusively to provide property and casualty insurance coverage for property located within the State for which the State has determined that coverage in the authorized insurance market is limited or unavailable at reasonable rates, if—

''(i) no part of the net earnings of which inures to the benefit of any private shareholder or individual,

''(ii) except as provided in clause (v), no part of the assets of which may be used for, or diverted to, any purpose other than—

''(I) to satisfy, in whole or in part, the liability of the association for, or with respect to, claims made on policies written by the association,

''(II) to invest in investments authorized by applicable law,

''(III) to pay reasonable and necessary administration expenses in connection with the establishment and operation of the association and the processing of claims against the association, or

''(IV) to make remittances pursuant to State law to be used by the State to provide for the payment of claims on policies written by the association, purchase reinsurance covering losses under such policies, or to support governmental programs to prepare for or mitigate the effects of natural catastrophic events,

''(iii) the State law governing the association permits the association to levy assessments on insurance companies authorized to sell property and casualty insurance in the State, or on property and casualty insurance policyholders with insurable interests in property located in the State to fund deficits of the association, including the creation of reserves,

''(iv) the plan of operation of the association is subject to approval by the chief executive officer or other official of the State, by the State legislature, or both, and

''(v) the assets of the association revert upon dissolution to the State, the State's designee, or an entity designated by the State law governing the association, or State law does not permit the dissolution of the association.

''(B)(i) An entity described in clause (ii) shall be disregarded as a separate entity and treated as part of the association described in subparagraph (A) from which it receives remittances described in clause (ii) if an election is made within 30 days after the date that such association is determined to be exempt from tax.

''(ii) An entity is described in this clause if it is an entity or fund created before January 1, 1999, pursuant to State law and organized and operated exclusively to receive, hold, and invest remittances from an association described in subparagraph (A) and exempt from tax under subsection (a), to make disbursements to pay claims on insurance contracts issued by such association, and to make disbursements to support governmental programs to prepare for or mitigate the effects of natural catastrophic events.''

(b) UNRELATED BUSINESS TAXABLE INCOME.—Subsection (a) of section 512 (relating to unrelated business taxable income) is amended by adding at the end the following new paragraph:

''(6) SPECIAL RULE APPLICABLE TO ORGANIZATIONS DESCRIBED IN SECTION 501(C)(28).—In the case of an organization described in section 501(c)(28), the term 'unrelated business taxable income' means taxable income for a taxable year computed without the application of section 501(c)(28) if at the end of the immediately preceding taxable year the organization's net equity exceeded 15 percent of the total coverage in force under insurance contracts issued by the organization and outstanding at the end of such preceding year.''

(c) TRANSITIONAL RULE.—No income or gain shall be recognized by an association as a result of a change in status to that of an association described by section 501(c)(28) of the Internal Revenue Code of 1986, as amended by subsection (a).

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

SEC. 1002. MODIFICATION OF SPECIAL ARBITRAGE RULE FOR CERTAIN FUNDS.

(a) IN GENERAL.—Paragraph (1) of section 648 of the Tax Reform Act of 1984 is amended to read as follows:

''(1) such securities or obligations are held in a fund—

''(A) which, except to the extent of the investment earnings on such securities or obligations, cannot be used, under State constitutional or statutory restrictions continuously in effect since October 9, 1969, through the date of issue of the bond issue, to pay debt service on the bond issue or to finance the facilities that are to be financed with the proceeds of the bonds, or

''(B) the annual distributions from which cannot exceed 7 percent of the average fair market value of the assets held in such fund except to

the extent distributions are necessary to pay debt service on the bond issue,''.

(b) CONFORMING AMENDMENT.—Paragraph (3) of such section is amended by striking ''the investment earnings of'' and inserting ''distributions from''.

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect on January 1, 2000.

SEC. 1003. CHARITABLE SPLIT-DOLLAR LIFE INSURANCE, ANNUITY, AND ENDOWMENT CONTRACTS.

(a) IN GENERAL.—Subsection (f) of section 170 (relating to disallowance of deduction in certain cases and special rules) is amended by adding at the end the following new paragraph:

''(10) SPLIT-DOLLAR LIFE INSURANCE, ANNUITY, AND ENDOWMENT CONTRACTS.—

''(A) IN GENERAL.—Nothing in this section or in section 545(b)(2), 556(b)(2), 642(c), 2055, 2106(a)(2), or 2522 shall be construed to allow a deduction, and no deduction shall be allowed, for any transfer to or for the use of an organization described in subsection (c) if in connection with such transfer—

''(i) the organization directly or indirectly pays, or has previously paid, any premium on any personal benefit contract with respect to the transferor, or

''(ii) there is an understanding or expectation that any person will directly or indirectly pay any premium on any personal benefit contract with respect to the transferor.

''(B) PERSONAL BENEFIT CONTRACT.—For purposes of subparagraph (A), the term 'personal benefit contract' means, with respect to the transferor, any life insurance, annuity, or endowment contract if any direct or indirect beneficiary under such contract is the transferor, any member of the transferor's family, or any other person (other than an organization described in subsection (c)) designated by the transferor.

''(C) APPLICATION TO CHARITABLE REMAINDER TRUSTS.—In the case of a transfer to a trust referred to in subparagraph (E), references in subparagraphs (A) and (F) to an organization described in subsection (c) shall be treated as a reference to such trust.

''(D) EXCEPTION FOR CERTAIN ANNUITY CONTRACTS.—If, in connection with a transfer to or for the use of an organization described in subsection (c), such organization incurs an obligation to pay a charitable gift annuity (as defined in section 501(m)) and such organization purchases any annuity contract to fund such obligation, persons receiving payments under the charitable gift annuity shall not be treated for purposes of subparagraph (B) as indirect beneficiaries under such contract if—

''(i) such organization possesses all of the incidents of ownership under such contract,

''(ii) such organization is entitled to all the payments under such contract, and

''(iii) the timing and amount of payments under such contract are substantially the same as the timing and amount of payments to each such person under such obligation (as such obligation is in effect at the time of such transfer).

''(E) EXCEPTION FOR CERTAIN CONTRACTS HELD BY CHARITABLE REMAINDER TRUSTS.—A person shall not be treated for purposes of subparagraph (B) as an indirect beneficiary under any life insurance, annuity, or endowment contract held by a charitable remainder annuity trust or a charitable remainder unitrust (as defined in section 664(d)) solely by reason of being entitled to any payment referred to in paragraph (1)(A) or (2)(A) of section 664(d) if—

''(i) such trust possesses all of the incidents of ownership under such contract, and

''(ii) such trust is entitled to all the payments under such contract.

''(F) EXCISE TAX ON PREMIUMS PAID.—

''(i) IN GENERAL.—There is hereby imposed on any organization described in subsection (c) an excise tax equal to the premiums paid by such organization on any life insurance, annuity, or endowment contract if the payment of premiums on such contract is in connection with a transfer for which a deduction is not allowable under subparagraph (A), determined without regard to when such transfer is made.

''(ii) PAYMENTS BY OTHER PERSONS.—For purposes of clause (i), payments made by any other person pursuant to an understanding or expectation referred to in subparagraph (A) shall be treated as made by the organization.

''(iii) REPORTING.—Any organization on which tax is imposed by clause (i) with respect to any premium shall file an annual return which includes—

''(I) the amount of such premiums paid during the year and the name and TIN of each beneficiary under the contract to which the premium relates, and

''(II) such other information as the Secretary may require.

The penalties applicable to returns required under section 6033 shall apply to returns required under this clause. Returns required under this clause shall be furnished at such time and in such manner as the Secretary shall by forms or regulations require.

''(iv) CERTAIN RULES TO APPLY.—The tax imposed by this subparagraph shall be treated as imposed by chapter 42 for purposes of this title other than subchapter B of chapter 42.

''(G) SPECIAL RULE WHERE STATE REQUIRES SPECIFICATION OF CHARITABLE GIFT ANNUITANT IN CONTRACT.—In the case of an obligation to pay a charitable gift annuity referred to in subparagraph (D) which is entered into under the laws of a State which requires, in order for the charitable gift annuity to be exempt from insurance regulation by such State, that each beneficiary under the charitable gift annuity be named as a beneficiary under an annuity contract issued by an insurance company authorized to transact business in such State, the requirements of clauses (i) and (ii) of subparagraph (D) shall be treated as met if—

''(i) such State law requirement was in effect on February 8, 1999,

''(ii) each such beneficiary under the charitable gift annuity is a bona fide resident of such State at the time the obligation to pay a charitable gift annuity is entered into, and

''(iii) the only persons entitled to payments under such contract are persons entitled to payments as beneficiaries under such obligation on the date such obligation is entered into.

''(H) MEMBER OF FAMILY.—For purposes of this paragraph, an individual's family consists of the individual's grandparents, the grandparents of such individual's spouse, the lineal descendants of such grandparents, and any spouse of such a lineal descendant.

''(I) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this paragraph, including regulations to prevent the avoidance of such purposes.''

(b) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as otherwise provided in this section, the amendment made by this section shall apply to transfers made after February 8, 1999.

(2) EXCISE TAX.—Except as provided in paragraph (3) of this subsection, section 170(f)(10)(F) of the Internal Revenue Code of 1986 (as added by this section) shall apply to premiums paid after the date of the enactment of this Act.

(3) REPORTING.—Clause (iii) of such section 170(f)(10)(F) shall apply to premiums paid after February 8, 1999 (determined as if the tax imposed by such section applies to premiums paid after such date).

SEC. 1004. EXEMPTION PROCEDURE FROM TAXES ON SELF-DEALING.

(a) IN GENERAL.—Subsection (d) of section 4941 (relating to taxes on self-dealing) is amended by adding at the end the following new paragraph:

''(3) SPECIAL EXEMPTION.—The Secretary shall establish an exemption procedure for purposes of this subsection. Pursuant to such procedure, the Secretary may grant a conditional or unconditional exemption of any disqualified person or transaction or class of disqualified persons or transactions, from all or part of the restrictions imposed by paragraph (1). The Secretary may not grant an exemption under this paragraph unless he finds that such exemption is—

''(A) administratively feasible,

''(B) in the interests of the private foundation, and

''(C) protective of the rights of the private foundation.

Before granting an exemption under this paragraph, the Secretary shall require adequate notice to be given to interested persons and shall publish notice in the Federal Register of the pendency of such exemption and shall afford interested persons an opportunity to present views.''.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to transactions occurring after the date of the enactment of this Act.

SEC. 1005. EXPANSION OF DECLARATORY JUDGMENT REMEDY TO TAX-EXEMPT ORGANIZATIONS.

(a) IN GENERAL.—Subsection (a) of section 7428 (relating to creation of remedy) is amended—

(1) in subparagraph (B) by inserting after ''509(a))'' the following: ''or as a private operating foundation (as defined in section 4942(j)(3))'', and

(2) by amending subparagraph (C) to read as follows:

''(C) with respect to the initial qualification or continuing qualification of an organization as an organization described in section 501(c) (other than paragraph (3)) which is exempt from tax under section 501(a), or''.

(b) COURT JURISDICTION.—Subsection (a) of section 7428 is amended in the material following paragraph (2) by striking ''United States Tax Court, the United States Claims Court, or the district court of the United States for the District of Columbia'' and inserting the following: ''United States Tax Court (in the case of any such determination or failure) or the United States Claims Court or the district court of the United States for the District of Columbia (in the case of a determination or failure with respect to an issue referred to in subparagraph (A) or (B) of paragraph (1)),''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to pleadings filed with respect to determinations (or requests for determinations) made after the date of the enactment of this Act.

SEC. 1006. MODIFICATIONS TO SECTION 512(b)(13).

(a) IN GENERAL.—Paragraph (13) of section 512(b) is amended by redesignating subparagraph (E) as subparagraph (F) and by inserting after subparagraph (D) the following new paragraph:

''(E) PARAGRAPH TO APPLY ONLY TO EXCESS PAYMENTS.—

''(i) IN GENERAL.—Subparagraph (A) shall apply only to the portion of a specified payment received by the controlling organization that exceeds the amount which would have been paid if such payment met the requirements prescribed under section 482.

''(ii) ADDITION TO TAX FOR VALUATION MISSTATEMENTS.—The tax imposed by this chapter on the controlling organization shall be increased by an amount equal to 20 percent of such excess.''

(b) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendment made by this section shall apply to payments received or accrued after December 31, 1999.

(2) PAYMENTS SUBJECT TO BINDING CONTRACT TRANSITION RULE.—If the amendments made by section 1041 of the Taxpayer Relief Act of 1997 do not apply to any amount received or accrued after the date of the enactment of this Act under

any contract described in subsection (b)(2) of such section, such amendments also shall not apply to amounts received or accrued under such contract before January 1, 2000.

TITLE XI—REAL ESTATE PROVISIONS

Subtitle A—Provisions Relating to Real Estate Investment Trusts

PART I—TREATMENT OF INCOME AND SERVICES PROVIDED BY TAXABLE REIT SUBSIDIARIES

SEC. 1101. MODIFICATIONS TO ASSET DIVERSIFICATION TEST.

(a) IN GENERAL.—Subparagraph (B) of section 856(c)(4) is amended to read as follows:

''(B)(i) not more than 25 percent of the value of its total assets is represented by securities (other than those includible under subparagraph (A)), and

''(ii) except with respect to a taxable REIT subsidiary and securities includible under subparagraph (A)—

''(I) not more than 5 percent of the value of its total assets is represented by securities of any 1 issuer,

''(II) the trust does not hold securities possessing more than 10 percent of the total voting power of the outstanding securities of any 1 issuer, and

''(III) the trust does not hold securities having a value of more than 10 percent of the total value of the outstanding securities of any 1 issuer.''

(b) EXCEPTION FOR STRAIGHT DEBT SECURITIES.—Subsection (c) of section 856 is amended by adding at the end the following new paragraph:

''(7) STRAIGHT DEBT SAFE HARBOR IN APPLYING PARAGRAPH (4).—Securities of an issuer which are straight debt (as defined in section 1361(c)(5) without regard to subparagraph (B)(iii) thereof) shall not be taken into account in applying paragraph (4)(B)(ii)(III) if—

''(A) the only securities of such issuer which are held by the trust or a taxable REIT subsidiary of the trust are straight debt (as so defined), or

''(B) the issuer is a partnership and the trust holds at least a 20 percent profits interest in the partnership.''

SEC. 1102. TREATMENT OF INCOME AND SERVICES PROVIDED BY TAXABLE REIT SUBSIDIARIES.

(a) INCOME FROM TAXABLE REIT SUBSIDIARIES NOT TREATED AS IMPERMISSIBLE TENANT SERVICE INCOME.—Clause (i) of section 856(d)(7)(C) (relating to exceptions to impermissible tenant service income) is amended by inserting ''or through a taxable REIT subsidiary of such trust'' after ''income''.

(b) CERTAIN INCOME FROM TAXABLE REIT SUBSIDIARIES NOT EXCLUDED FROM RENTS FROM REAL PROPERTY.—

(1) IN GENERAL.—Subsection (d) of section 856 (relating to rents from real property defined) is amended by adding at the end the following new paragraphs:

''(8) SPECIAL RULE FOR TAXABLE REIT SUBSIDIARIES.—For purposes of this subsection, amounts paid to a real estate investment trust by a taxable REIT subsidiary of such trust shall not be excluded from rents from real property by reason of paragraph (2)(B) if the requirements of subparagraph (A) or (B) are met.

''(A) LIMITED RENTAL EXCEPTION.—The requirements of this subparagraph are met with respect to any property if at least 90 percent of the leased space of the property is rented to persons other than taxable REIT subsidiaries of such trust and other than persons described in section 856(d)(2)(B). The preceding sentence shall apply only to the extent that the amounts paid to the trust as rents from real property (as defined in paragraph (1) without regard to paragraph (2)(B)) from such property are substantially comparable to such rents made by the other tenants of the trust's property for comparable space.

''(B) EXCEPTION FOR CERTAIN LODGING FACILITIES.—The requirements of this subparagraph are met with respect to an interest in real property which is a qualified lodging facility leased by the trust to a taxable REIT subsidiary of the trust if the property is operated on behalf of such subsidiary by a person who is an eligible independent contractor.

''(9) ELIGIBLE INDEPENDENT CONTRACTOR.—For purposes of paragraph (8)(B)—

''(A) IN GENERAL.—The term 'eligible independent contractor' means, with respect to any qualified lodging facility, any independent contractor if, at the time such contractor enters into a management agreement or other similar service contract with the taxable REIT subsidiary to operate the facility, such contractor (or any related person) is actively engaged in the trade or business of operating qualified lodging facilities for any person who is not a related person with respect to the real estate investment trust or the taxable REIT subsidiary.

''(B) SPECIAL RULES.—Solely for purposes of this paragraph and paragraph (8)(B), a person shall not fail to be treated as an independent contractor with respect to any qualified lodging facility by reason of any of the following:

''(i) The taxable REIT subsidiary bears the expenses for the operation of the facility pursuant to the management agreement or other similar service contract.

''(ii) The taxable REIT subsidiary receives the revenues from the operation of such facility, net of expenses for such operation and fees payable to the operator pursuant to such agreement or contract.

''(iii) The real estate investment trust receives income from such person with respect to another property that is attributable to a lease of such other property to such person that was in effect as on the later of—

''(I) January 1, 1999, or

''(II) the earliest date that any taxable REIT subsidiary of such trust entered into a management agreement or other similar service contract with such person with respect to such qualified lodging facility.

''(C) RENEWALS, ETC., OF EXISTING LEASES.—For purposes of subparagraph (B)(iii)—

''(i) a lease shall be treated as in effect on January 1, 1999, without regard to its renewal after such date, so long as such renewal is pursuant to the terms of such lease as in effect on whichever of the dates under subparagraph (B)(iii) is the latest, and

''(ii) a lease of a property entered into after whichever of the dates under subparagraph (B)(iii) is the latest shall be treated as in effect on such date if—

''(I) on such date, a lease of such property from the trust was in effect, and

''(II) under the terms of the new lease, such trust receives a substantially similar or lesser benefit in comparison to the lease referred to in subclause (I).

''(D) QUALIFIED LODGING FACILITY.—For purposes of this paragraph—

''(i) IN GENERAL.—The term 'qualified lodging facility' means any lodging facility unless wagering activities are conducted at or in connection with such facility by any person who is engaged in the business of accepting wagers and who is legally authorized to engage in such business at or in connection with such facility.

''(ii) LODGING FACILITY.—The term 'lodging facility' means a hotel, motel, or other establishment more than one-half of the dwelling units in which are used on a transient basis.

''(iii) CUSTOMARY AMENITIES AND FACILITIES.—The term 'lodging facility' includes customary amenities and facilities operated as part of, or associated with, the lodging facility so long as such amenities and facilities are customary for other properties of a comparable size and class owned by other owners unrelated to such real estate investment trust.

''(E) OPERATE INCLUDES MANAGE.—References in this paragraph to operating a property shall be treated as including a reference to managing the property.

''(F) RELATED PERSON.—Persons shall be treated as related to each other if such persons are treated as a single employer under subsection (a) or (b) of section 52.''.

(2) CONFORMING AMENDMENT.—Subparagraph (B) of section 856(d)(2) is amended by inserting ''except as provided in paragraph (8),'' after ''(B)''.

SEC. 1103. TAXABLE REIT SUBSIDIARY.

(a) IN GENERAL.—Section 856 is amended by adding at the end the following new subsection:

''(l) TAXABLE REIT SUBSIDIARY.—For purposes of this part—

''(1) IN GENERAL.—The term 'taxable REIT subsidiary' means, with respect to a real estate investment trust, a corporation (other than a real estate investment trust) if—

''(A) such trust directly or indirectly owns stock in such corporation, and

''(B) such trust and such corporation jointly elect that such corporation shall be treated as a taxable REIT subsidiary of such trust for purposes of this part.

Such an election, once made, shall be irrevocable unless both such trust and corporation consent to its revocation. Such election, and any revocation thereof, may be made without the consent of the Secretary.

''(2) 35 PERCENT OWNERSHIP IN ANOTHER TAXABLE REIT SUBSIDIARY.—The term 'taxable REIT subsidiary' includes, with respect to any real estate investment trust, any corporation (other than a real estate investment trust) with respect to which a taxable REIT subsidiary of such trust owns directly or indirectly—

''(A) securities possessing more than 35 percent of the total voting power of the outstanding securities of such corporation, or

''(B) securities having a value of more than 35 percent of the total value of the outstanding securities of such corporation.

The preceding sentence shall not apply to a qualified REIT subsidiary (as defined in subsection (i)(2)). The rule of section 856(c)(7) shall apply for purposes of subparagraph (B).

''(3) EXCEPTIONS.—The term 'taxable REIT subsidiary' shall not include—

''(A) any corporation which directly or indirectly operates or manages a lodging facility or a health care facility, and

''(B) any corporation which directly or indirectly provides to any other person (under a franchise, license, or otherwise) rights to any brand name under which any lodging facility or health care facility is operated.

Subparagraph (B) shall not apply to rights provided to an eligible independent contractor to operate or manage a lodging facility if such rights are held by such corporation as a franchisee, licensee, or in a similar capacity and such lodging facility is either owned by such corporation or is leased to such corporation from the real estate investment trust.

''(4) DEFINITIONS.—For purposes of paragraph (3)—

''(A) LODGING FACILITY.—The term 'lodging facility' has the meaning given to such term by paragraph (9)(D)(ii).

''(B) HEALTH CARE FACILITY.—The term 'health care facility' has the meaning given to such term by subsection (e)(6)(D)(ii).''.

(b) CONFORMING AMENDMENT.—Paragraph (2) of section 856(i) is amended by adding at the end the following new sentence: ''Such term shall not include a taxable REIT subsidiary.''

SEC. 1104. LIMITATION ON EARNINGS STRIPPING.

Paragraph (3) of section 163(j) (relating to limitation on deduction for interest on certain indebtedness) is amended by striking ''and'' at the end of subparagraph (A), by striking the period at the end of subparagraph (B) and inserting '', and'', and by adding at the end the following new subparagraph:

''(C) any interest paid or accrued (directly or indirectly) by a taxable REIT subsidiary (as defined in section 856(l)) of a real estate investment trust to such trust.''.

SEC. 1105. 100 PERCENT TAX ON IMPROPERLY ALLOCATED AMOUNTS.

(a) IN GENERAL.—Subsection (b) of section 857 (relating to method of taxation of real estate investment trusts and holders of shares or certificates of beneficial interest) is amended by redesignating paragraphs (7) and (8) as paragraphs (8) and (9), respectively, and by inserting after paragraph (6) the following new paragraph:

''(7) INCOME FROM REDETERMINED RENTS, REDETERMINED DEDUCTIONS, AND EXCESS INTEREST.—

''(A) IMPOSITION OF TAX.—There is hereby imposed for each taxable year of the real estate investment trust a tax equal to 100 percent of redetermined rents, redetermined deductions, and excess interest.

''(B) REDETERMINED RENTS.—

''(i) IN GENERAL.—The term 'redetermined rents' means rents from real property (as defined in subsection 856(d)) the amount of which would (but for subparagraph (E)) be reduced on distribution, apportionment, or allocation under section 482 to clearly reflect income as a result of services furnished or rendered by a taxable REIT subsidiary of the real estate investment trust to a tenant of such trust.

''(ii) EXCEPTION FOR CERTAIN SERVICES.—Clause (i) shall not apply to amounts received directly or indirectly by a real estate investment trust for services described in paragraph (1)(B) or (7)(C)(i) of section 856(d).

''(iii) EXCEPTION FOR DE MINIMIS AMOUNTS.—Clause (i) shall not apply to amounts described in section 856(d)(7)(A) with respect to a property to the extent such amounts do not exceed the one percent threshold described in section 856(d)(7)(B) with respect to such property.

''(iv) EXCEPTION FOR COMPARABLY PRICED SERVICES.—Clause (i) shall not apply to any service rendered by a taxable REIT subsidiary of a real estate investment trust to a tenant of such trust if—

''(I) such subsidiary renders a significant amount of similar services to persons other than such trust and tenants of such trust who are unrelated (within the meaning of section 856(d)(8)(F)) to such subsidiary, trust, and tenants, but

''(II) only to the extent the charge for such service so rendered is substantially comparable to the charge for the similar services rendered to persons referred to in subclause (I).

''(v) EXCEPTION FOR CERTAIN SEPARATELY CHARGED SERVICES.—Clause (i) shall not apply to any service rendered by a taxable REIT subsidiary of a real estate investment trust to a tenant of such trust if—

''(I) the rents paid to the trust by tenants (leasing at least 25 percent of the net leasable space in the trust's property) who are not receiving such service from such subsidiary are substantially comparable to the rents paid by tenants leasing comparable space who are receiving such service from such subsidiary, and

''(II) the charge for such service from such subsidiary is separately stated.

''(vi) EXCEPTION FOR CERTAIN SERVICES BASED ON SUBSIDIARY'S INCOME FROM THE SERVICES.—Clause (i) shall not apply to any service rendered by a taxable REIT subsidiary of a real estate investment trust to a tenant of such trust if the gross income of such subsidiary from such service is not less than 150 percent of such subsidiary's direct cost in furnishing or rendering the service.

''(vii) EXCEPTIONS GRANTED BY SECRETARY.—The Secretary may waive the tax otherwise imposed by subparagraph (A) if the trust establishes to the satisfaction of the Secretary that rents charged to tenants were established on an arms' length basis even though a taxable REIT subsidiary of the trust provided services to such tenants.

''(C) REDETERMINED DEDUCTIONS.—The term 'redetermined deductions' means deductions (other than redetermined rents) of a taxable REIT subsidiary of a real estate investment trust if the amount of such deductions would (but for subparagraph (E)) be increased on distribution, apportionment, or allocation under section 482 to clearly reflect income as between such subsidiary and such trust.

''(D) EXCESS INTEREST.—The term 'excess interest' means any deductions for interest payments by a taxable REIT subsidiary of a real estate investment trust to such trust to the extent that the interest payments are in excess of a rate that is commercially reasonable.

''(E) COORDINATION WITH SECTION 482.—The imposition of tax under subparagraph (A) shall be in lieu of any distribution, apportionment, or allocation under section 482.

''(F) REGULATORY AUTHORITY.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this paragraph. Until the Secretary prescribes such regulations, real estate investment trusts and their taxable REIT subsidiaries may base their allocations on any reasonable method.''.

(b) AMOUNT SUBJECT TO TAX NOT REQUIRED TO BE DISTRIBUTED.—Subparagraph (E) of section 857(b)(2) (relating to real estate investment trust taxable income) is amended by striking ''paragraph (5)'' and inserting ''paragraphs (5) and (7)''.

SEC. 1106. EFFECTIVE DATE.

(a) IN GENERAL.—The amendments made by this part shall apply to taxable years beginning after December 31, 2000.

(b) TRANSITIONAL RULES RELATED TO SECTION 1101.—

(1) EXISTING ARRANGEMENTS.—

(A) IN GENERAL.—Except as otherwise provided in this paragraph, the amendment made by section 1101 shall not apply to a real estate investment trust with respect to—

(i) securities of a corporation held directly or indirectly by such trust on July 12, 1999,

(ii) securities of a corporation held by an entity on July 12, 1999, if such trust acquires control of such entity pursuant to a written binding contract in effect on such date and at all times thereafter before such acquisition,

(iii) securities received by such trust (or a successor) in exchange for, or with respect to, securities described in clause (i) or (ii) in a transaction in which gain or loss is not recognized, and

(iv) securities acquired directly or indirectly by such trust as part of a reorganization (as defined in section 368(a)(1) of the Internal Revenue Code of 1986) with respect to such trust if such securities are described in clause (i), (ii), or (iii) with respect to any other real estate investment trust.

(B) NEW TRADE OR BUSINESS OR SUBSTANTIAL NEW ASSETS.—Subparagraph (A) shall cease to apply to securities of a corporation as of the first day after July 12, 1999, on which such corporation engages in a substantial new line of business, or acquires any substantial asset, other than—

(i) pursuant to a binding contract in effect on such date and at all times thereafter before the acquisition of such asset,

(ii) in a transaction in which gain or loss is not recognized by reason of section 1031 or 1033 of the Internal Revenue Code of 1986, or

(iii) in a reorganization (as so defined) with another corporation the securities of which are described in paragraph (1)(A) of this subsection.

(2) TAX-FREE CONVERSION.—If—

(A) at the time of an election for a corporation to become a taxable REIT subsidiary, the amendment made by section 1101 does not apply to such corporation by reason of paragraph (1), and

(B) such election first takes effect before January 1, 2004,

such election shall be treated as a reorganization qualifying under section 368(a)(1)(A) of such Code.

PART II—HEALTH CARE REITS

SEC. 1111. HEALTH CARE REITS.

(a) SPECIAL FORECLOSURE RULE FOR HEALTH CARE PROPERTIES.—Subsection (e) of section 856 (relating to special rules for foreclosure property) is amended by adding at the end the following new paragraph:

''(6) SPECIAL RULE FOR QUALIFIED HEALTH CARE PROPERTIES.—For purposes of this subsection—

''(A) ACQUISITION AT EXPIRATION OF LEASE.—The term 'foreclosure property' shall include any qualified health care property acquired by a real estate investment trust as the result of the termination of a lease of such property (other than a termination by reason of a default, or the imminence of a default, on the lease).

''(B) GRACE PERIOD.—In the case of a qualified health care property which is foreclosure property solely by reason of subparagraph (A), in lieu of applying paragraphs (2) and (3)—

''(i) the qualified health care property shall cease to be foreclosure property as of the close of the second taxable year after the taxable year in which such trust acquired such property, and

''(ii) if the real estate investment trust establishes to the satisfaction of the Secretary that an extension of the grace period in clause (i) is necessary to the orderly leasing or liquidation of the trust's interest in such qualified health care property, the Secretary may grant 1 or more extensions of the grace period for such qualified health care property.

Any such extension shall not extend the grace period beyond the close of the 6th year after the taxable year in which such trust acquired such qualified health care property.

''(C) INCOME FROM INDEPENDENT CONTRACTORS.—For purposes of applying paragraph (4)(C) with respect to qualified health care property which is foreclosure property by reason of subparagraph (A) or paragraph (1), income derived or received by the trust from an independent contractor shall be disregarded to the extent such income is attributable to—

''(i) any lease of property in effect on the date the real estate investment trust acquired the qualified health care property (without regard to its renewal after such date so long as such renewal is pursuant to the terms of such lease as in effect on such date), or

''(ii) any lease of property entered into after such date if—

''(I) on such date, a lease of such property from the trust was in effect, and

''(II) under the terms of the new lease, such trust receives a substantially similar or lesser benefit in comparison to the lease referred to in subclause (I).

''(D) QUALIFIED HEALTH CARE PROPERTY.—

''(i) IN GENERAL.—The term 'qualified health care property' means any real property (including interests therein), and any personal property incident to such real property, which—

''(I) is a health care facility, or

''(II) is necessary or incidental to the use of a health care facility.

''(ii) HEALTH CARE FACILITY.—For purposes of clause (i), the term 'health care facility' means a hospital, nursing facility, assisted living facility, congregate care facility, qualified continuing care facility (as defined in section 7872(g)(4)), or other licensed facility which extends medical or nursing or ancillary services to patients and which, immediately before the termination, expiration, default, or breach of the lease of or mortgage secured by such facility, was operated by a provider of such services which was eligible for participation in the medicare program under title XVIII of the Social Security Act with respect to such facility.''

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years beginning after December 31, 2000.

PART III—CONFORMITY WITH REGULATED INVESTMENT COMPANY RULES

SEC. 1121. CONFORMITY WITH REGULATED INVESTMENT COMPANY RULES.

(a) DISTRIBUTION REQUIREMENT.—Clauses (i) and (ii) of section 857(a)(1)(A) (relating to requirements applicable to real estate investment

trusts) are each amended by striking ''95 percent (90 percent for taxable years beginning before January 1, 1980)'' and inserting ''90 percent''.

(b) IMPOSITION OF TAX.—Clause (i) of section 857(b)(5)(A) (relating to imposition of tax in case of failure to meet certain requirements) is amended by striking ''95 percent (90 percent in the case of taxable years beginning before January 1, 1980)'' and inserting ''90 percent''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2000.

PART IV—CLARIFICATION OF EXCEPTION FROM IMPERMISSIBLE TENANT SERVICE INCOME

SEC. 1131. CLARIFICATION OF EXCEPTION FOR INDEPENDENT OPERATORS.

(a) IN GENERAL.—Paragraph (3) of section 856(d) (relating to independent contractor defined) is amended by adding at the end the following flush sentence:

''In the event that any class of stock of either the real estate investment trust or such person is regularly traded on an established securities market, only persons who own, directly or indirectly, more than 5 percent of such class of stock shall be taken into account as owning any of the stock of such class for purposes of applying the 35 percent limitation set forth in subparagraph (B) (but all of the outstanding stock of such class shall be considered outstanding in order to compute the denominator for purpose of determining the applicable percentage of ownership).''

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years beginning after December 31, 2000.

PART V—MODIFICATION OF EARNINGS AND PROFITS RULES

SEC. 1141. MODIFICATION OF EARNINGS AND PROFITS RULES.

(a) RULES FOR DETERMINING WHETHER REGULATED INVESTMENT COMPANY HAS EARNINGS AND PROFITS FROM NON-RIC YEAR.—Subsection (c) of section 852 is amended by adding at the end the following new paragraph:

''(3) DISTRIBUTIONS TO MEET REQUIREMENTS OF SUBSECTION (a)(2)(B).—Any distribution which is made in order to comply with the requirements of subsection (a)(2)(B)—

''(A) shall be treated for purposes of this subsection and subsection (a)(2)(B) as made from the earliest earnings and profits accumulated in any taxable year to which the provisions of this part did not apply rather than the most recently accumulated earnings and profits, and

''(B) to the extent treated under subparagraph (A) as made from accumulated earnings and profits, shall not be treated as a distribution for purposes of subsection (b)(2)(D) and section 855.''.

(b) CLARIFICATION OF APPLICATION OF REIT SPILLOVER DIVIDEND RULES TO DISTRIBUTIONS TO MEET QUALIFICATION REQUIREMENT.—Subparagraph (B) of section 857(d)(3) is amended by inserting before the period ''and section 858''.

(c) APPLICATION OF DEFICIENCY DIVIDEND PROCEDURES.—Paragraph (1) of section 852(e) is amended by adding at the end the following new sentence: ''If the determination under subparagraph (A) is solely as a result of the failure to meet the requirements of subsection (a)(2), the preceding sentence shall also apply for purposes of applying subsection (a)(2) to the non-RIC year.''

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to distributions after December 31, 2000.

PART VI—STUDY RELATING TO TAXABLE REIT SUBSIDIARIES

SEC. 1151. STUDY RELATING TO TAXABLE REIT SUBSIDIARIES.

The Commissioner of the Internal Revenue shall conduct a study to determine how many taxable REIT subsidiaries are in existence and the aggregate amount of taxes paid by such subsidiaries. The Secretary shall submit a report to the Congress describing the results of such study.

Subtitle B—Modification of At-Risk Rules for Publicly Traded Nonrecourse Debt

SEC. 1161. TREATMENT UNDER AT-RISK RULES OF PUBLICLY TRADED NONRECOURSE DEBT.

(a) IN GENERAL.—Subparagraph (A) of section 465(b)(6) (relating to qualified nonrecourse financing treated as amount at risk) is amended by striking ''share of'' and all that follows and inserting ''share of—

''(i) any qualified nonrecourse financing which is secured by real property used in such activity, and

''(ii) any other financing which—

''(I) would (but for subparagraph (B)(ii)) be qualified nonrecourse financing,

''(II) is qualified publicly traded debt, and

''(III) is not borrowed by the taxpayer from a person described in subclause (I), (II), or (III) of section 49(a)(1)(D)(iv).''

(b) QUALIFIED PUBLICLY TRADED DEBT.—Paragraph (6) of section 465(b) is amended by adding at the end the following new subparagraph:

''(F) QUALIFIED PUBLICLY TRADED DEBT.—For purposes of subparagraph (A), the term 'qualified publicly traded debt' means any debt instrument which is readily tradable on an established securities market. Such term shall not include any debt instrument which has a yield to maturity which equals or exceeds the limitation in section 163(i)(1)(B).''

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to debt instruments issued after December 31, 1999.

Subtitle C—Treatment of Construction Allowances and Certain Contributions to Capital of Retailers

SEC. 1171. EXCLUSION FROM GROSS INCOME OF QUALIFIED LESSEE CONSTRUCTION ALLOWANCES NOT LIMITED FOR CERTAIN RETAILERS TO SHORT-TERM LEASES.

(a) IN GENERAL.—Subsection (a) section 110 (relating to qualified lessee construction allowances for short-term leases) is amended by adding at the end the following new sentence: ''Paragraph (1) shall not apply if the lessee is a qualified retail business (as defined by section 118(d)(3) without regard to the proximity requirement in subparagraph (A) thereof).''.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to leases entered into after December 31, 1999.

SEC. 1172. EXCLUSION FROM GROSS INCOME FOR CERTAIN CONTRIBUTIONS TO THE CAPITAL OF CERTAIN RETAILERS.

(a) IN GENERAL.—Section 118 (relating to contributions to the capital of a corporation) is amended by redesignating subsections (d) and (e) as subsections (e) and (f), respectively, and by inserting after subsection (c) the following new subsection:

''(d) SAFE HARBOR FOR CONTRIBUTIONS TO CERTAIN RETAILERS.—

''(1) GENERAL RULE.—For purposes of this section, the term 'contribution to the capital of the taxpayer' includes any amount of money or other property received by the taxpayer if—

''(A) the taxpayer has entered into an agreement to operate (or cause to be operated) a qualified retail business at a particular location for a period of at least 15 years,

''(B)(i) immediately after the receipt of such money or other property, the taxpayer owns the land and the structure to be used by the taxpayer in carrying on a qualified retail business at such location, or

''(ii) the taxpayer uses such amount to acquire ownership of at least such land and structure,

''(C) such amount meets the requirements of the expenditure rule of paragraph (2), and

''(D) the contributor of such amount does not hold a beneficial interest in any property located on the premises of such qualified retail business other than de minimis amounts of property associated with the operation of property adjacent to such premises.

''(2) EXPENDITURE RULE.—An amount meets the requirements of this paragraph if—

''(A) an amount equal to such amount is expended for the acquisition of land or for acquisition or construction of other property described in section 1231(b)—

''(i) which was the purpose motivating the contribution, and

''(ii) which is used predominantly in a qualified retail business at the location referred to in paragraph (1)(A),

''(B) the expenditure referred to in subparagraph (A) occurs before the end of the second taxable year after the year in which such amount was received, and

''(C) accurate records are kept of the amounts contributed and expenditures made on the basis of the project for which the contribution was made and on the basis of the year of the contribution expenditure.

''(3) DEFINITION OF QUALIFIED RETAIL BUSINESS.—

''(A) IN GENERAL.—Except as provided in subparagraph (B), the term 'qualified retail business' means a trade or business of selling tangible personal property to the general public if the premises on which such trade or business is conducted is in close proximity to property that the contributor of the amount referred to in paragraph (1) is developing or operating for profit (or, in the case of a contributor which is a governmental entity, is attempting to revitalize).

''(B) SERVICES.—A trade or business shall not fail to be treated as a qualified retail business by reason of sales of services if such sales are incident to the sale of tangible personal property or if the services are de minimis in amount.

''(4) SPECIAL RULES.—

''(A) LEASES.—For purposes of paragraph (1)(B)(i), property shall be treated as owned by the taxpayer if the taxpayer is the lessee of such property under a lease having a term of at least 30 years and on which only nominal rent is required.

''(B) CONTROLLED GROUPS.—For purposes of this subsection, all persons treated as a single employer under subsection (a) or (b) of section 52 shall be treated as 1 person.

''(5) DISALLOWANCE OF DEDUCTIONS AND CREDITS; ADJUSTED BASIS.—Notwithstanding any other provision of this subtitle, no deduction or credit shall be allowed for, or by reason of, any amount received by the taxpayer which constitutes a contribution to capital to which this subsection applies. The adjusted basis of any property acquired with the contributions to which this subsection applies shall be reduced by the amount of the contributions to which this subsection applies.

''(6) REGULATIONS.—The Secretary shall prescribe such regulations are appropriate to prevent the abuse of the purposes of the subsection, including regulations which allocate income and deductions (or adjust the amount excludable under this subsection) in cases in which—

''(A) payments in excess of fair market value are paid to the contributor by the taxpayer, or

''(B) the contributor and the taxpayer are related parties.''

(b) CONFORMING AMENDMENT.—Subsection (e) of section 118 (as redesignated by subsection (a)) is amended by adding at the end the following flush sentence:

''Rules similar to the rules of the preceding sentence shall apply to any amount treated as a contribution to the capital of the taxpayer under subsection (d).''

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to amounts received after December 31, 1999.

TITLE XII—PROVISIONS RELATING TO PENSIONS

Subtitle A—Expanding Coverage

SEC. 1201. INCREASE IN BENEFIT AND CONTRIBUTION LIMITS.

(a) DEFINED BENEFIT PLANS.—

(1) DOLLAR LIMIT.—

(A) Subparagraph (A) of section 415(b)(1) (relating to limitation for defined benefit plans) is amended by striking ''$90,000'' and inserting ''$160,000''.

(B) Subparagraphs (C) and (D) of section 415(b)(2) are each amended by striking ''$90,000'' each place it appears in the headings and the text and inserting ''$160,000''.

(C) Paragraph (7) of section 415(b) (relating to benefits under certain collectively bargained plans) is amended by striking ''the greater of $68,212 or one-half the amount otherwise applicable for such year under paragraph (1)(A) for '$90,000' '' and inserting ''one-half the amount otherwise applicable for such year under paragraph (1)(A) for '$160,000' ''.

(2) LIMIT REDUCED WHEN BENEFIT BEGINS BEFORE AGE 62.—Subparagraph (C) of section 415(b)(2) is amended by striking ''the social security retirement age'' each place it appears in the heading and text and inserting ''age 62''.

(3) LIMIT INCREASED WHEN BENEFIT BEGINS AFTER AGE 65.—Subparagraph (D) of section 415(b)(2) is amended by striking ''the social security retirement age'' each place it appears in the heading and text and inserting ''age 65''.

(4) COST-OF-LIVING ADJUSTMENTS.—Subsection (d) of section 415 (related to cost-of-living adjustments) is amended—

(A) in paragraph (1)(A) by striking ''$90,000'' and inserting ''$160,000'', and

(B) in paragraph (3)(A)—

(i) by striking ''$90,000'' in the heading and inserting ''$160,000'', and

(ii) by striking ''October 1, 1986'' and inserting ''July 1, 2000''.

(5) CONFORMING AMENDMENT.—Section 415(b)(2) is amended by striking subparagraph (F).

(b) DEFINED CONTRIBUTION PLANS.—

(1) DOLLAR LIMIT.—Subparagraph (A) of section 415(c)(1) (relating to limitation for defined contribution plans) is amended by striking ''$30,000'' and inserting ''$40,000''.

(2) COST-OF-LIVING ADJUSTMENTS.—Subsection (d) of section 415 (related to cost-of-living adjustments) is amended—

(A) in paragraph (1)(C) by striking ''$30,000'' and inserting ''$40,000'', and

(B) in paragraph (3)(D)—

(i) by striking ''$30,000'' in the heading and inserting ''$40,000'', and

(ii) by striking ''October 1, 1993'' and inserting ''July 1, 2000''.

(c) QUALIFIED TRUSTS.—

(1) COMPENSATION LIMIT.—Sections 401(a)(17), 404(l), 408(k), and 505(b)(7) are each amended by striking ''$150,000'' each place it appears and inserting ''$200,000''.

(2) BASE PERIOD AND ROUNDING OF COST-OF-LIVING ADJUSTMENT.—Subparagraph (B) of section 401(a)(17) is amended—

(A) by striking ''October 1, 1993'' and inserting ''July 1, 2000'', and

(B) by striking ''$10,000'' both places it appears and inserting ''$5,000''.

(d) ELECTIVE DEFERRALS.—

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

''(1) IN GENERAL.—

''(A) LIMITATION.—Notwithstanding subsections (e)(3) and (h)(1)(B), the elective deferrals of any individual for any taxable year shall be included in such individual's gross income to the extent the amount of such deferrals for the taxable year exceeds the applicable dollar amount.

''(B) APPLICABLE DOLLAR AMOUNT.—For purposes of subparagraph (A), the applicable dollar amount shall be the amount determined in accordance with the following table:

''Taxable year:	Applicable dollar amount:
2001	$11,000
2002	$12,000
2003	$13,000
2004	$14,000
2005 or thereafter	$15,000.''.

(2) COST-OF-LIVING ADJUSTMENT.—Paragraph (5) of section 402(g) is amended to read as follows:

''(5) COST-OF-LIVING ADJUSTMENT.—In the case of taxable years beginning after December 31, 2005, the Secretary shall adjust the $15,000 amount under paragraph (1)(B) at the same time and in the same manner as under section 415(d); except that the base period shall be the calendar quarter beginning July 1, 2004, and any increase under this paragraph which is not a multiple of $500 shall be rounded to the next lowest multiple of $500.''.

(3) CONFORMING AMENDMENTS.—

(A) Section 402(g) (relating to limitation on exclusion for elective deferrals), as amended by paragraphs (1) and (2), is further amended by striking paragraph (4) and redesignating paragraphs (5), (6), (7), (8), and (9) as paragraphs (4), (5), (6), (7), and (8), respectively.

(B) Paragraph (2) of section 457(c) is amended by striking ''402(g)(8)(A)(iii)'' and inserting ''402(g)(7)(A)(iii)''.

(C) Clause (iii) of section 501(c)(18)(D) is amended by striking ''(other than paragraph (4) thereof)''.

(e) DEFERRED COMPENSATION PLANS OF STATE AND LOCAL GOVERNMENTS AND TAX-EXEMPT ORGANIZATIONS.—

(1) IN GENERAL.—Section 457 (relating to deferred compensation plans of State and local governments and tax-exempt organizations) is amended—

(A) in subsections (b)(2)(A) and (c)(1) by striking ''$7,500'' each place it appears and inserting ''the applicable dollar amount'', and

(B) in subsection (b)(3)(A) by striking ''$15,000'' and inserting ''twice the dollar amount in effect under subsection (b)(2)(A)''.

(2) APPLICABLE DOLLAR AMOUNT; COST-OF-LIVING ADJUSTMENT.—Paragraph (15) of section 457(e) is amended to read as follows:

''(15) APPLICABLE DOLLAR AMOUNT.—

''(A) IN GENERAL.—The applicable dollar amount shall be the amount determined in accordance with the following table:

''Taxable year:	Applicable dollar amount:
2001	$11,000
2002	$12,000
2003	$13,000
2004	$14,000
2005 or thereafter	$15,000.

''(B) COST-OF-LIVING ADJUSTMENTS.—In the case of taxable years beginning after December 31, 2005, the Secretary shall adjust the $15,000 amount specified in the table in subparagraph (A) at the same time and in the same manner as under section 415(d), except that the base period shall be the calendar quarter beginning July 1, 2004, and any increase under this paragraph which is not a multiple of $500 shall be rounded to the next lowest multiple of $500.''.

(f) SIMPLE RETIREMENT ACCOUNTS.—

(1) LIMITATION.—Clause (ii) of section 408(p)(2)(A) (relating to general rule for qualified salary reduction arrangement) is amended by striking ''$6,000'' and inserting ''the applicable dollar amount''.

(2) APPLICABLE DOLLAR AMOUNT.—Subparagraph (E) of 408(p)(2) is amended to read as follows:

''(E) APPLICABLE DOLLAR AMOUNT; COST-OF-LIVING ADJUSTMENT.—

''(i) IN GENERAL.—For purposes of subparagraph (A)(ii), the applicable dollar amount shall be the amount determined in accordance with the following table:

''Year:	Applicable dollar amount:
2001	$7,000
2002	$8,000
2003	$9,000
2004 or thereafter	$10,000.

''(ii) COST-OF-LIVING ADJUSTMENT.—In the case of a year beginning after December 31, 2004, the Secretary shall adjust the $10,000 amount under clause (i) at the same time and in the same manner as under section 415(d), except that the base period taken into account shall be the calendar quarter beginning July 1, 2003, and any increase under this subparagraph which is not a multiple of $500 shall be rounded to the next lower multiple of $500.''.

(3) CONFORMING AMENDMENTS.—

(A) Clause (I) of section 401(k)(11)(B)(i) is amended by striking ''$6,000'' and inserting ''the amount in effect under section 408(p)(2)(A)(ii)''.

(B) Section 401(k)(11) is amended by striking subparagraph (E).

(g) ROUNDING RULE RELATING TO DEFINED BENEFIT PLANS AND DEFINED CONTRIBUTION PLANS.—Paragraph (4) of section 415(d) is amended to read as follows:

''(4) ROUNDING.—

''(A) $160,000 AMOUNT.—Any increase under subparagraph (A) of paragraph (1) which is not a multiple of $5,000 shall be rounded to the next lowest multiple of $5,000.

''(B) $40,000 AMOUNT.—Any increase under subparagraph (C) of paragraph (1) which is not a multiple of $1,000 shall be rounded to the next lowest multiple of $1,000.''.

(h) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to years beginning after December 31, 2000.

(2) COLLECTIVE BARGAINING AGREEMENTS.—In the case of a plan maintained pursuant to 1 or more collective bargaining agreements between employee representatives and 1 or more employers ratified by the date of enactment of this Act, the amendments made by this section shall not apply to contributions or benefits pursuant to any such agreement for years beginning before the earlier of—

(A) the later of—

(i) the date on which the last of such collective bargaining agreements terminates (determined without regard to any extension thereof on or after such date of enactment), or

(ii) January 1, 2001, or

(B) January 1, 2005.

SEC. 1202. PLAN LOANS FOR SUBCHAPTER S OWNERS, PARTNERS, AND SOLE PROPRIETORS.

(a) IN GENERAL.—Subparagraph (B) of section 4975(f)(6) (relating to exemptions not to apply to certain transactions) is amended by adding at the end the following new clause:

''(iii) LOAN EXCEPTION.—For purposes of subparagraph (A)(i), the term 'owner-employee' shall only include a person described in subclause (II) or (III) of clause (i).''

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to loans made after December 31, 2000.

SEC. 1203. MODIFICATION OF TOP-HEAVY RULES.

(a) SIMPLIFICATION OF DEFINITION OF KEY EMPLOYEE.—

(1) IN GENERAL.—Section 416(i)(1)(A) (defining key employee) is amended—

(A) by striking ''or any of the 4 preceding plan years'' in the matter preceding clause (i),

(B) by striking clause (i) and inserting the following:

''(i) an officer of the employer having an annual compensation greater than $150,000,'',

(C) by striking clause (ii) and redesignating clauses (iii) and (iv) as clauses (ii) and (iii), respectively, and

(D) by striking the second sentence in the matter following clause (iii), as redesignated by subparagraph (C).

(2) CONFORMING AMENDMENT.—Section 416(i)(1)(B)(iii) is amended by striking ''and subparagraph (A)(ii)''.

(b) MATCHING CONTRIBUTIONS TAKEN INTO ACCOUNT FOR MINIMUM CONTRIBUTION REQUIREMENTS.—Section 416(c)(2)(A) (relating to defined

contribution plans) is amended by adding at the end the following: ''Employer matching contributions (as defined in section 401(m)(4)(A)) shall be taken into account for purposes of this subparagraph.''.

(c) DISTRIBUTIONS DURING LAST YEAR BEFORE DETERMINATION DATE TAKEN INTO ACCOUNT.—

(1) IN GENERAL.—Paragraph (3) of section 416(g) is amended to read as follows:

''(3) DISTRIBUTIONS DURING LAST YEAR BEFORE DETERMINATION DATE TAKEN INTO ACCOUNT.—

''(A) IN GENERAL.—For purposes of determining—

''(i) the present value of the cumulative accrued benefit for any employee, or

''(ii) the amount of the account of any employee,

such present value or amount shall be increased by the aggregate distributions made with respect to such employee under the plan during the 1-year period ending on the determination date. The preceding sentence shall also apply to distributions under a terminated plan which if it had not been terminated would have been required to be included in an aggregation group.

''(B) 5-YEAR PERIOD IN CASE OF IN-SERVICE DISTRIBUTION.—In the case of any distribution made for a reason other than separation from service, death, or disability, subparagraph (A) shall be applied by substituting '5-year period' for '1-year period'.''.

(2) BENEFITS NOT TAKEN INTO ACCOUNT.—Subparagraph (E) of section 416(g)(4) is amended—

(A) by striking ''LAST 5 YEARS'' in the heading and inserting ''LAST YEAR BEFORE DETERMINATION DATE'', and

(B) by striking ''5-year period'' and inserting ''1-year period''.

(d) DEFINITION OF TOP-HEAVY PLANS.—Paragraph (4) of section 416(g) (relating to other special rules for top-heavy plans) is amended by adding at the end the following new subparagraph:

''(H) CASH OR DEFERRED ARRANGEMENTS USING ALTERNATIVE METHODS OF MEETING NONDISCRIMINATION REQUIREMENTS.—The term 'top-heavy plan' shall not include a plan which consists solely of—

''(i) a cash or deferred arrangement which meets the requirements of section 401(k)(12), and

''(ii) matching contributions with respect to which the requirements of section 401(m)(11) are met.

If, but for this subparagraph, a plan would be treated as a top-heavy plan because it is a member of an aggregation group which is a top-heavy group, contributions under the plan may be taken into account in determining whether any other plan in the group meets the requirements of subsection (c)(2).''

(e) FROZEN PLAN EXEMPT FROM MINIMUM BENEFIT REQUIREMENT.—Subparagraph (C) of section 416(c)(1) (relating to defined benefit plans) is amended—

(A) in clause (i), by striking ''clause (ii)'' and inserting ''clause (ii) or (iii)'', and

(B) by adding at the end the following:

''(iii) EXCEPTION FOR FROZEN PLAN.—For purposes of determining an employee's years of service with the employer, any service with the employer shall be disregarded to the extent that such service occurs during a plan year when the plan benefits (within the meaning of section 410(b)) no employee or former employee.''.

(f) EFFECTIVE DATE.—The amendments made by this section shall apply to years beginning after December 31, 2000.

SEC. 1204. ELECTIVE DEFERRALS NOT TAKEN INTO ACCOUNT FOR PURPOSES OF DEDUCTION LIMITS.

(a) IN GENERAL.—Section 404 (relating to deduction for contributions of an employer to an employees' trust or annuity plan and compensation under a deferred payment plan) is amended by adding at the end the following new subsection:

''(n) ELECTIVE DEFERRALS NOT TAKEN INTO ACCOUNT FOR PURPOSES OF DEDUCTION LIMITS.—Elective deferrals (as defined in section 402(g)(3)) shall not be subject to any limitation contained in paragraph (3), (7), or (9) of subsection (a), and such elective deferrals shall not be taken into account in applying any such limitation to any other contributions.''.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to years beginning after December 31, 2000.

SEC. 1207. REPEAL OF COORDINATION REQUIREMENTS FOR DEFERRED COMPENSATION PLANS OF STATE AND LOCAL GOVERNMENTS AND TAX-EXEMPT ORGANIZATIONS.

(a) IN GENERAL.—Subsection (c) of section 457 (relating to deferred compensation plans of State and local governments and tax-exempt organizations), as amended by section 1201(e), is amended to read as follows:

''(c) LIMITATION.—The maximum amount of the compensation of any one individual which may be deferred under subsection (a) during any taxable year shall not exceed the amount in effect under subsection (b)(2)(A) (as modified by any adjustment provided under subsection (b)(3)).''.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to years beginning after December 31, 2000.

SEC. 1208. ELIMINATION OF USER FEE FOR REQUESTS TO IRS REGARDING PENSION PLANS.

(a) ELIMINATION OF CERTAIN USER FEES.—The Secretary of the Treasury or the Secretary's delegate shall not require payment of user fees under the program established under section 7527 of the Internal Revenue Code of 1986 for requests to the Internal Revenue Service for determination letters with respect to the qualified status of a pension benefit plan maintained solely by one or more eligible employers or any trust which is part of the plan. The preceding sentence shall not apply to any request made by the sponsor of any prototype or similar plan which the sponsor intends to market to participating employers.

(b) PENSION BENEFIT PLAN.—For purposes of this section, the term ''pension benefit plan'' means a pension, profit-sharing, stock bonus, annuity, or employee stock ownership plan.

(c) ELIGIBLE EMPLOYER.—For purposes of this section, the term ''eligible employer'' has the same meaning given such term in section 408(p)(2)(C)(i)(I) of the Internal Revenue Code of 1986. The determination of whether an employer is an eligible employer under this section shall be made as of the date of the request described in subsection (a).

(d) EFFECTIVE DATE.—The provisions of this section shall apply with respect to requests made after December 31, 2000.

SEC. 1209. DEDUCTION LIMITS.

(a) IN GENERAL.—Section 404(a) (relating to general rule) is amended by adding at the end the following:

''(12) DEFINITION OF COMPENSATION.—For purposes of paragraphs (3), (7), (8), and (9), the term 'compensation' shall include amounts treated as participant's compensation under subparagraph (C) or (D) of section 415(c)(3).''.

(b) CONFORMING AMENDMENT.—Subparagraph (B) of section 404(a)(3) is amended by striking the last sentence thereof.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to years beginning after December 31, 2000.

SEC. 1210. OPTION TO TREAT ELECTIVE DEFERRALS AS AFTER-TAX CONTRIBUTIONS.

(a) IN GENERAL.—Subpart A of part I of subchapter D of chapter 1 (relating to deferred compensation, etc.) is amended by inserting after section 402 the following new section:

''SEC. 402A. OPTIONAL TREATMENT OF ELECTIVE DEFERRALS AS PLUS CONTRIBUTIONS.

''(a) GENERAL RULE.—If an applicable retirement plan includes a qualified plus contribution program—

''(1) any designated plus contribution made by an employee pursuant to the program shall be treated as an elective deferral for purposes of this chapter, except that such contribution shall not be excludable from gross income, and

''(2) such plan (and any arrangement which is part of such plan) shall not be treated as failing to meet any requirement of this chapter solely by reason of including such program.

''(b) QUALIFIED PLUS CONTRIBUTION PROGRAM.—For purposes of this section—

''(1) IN GENERAL.—The term 'qualified plus contribution program' means a program under which an employee may elect to make designated plus contributions in lieu of all or a portion of elective deferrals the employee is otherwise eligible to make under the applicable retirement plan.

''(2) SEPARATE ACCOUNTING REQUIRED.—A program shall not be treated as a qualified plus contribution program unless the applicable retirement plan—

''(A) establishes separate accounts ('designated plus accounts') for the designated plus contributions of each employee and any earnings properly allocable to the contributions, and

''(B) maintains separate recordkeeping with respect to each account.

''(c) DEFINITIONS AND RULES RELATING TO DESIGNATED PLUS CONTRIBUTIONS.—For purposes of this section—

''(1) DESIGNATED PLUS CONTRIBUTION.—The term 'designated plus contribution' means any elective deferral which—

''(A) is excludable from gross income of an employee without regard to this section, and

''(B) the employee designates (at such time and in such manner as the Secretary may prescribe) as not being so excludable.

''(2) DESIGNATION LIMITS.—The amount of elective deferrals which an employee may designate under paragraph (1) shall not exceed the excess (if any) of—

''(A) the maximum amount of elective deferrals excludable from gross income of the employee for the taxable year (without regard to this section), over

''(B) the aggregate amount of elective deferrals of the employee for the taxable year which the employee does not designate under paragraph (1).

''(3) ROLLOVER CONTRIBUTIONS.—

''(A) IN GENERAL.—A rollover contribution of any payment or distribution from a designated plus account which is otherwise allowable under this chapter may be made only if the contribution is to—

''(i) another designated plus account of the individual from whose account the payment or distribution was made, or

''(ii) a Roth IRA of such individual.

''(B) COORDINATION WITH LIMIT.—Any rollover contribution to a designated plus account under subparagraph (A) shall not be taken into account for purposes of paragraph (1).

''(d) DISTRIBUTION RULES.—For purposes of this title—

''(1) EXCLUSION.—Any qualified distribution from a designated plus account shall not be includible in gross income.

''(2) QUALIFIED DISTRIBUTION.—For purposes of this subsection—

''(A) IN GENERAL.—The term 'qualified distribution' has the meaning given such term by section 408A(d)(2)(A) (without regard to clause (iv) thereof).

''(B) DISTRIBUTIONS WITHIN NONEXCLUSION PERIOD.—A payment or distribution from a designated plus account shall not be treated as a qualified distribution if such payment or distribution is made within the 5-taxable-year period beginning with the earlier of—

''(i) the 1st taxable year for which the individual made a designated plus contribution to any designated plus account established for such individual under the same applicable retirement plan, or

''(ii) if a rollover contribution was made to such designated plus account from a designated

plus account previously established for such individual under another applicable retirement plan, the 1st taxable year for which the individual made a designated plus contribution to such previously established account.

''(C) DISTRIBUTIONS OF EXCESS DEFERRALS AND EARNINGS.—The term 'qualified distribution' shall not include any distribution of any excess deferral under section 402(g)(2) and any income on the excess deferral.

''(3) AGGREGATION RULES.—Section 72 shall be applied separately with respect to distributions and payments from a designated plus account and other distributions and payments from the plan.

''(e) OTHER DEFINITIONS.—For purposes of this section—

''(1) APPLICABLE RETIREMENT PLAN.—The term 'applicable retirement plan' means—

''(A) an employees' trust described in section 401(a) which is exempt from tax under section 501(a), and

''(B) a plan under which amounts are contributed by an individual's employer for an annuity contract described in section 403(b).

''(2) ELECTIVE DEFERRAL.—The term 'elective deferral' means any elective deferral described in subparagraph (A) or (C) of section 402(g)(3).''

(b) EXCESS DEFERRALS.—Section 402(g) (relating to limitation on exclusion for elective deferrals) is amended—

(1) by adding at the end of paragraph (1) the following new sentence: ''The preceding sentence shall not apply to so much of such excess as does not exceed the designated plus contributions of the individual for the taxable year.'', and

(2) by inserting ''(or would be included but for the last sentence thereof)'' after ''paragraph (1)'' in paragraph (2)(A).

(c) ROLLOVERS.—Subparagraph (B) of section 402(c)(8) is amended by adding at the end the following:

''If any portion of an eligible rollover distribution is attributable to payments or distributions from a designated plus account (as defined in section 402A), an eligible retirement plan with respect to such portion shall include only another designated plus account and a Roth IRA.''

(d) REPORTING REQUIREMENTS.—

(1) W–2 INFORMATION.—Section 6051(a)(8) is amended by inserting '', including the amount of designated plus contributions (as defined in section 402A)'' before the comma at the end.

(2) INFORMATION.—Section 6047 is amended by redesignating subsection (f) as subsection (g) and by inserting after subsection (e) the following new subsection:

''(f) DESIGNATED PLUS CONTRIBUTIONS.—The Secretary shall require the plan administrator of each applicable retirement plan (as defined in section 402A) to make such returns and reports regarding designated plus contributions (as so defined) to the Secretary, participants and beneficiaries of the plan, and such other persons as the Secretary may prescribe.''

(e) CONFORMING AMENDMENTS.—

(1) Section 408A(e) is amended by adding after the first sentence the following new sentence: ''Such term includes a rollover contribution described in section 402A(c)(3)(A).''

(2) The table of sections for subpart A of part I of subchapter D of chapter 1 is amended by inserting after the item relating to section 402 the following new item:

''Sec. 402A. Optional treatment of elective deferrals as plus contributions.''

(f) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2000.

SEC. 1211. INCREASE IN MINIMUM DEFINED BENEFIT LIMIT UNDER SECTION 415.

(a) IN GENERAL.—Paragraph (4) of section 415(b) (relating to total annual benefits not in excess of $10,000) is amended to read as follows:

''(4) TOTAL ANNUAL BENEFITS NOT IN EXCESS OF $40,000.—Notwithstanding the preceding provisions of this subsection, the benefits payable with respect to a participant under any defined benefit plan shall be deemed not to exceed the limitation of this subsection if the retirement benefits payable with respect to such participant under such plan and under all other defined benefit plans of the employer do not exceed $40,000 for the plan year or any prior plan year. The preceding sentence shall be applied by substituting for '$40,000'—

''(A) $20,000 if the plan year begins during 2001, and

''(B) $30,000 if the plan year begins during 2002.''

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to years beginning after December 31, 2000.

Subtitle B—Enhancing Fairness for Women

SEC. 1221. ADDITIONAL SALARY REDUCTION CATCH-UP CONTRIBUTIONS.

(a) LIMITATION ON EXCLUSION FOR ELECTIVE DEFERRALS.—

(1) IN GENERAL.—Subsection (g) of section 402 (as amended by section 1201(d)) is further amended by adding at the end the following:

''(9) CATCH-UP CONTRIBUTIONS FOR THOSE APPROACHING RETIREMENT.—

''(A) IN GENERAL.—In the case of an individual who is at least age 50 as of the end of any taxable year, the limitation of paragraph (1) for such year, after the application of paragraph (7), shall be increased by the applicable catch-up amount.

''(B) APPLICABLE CATCH-UP AMOUNT.—For purposes of subparagraph (A), the applicable catch-up amount shall be the amount determined in accordance with the following table:

''Taxable year:	Applicable catch-up amount:
2001	$1,000
2002	$2,000
2003	$3,000
2004	$4,000
2005 or thereafter	$5,000.''.

(2) COST-OF-LIVING ADJUSTMENTS.—Paragraph (4) of section 402(g) (relating to cost-of-living adjustment), as amended by section 1201(d), is further amended by inserting ''and the $5,000 dollar amount in paragraph (9)'' after ''paragraph (1)(B)''.

(b) SIMPLE RETIREMENT ACCOUNTS.—Paragraph (2) of section 408(p) (relating to qualified salary reduction arrangement) is amended by inserting at the end of the following new subparagraph:

''(F) CATCH-UP CONTRIBUTIONS FOR THOSE APPROACHING RETIREMENT.—In the case of an individual who is at least age 50 as of the end of any taxable year, the limitation of subparagraph (A)(ii) for such year shall be increased by the applicable catch-up amount. For purposes of the preceding sentence, the applicable catch-up amount is the amount in effect under section 402(g)(9) for such taxable year.''.

(c) DEFERRED COMPENSATION PLANS OF STATE AND LOCAL GOVERNMENTS AND TAX-EXEMPT ORGANIZATIONS.—Subsection (e) of section 457 (relating to other definitions and special rules) is amended by adding after paragraph (16) the following new paragraph:

''(17) CATCH-UP AMOUNTS.—In the case of an individual who is at least age 50 as of the end of any taxable year, the limitation of subsection (b)(2)(A) for such year shall be increased by the applicable catch-up amount (as in effect under section 402(g)(9) for such taxable year), except that this paragraph shall not apply to any taxable year to which subsection (b)(3) applies.''.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to years beginning after December 31, 2000.

SEC. 1222. EQUITABLE TREATMENT FOR CONTRIBUTIONS OF EMPLOYEES TO DEFINED CONTRIBUTION PLANS.

(a) EQUITABLE TREATMENT.—

(1) IN GENERAL.—Subparagraph (B) of section 415(c)(1) (relating to limitation for defined contribution plans) is amended by striking ''25 percent'' and inserting ''100 percent''.

(2) APPLICATION TO SECTION 403(b).—Section 403(b) is amended—

(A) by striking ''the exclusion allowance for such taxable year'' in paragraph (1) and inserting ''the applicable limit under section 415'',

(B) by striking paragraph (2), and

(C) by inserting ''or any amount received by a former employee after the 5th taxable year following the taxable year in which such employee was terminated'' before the period at the end of the second sentence of paragraph (3).

(3) CONFORMING AMENDMENTS.—

(A) Subsection (f) of section 72 is amended by striking ''section 403(b)(2)(D)(iii))'' and inserting ''section 403(b)(2)(D)(iii), as in effect on December 31, 2000)''.

(B) Section 404(a)(10)(B) is amended by striking '', the exclusion allowance under section 403(b)(2),''.

(C) Section 415(a)(2) is amended by striking '', and the amount of the contribution for such portion shall reduce the exclusion allowance as provided in section 403(b)(2)''.

(D) Section 415(c)(3) is amended by adding at the end the following new subparagraph:

''(E) ANNUITY CONTRACTS.—In the case of an annuity contract described in section 403(b), the term 'participant's compensation' means the participant's includible compensation determined under section 403(b)(3).''.

(E) Section 415(c) is amended by striking paragraph (4).

(F) Section 415(c)(7) is amended to read as follows:

''(7) CERTAIN CONTRIBUTIONS BY CHURCH PLANS NOT TREATED AS EXCEEDING LIMIT.—

''(A) IN GENERAL.—Notwithstanding any other provision of this subsection, at the election of a participant who is an employee of a church or a convention or association of churches, including an organization described in section 414(e)(3)(B)(ii), contributions and other additions for an annuity contract or retirement income account described in section 403(b) with respect to such participant, when expressed as an annual addition to such participant's account, shall be treated as not exceeding the limitation of paragraph (1) if such annual addition is not in excess of $10,000.

''(B) $40,000 AGGREGATE LIMITATION.—The total amount of additions with respect to any participant which may be taken into account for purposes of this subparagraph for all years may not exceed $40,000.

''(C) ANNUAL ADDITION.—For purposes of this paragraph, the term 'annual addition' has the meaning given such term by paragraph (2).''.

(G) Subparagraph (B) of section 402(g)(7) (as amended by section 1201(d)) is amended by inserting before the period at the end the following: ''(as in effect on the date of the enactment of the Financial Freedom Act of 1999)''.

(3) EFFECTIVE DATE.—The amendments made by this subsection shall apply to years beginning after December 31, 2000.

(b) SPECIAL RULES FOR SECTIONS 403(b) AND 408.—

(1) IN GENERAL.—Subsection (k) of section 415 is amended by adding at the end the following new paragraph:

''(4) SPECIAL RULES FOR SECTIONS 403(b) AND 408.—For purposes of this section, any annuity contract described in section 403(b) for the benefit of a participant shall be treated as a defined contribution plan maintained by each employer with respect to which the participant has the control required under subsection (b) or (c) of section 414 (as modified by subsection (h)). For purposes of this section, any contribution by an employer to a simplified employee pension plan for an individual for a taxable year shall be treated as an employer contribution to a defined contribution plan for such individual for such year.''.

(2) EFFECTIVE DATE.—

(A) IN GENERAL.—The amendment made by paragraph (1) shall apply to limitation years beginning after December 31, 1999.

(B) EXCLUSION ALLOWANCE.—Effective for limitation years beginning in 2000, in the case of any annuity contract described in section 403(b) of the Internal Revenue Code of 1986, the amount of the contribution disqualified by reason of section 415(g) of such Code shall reduce the exclusion allowance as provided in section 403(b)(2) of such Code.

(c) DEFERRED COMPENSATION PLANS OF STATE AND LOCAL GOVERNMENTS AND TAX-EXEMPT ORGANIZATIONS.—

(1) IN GENERAL.—Subparagraph (B) of section 457(b)(2) (relating to salary limitation on eligible deferred compensation plans) is amended by striking ''33⅓ percent'' and inserting ''100 percent''.

(2) EFFECTIVE DATE.—The amendment made by this subsection shall apply to years beginning after December 31, 2000.

SEC. 1223. FASTER VESTING OF CERTAIN EMPLOYER MATCHING CONTRIBUTIONS.

(a) IN GENERAL.—Section 411(a) (relating to minimum vesting standards) is amended—

(1) in paragraph (2), by striking ''A plan'' and inserting ''Except as provided in paragraph (12), a plan'', and

(2) by adding at the end the following:

''(12) FASTER VESTING FOR MATCHING CONTRIBUTIONS.—In the case of matching contributions (as defined in section 401(m)(4)(A)), paragraph (2) shall be applied—

''(A) by substituting '3 years' for '5 years' in subparagraph (A), and

''(B) by substituting the following table for the table contained in subparagraph (B):

''Years of service:	*The nonforfeitable percentage is:*
2	*20*
3	*40*
4	*60*
5	*80*
6 or more	*100.''.*

(b) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to plan years beginning after December 31, 2000.

(2) COLLECTIVE BARGAINING AGREEMENTS.—In the case of a plan maintained pursuant to 1 or more collective bargaining agreements between employee representatives and 1 or more employers ratified by the date of the enactment of this Act, the amendments made by this section shall not apply to plan years beginning before the earlier of—

(A) the later of—

(i) the date on which the last of such collective bargaining agreements terminates (determined without regard to any extension thereof on or after such date of enactment), or

(ii) January 1, 2001, or

(B) January 1, 2005.

(3) SERVICE REQUIRED.—With respect to any plan, the amendments made by this section shall not apply to any employee before the date that such employee has 1 hour of service under such plan in any plan year to which the amendments made by this section apply.

SEC. 1224. SIMPLIFY AND UPDATE THE MINIMUM DISTRIBUTION RULES.

(a) SIMPLIFICATION AND FINALIZATION OF MINIMUM DISTRIBUTION REQUIREMENTS.—

(1) IN GENERAL.—The Secretary of the Treasury shall—

(A) simplify and finalize the regulations relating to minimum distribution requirements under sections 401(a)(9), 408(a)(6) and (b)(3), 403(b)(10), and 457(d)(2) of the Internal Revenue Code of 1986, and

(B) modify such regulations to—

(i) reflect current life expectancy, and

(ii) revise the required distribution methods so that, under reasonable assumptions, the amount of the required minimum distribution does not decrease over a participant's life expectancy.

(2) FRESH START.—Notwithstanding subparagraph (D) of section 401(a)(9) of such Code, during the first year that regulations are in effect under this subsection, required distributions for future years may be redetermined to reflect changes under such regulations. Such redetermination shall include the opportunity to choose a new designated beneficiary and to elect a new method of calculating life expectancy.

(3) EFFECTIVE DATE FOR REGULATIONS.—Regulations referred to in paragraph (1) shall be effective for years beginning after December 31, 2000, and shall apply in such years without regard to whether an individual had previously begun receiving minimum distributions.

(b) REPEAL OF RULE WHERE DISTRIBUTIONS HAD BEGUN BEFORE DEATH OCCURS.—

(1) IN GENERAL.—Subparagraph (B) of section 401(a)(9) is amended by striking clause (i) and redesignating clauses (ii), (iii), and (iv) as clauses (i), (ii), and (iii), respectively.

(2) CONFORMING CHANGES.—

(A) Clause (i) of section 401(a)(9)(B) (as so redesignated) is amended—

(i) by striking ''FOR OTHER CASES'' in the heading, and

(ii) by striking ''the distribution of the employee's interest has begun in accordance with subparagraph (A)(ii)'' and inserting ''his entire interest has been distributed to him,''.

(B) Clause (ii) of section 401(a)(9)(B) (as so redesignated) is amended by striking ''clause (ii)'' and inserting ''clause (i)''.

(C) Clause (iii) of section 401(a)(9)(B) (as so redesignated) is amended—

(i) by striking ''clause (iii)(I)'' and inserting ''clause (ii)(I)'',

(ii) in subclause (I) by striking ''clause (iii)(III)'' and inserting ''clause (ii)(III)'',

(iii) in subclause (I) by striking ''the date on which the employee would have attained the age 70½,'' and inserting ''April 1 of the calendar year following the calendar year in which the spouse attains 70½,'', and

(iv) in subclause (II) by striking ''the distributions to such spouse begin,'' and inserting ''his entire interest has been distributed to him,''.

(3) EFFECTIVE DATE.—The amendments made by this subsection shall apply to years beginning after December 31, 2000.

(c) REDUCTION IN EXCISE TAX.—

(1) IN GENERAL.—Subsection (a) of section 4974 is amended by striking ''50 percent'' and inserting ''10 percent''.

(2) EFFECTIVE DATE.—The amendment made by this subsection shall apply to years beginning after December 31, 2000.

SEC. 1225. CLARIFICATION OF TAX TREATMENT OF DIVISION OF SECTION 457 PLAN BENEFITS UPON DIVORCE.

(a) IN GENERAL.—Section 414(p)(11) (relating to application of rules to governmental and church plans) is amended—

(1) by inserting ''or an eligible deferred compensation plan (within the meaning of section 457(b))'' after ''subsection (e))'', and

(2) in the heading, by striking ''GOVERNMENTAL AND CHURCH PLANS'' and inserting ''CERTAIN OTHER PLANS''.

(b) WAIVER OF CERTAIN DISTRIBUTION REQUIREMENTS.—Paragraph (10) of section 414(p) is amended by striking ''and section 409(d)'' and inserting ''section 409(d), and section 457(d)''.

(c) TAX TREATMENT OF PAYMENTS FROM A SECTION 457 PLAN.—Subsection (p) of section 414 is amended by redesignating paragraph (12) as paragraph (13) and inserting after paragraph (11) the following new paragraph:

''(12) TAX TREATMENT OF PAYMENTS FROM A SECTION 457 PLAN.—If a distribution or payment from an eligible deferred compensation plan described in section 457(b) is made pursuant to a qualified domestic relations order, rules similar to the rules of section 402(e)(1)(A) shall apply to such distribution or payment.''.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to transfers, distributions, and payments made after December 31, 2000.

Subtitle C—Increasing Portability for Participants

SEC. 1231. ROLLOVERS ALLOWED AMONG VARIOUS TYPES OF PLANS.

(a) ROLLOVERS FROM AND TO SECTION 457 PLANS.—

(1) ROLLOVERS FROM SECTION 457 PLANS.—

(A) IN GENERAL.—Section 457(e) (relating to other definitions and special rules) is amended by adding at the end the following:

''(16) ROLLOVER AMOUNTS.—

''(A) GENERAL RULE.—In the case of an eligible deferred compensation plan established and maintained by an employer described in subsection (e)(1)(A), if—

''(i) any portion of the balance to the credit of an employee in such plan is paid to such employee in an eligible rollover distribution (within the meaning of section 402(c)(4) without regard to subparagraph (C) thereof),

''(ii) the employee transfers any portion of the property such employee receives in such distribution to an eligible retirement plan described in section 402(c)(8)(B), and

''(iii) in the case of a distribution of property other than money, the amount so transferred consists of the property distributed,

then such distribution (to the extent so transferred) shall not be includible in gross income for the taxable year in which paid.

''(B) CERTAIN RULES MADE APPLICABLE.—The rules of paragraphs (2) through (7) (other than paragraph (4)(C)) and (9) of section 402(c) and section 402(f) shall apply for purposes of subparagraph (A).

''(C) REPORTING.—Rollovers under this paragraph shall be reported to the Secretary in the same manner as rollovers from qualified retirement plans (as defined in section 4974(c)).''.

(B) DEFERRAL LIMIT DETERMINED WITHOUT REGARD TO ROLLOVER AMOUNTS.—Section 457(b)(2) (defining eligible deferred compensation plan) is amended by inserting ''(other than rollover amounts)'' after ''taxable year''.

(C) DIRECT ROLLOVER.—Paragraph (1) of section 457(d) is amended by striking ''and'' at the end of subparagraph (A), by striking the period at the end of subparagraph (B) and inserting '', and'', and by inserting after subparagraph (B) the following:

''(C) in the case of a plan maintained by an employer described in subsection (e)(1)(A), the plan meets requirements similar to the requirements of section 401(a)(31).

Any amount transferred in a direct trustee-to-trustee transfer in accordance with section 401(a)(31) shall not be includible in gross income for the taxable year of transfer.''.

(D) WITHHOLDING.—

(i) Paragraph (12) of section 3401(a) is amended by adding at the end the following:

''(E) under or to an eligible deferred compensation plan which, at the time of such payment, is a plan described in section 457(b) maintained by an employer described in section 457(e)(1)(A); or''.

(ii) Paragraph (3) of section 3405(c) is amended to read as follows:

''(3) ELIGIBLE ROLLOVER DISTRIBUTION.—For purposes of this subsection, the term 'eligible rollover distribution' has the meaning given such term by section 402(f)(2)(A).''.

(iii) LIABILITY FOR WITHHOLDING.—Subparagraph (B) of section 3405(d)(2) is amended by striking ''or'' at the end of clause (ii), by striking the period at the end of clause (iii) and inserting '', or'', and by adding at the end the following:

''(iv) section 457(b).''.

(2) ROLLOVERS TO SECTION 457 PLANS.—

(A) IN GENERAL.—Section 402(c)(8)(B) (defining eligible retirement plan) is amended by striking ''and'' at the end of clause (iii), by striking the period at the end of clause (iv) and inserting '', and'', and by inserting after clause (iv) the following new clause:

''(v) an eligible deferred compensation plan described in section 457(b) of an employer described in section 457(e)(1)(A).''.

(B) SEPARATE ACCOUNTING.—Section 402(c) is amended by adding at the end the following new paragraph:

''(11) SEPARATE ACCOUNTING.—Unless a plan described in clause (v) of paragraph (8)(B) agrees to separately account for amounts rolled into such plan from eligible retirement plans not described in such clause, the plan described in such clause may not accept transfers or rollovers from such retirement plans.''.

(C) 10 PERCENT ADDITIONAL TAX.—Subsection (t) of section 72 (relating to 10-percent additional tax on early distributions from qualified retirement plans) is amended by adding at the end the following new paragraph:

''(9) SPECIAL RULE FOR ROLLOVERS TO SECTION 457 PLANS.—For purposes of this subsection, a distribution from an eligible deferred compensation plan (as defined in section 457(b)) of an employer described in section 457(e)(1)(A) shall be treated as a distribution from a qualified retirement plan described in 4974(c)(1) to the extent that such distribution is attributable to an amount transferred to an eligible deferred compensation plan from a qualified retirement plan (as defined in section 4974(c)).''.

(b) ALLOWANCE OF ROLLOVERS FROM AND TO 403(b) PLANS.—

(1) ROLLOVERS FROM SECTION 403(b) PLANS.—Section 403(b)(8)(A)(ii) (relating to rollover amounts) is amended by striking ''such distribution'' and all that follows and inserting ''such distribution to an eligible retirement plan described in section 402(c)(8)(B), and''.

(2) ROLLOVERS TO SECTION 403(b) PLANS.—Section 402(c)(8)(B) (defining eligible retirement plan), as amended by subsection (a), is amended by striking ''and'' at the end of clause (iv), by striking the period at the end of clause (v) and inserting

'', and'', and by inserting after clause (v) the following new clause:

''(vi) an annuity contract described in section 403(b).''

(c) EXPANDED EXPLANATION TO RECIPIENTS OF ROLLOVER DISTRIBUTIONS.—Paragraph (1) of section 402(f) (relating to written explanation to recipients of distributions eligible for rollover treatment) is amended by striking ''and'' at the end of subparagraph (C), by striking the period at the end of subparagraph (D) and inserting '', and'', and by adding at the end the following new subparagraph:

''(E) of the provisions under which distributions from the eligible retirement plan receiving the distribution may be subject to restrictions and tax consequences which are different from those applicable to distributions from the plan making such distribution.''.

(d) SPOUSAL ROLLOVERS.—Section 402(c)(9) (relating to rollover where spouse receives distribution after death of employee) is amended by striking ''; except that'' and all that follows up to the end period.

(e) CONFORMING AMENDMENTS.—

(1) Section 72(o)(4) is amended by striking ''and 408(d)(3)'' and inserting ''403(b)(8), 408(d)(3), and 457(e)(16)''.

(2) Section 219(d)(2) is amended by striking ''or 408(d)(3)'' and inserting ''408(d)(3), or 457(e)(16)''.

(3) Section 401(a)(31)(B) is amended by striking ''and 403(a)(4)'' and inserting '', 403(a)(4), 403(b)(8), and 457(e)(16)''.

(4) Subparagraph (A) of section 402(f)(2) is amended by striking ''or paragraph (4) of section 403(a)'' and inserting '', paragraph (4) of section 403(a), subparagraph (A) of section 403(b)(8), or subparagraph (A) of section 457(e)(16)''.

(5) Paragraph (1) of section 402(f) is amended by striking ''from an eligible retirement plan''.

(6) Subparagraphs (A) and (B) of section 402(f)(1) are amended by striking ''another eligible retirement plan'' and inserting ''an eligible retirement plan''.

(7) Subparagraph (B) of section 403(b)(8) is amended to read as follows:

''(B) CERTAIN RULES MADE APPLICABLE.—The rules of paragraphs (2) through (7) and (9) of section 402(c) and section 402(f) shall apply for purposes of subparagraph (A), except that section 402(f) shall be applied to the payor in lieu of the plan administrator.''.

(8) Section 408(a)(1) is amended by striking ''or 403(b)(8)'' and inserting '', 403(b)(8), or 457(e)(16)''.

(9) Subparagraphs (A) and (B) of section 415(b)(2) are each amended by striking ''and 408(d)(3)'' and inserting ''403(b)(8), 408(d)(3), and 457(e)(16)''.

(10) Section 415(c)(2) is amended by striking ''and 408(d)(3)'' and inserting ''408(d)(3), and 457(e)(16)''.

(11) Section 4973(b)(1)(A) is amended by striking ''or 408(d)(3)'' and inserting ''408(d)(3), or 457(e)(16)''.

(f) EFFECTIVE DATE; SPECIAL RULE.—

(1) EFFECTIVE DATE.—The amendments made by this section shall apply to distributions after December 31, 2000.

(2) SPECIAL RULE.—Notwithstanding any other provision of law, subsections (h)(3) and (h)(5) of section 1122 of the Tax Reform Act of 1986 shall not apply to any distribution from an eligible retirement plan (as defined in clause (iii) or (iv) of section 402(c)(8)(B) of the Internal Revenue Code of 1986) on behalf of an individual if there was a rollover to such plan on behalf of such individual which is permitted solely by reason of any amendment made by this section.

SEC. 1232. ROLLOVERS OF IRAS INTO WORKPLACE RETIREMENT PLANS.

(a) IN GENERAL.—Subparagraph (A) of section 408(d)(3) (relating to rollover amounts) is amended by adding ''or'' at the end of clause (i), by striking clauses (ii) and (iii), and by adding at the end the following:

''(ii) the entire amount received (including money and any other property) is paid into an eligible retirement plan for the benefit of such individual not later than the 60th day after the date on which the payment or distribution is received, except that the maximum amount which may be paid into such plan may not exceed the portion of the amount received which is includible in gross income (determined without regard to this paragraph).

For purposes of clause (ii), the term 'eligible retirement plan' has the meaning given such term by clauses (iii), (iv), (v), and (vi) of section 402(c)(8)(B).''.

(b) CONFORMING AMENDMENTS.—

(1) Paragraph (1) of section 403(b) is amended by striking ''section 408(d)(3)(A)(iii)'' and inserting ''section 408(d)(3)(A)(ii)''.

(2) Clause (i) of section 408(d)(3)(D) is amended by striking ''(i), (ii), or (iii)'' and inserting ''(i) or (ii)''.

(3) Subparagraph (G) of section 408(d)(3) is amended to read as follows:

''(G) SIMPLE RETIREMENT ACCOUNTS.—In the case of any payment or distribution out of a simple retirement account (as defined in subsection (p)) to which section 72(t)(6) applies, this paragraph shall not apply unless such payment or distribution is paid into another simple retirement account.''.

(c) EFFECTIVE DATE; SPECIAL RULE.—

(1) EFFECTIVE DATE.—The amendments made by this section shall apply to distributions after December 31, 2000.

(2) SPECIAL RULE.—Notwithstanding any other provision of law, subsections (h)(3) and (h)(5) of section 1122 of the Tax Reform Act of 1986 shall not apply to any distribution from an eligible retirement plan (as defined in clause (iii) or (iv) of section 402(c)(8)(B) of the Internal Revenue Code of 1986) on behalf of an individual if there was a rollover to such plan on behalf of such individual which is permitted solely by reason of the amendments made by this section.

SEC. 1233. ROLLOVERS OF AFTER-TAX CONTRIBUTIONS.

(a) ROLLOVERS FROM EXEMPT TRUSTS.—Paragraph (2) of section 402(c) (relating to maximum amount which may be rolled over) is amended by adding at the end the following: ''The preceding sentence shall not apply to such distribution to the extent—

''(A) such portion is transferred in a direct trustee-to-trustee transfer to a qualified trust which is part of a plan which is a defined contribution plan and which agrees to separately account for amounts so transferred, including separately accounting for the portion of such distribution which is includible in gross income and the portion of such distribution which is not so includible, or

''(B) such portion is transferred to an eligible retirement plan described in clause (i) or (ii) of paragraph (8)(B).''.

(b) OPTIONAL DIRECT TRANSFER OF ELIGIBLE ROLLOVER DISTRIBUTIONS.—Subparagraph (B) of section 401(a)(31) (relating to limitation) is amended by adding at the end the following: ''The preceding sentence shall not apply to such distribution if the plan to which such distribution is transferred—

''(i) agrees to separately account for amounts so transferred, including separately accounting for the portion of such distribution which is includible in gross income and the portion of such distribution which is not so includible, or

''(ii) is an eligible retirement plan described in clause (i) or (ii) of section 402(c)(8)(B).''.

(c) RULES FOR APPLYING SECTION 72 TO IRAS.—Paragraph (3) of section 408(d) (relating to special rules for applying section 72) is amended by inserting at the end the following:

''(H) APPLICATION OF SECTION 72.—

''(i) IN GENERAL.—If—

''(I) a distribution is made from an individual retirement plan, and

''(II) a rollover contribution is made to an eligible retirement plan described in section 402(c)(8)(B)(iii), (iv), (v), or (vi) with respect to all or part of such distribution,

then, notwithstanding paragraph (2), the rules of clause (ii) shall apply for purposes of applying section 72.

''(ii) APPLICABLE RULES.—In the case of a distribution described in clause (i)—

''(I) section 72 shall be applied separately to such distribution,

''(II) notwithstanding the pro rata allocation of income on, and investment in the contract, to distributions under section 72, the portion of such distribution rolled over to an eligible retirement plan described in clause (i) shall be treated as from income on the contract (to the extent of the aggregate income on the contract from all individual retirement plans of the distributee), and

''(III) appropriate adjustments shall be made in applying section 72 to other distributions in such taxable year and subsequent taxable years.''

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to distributions made after December 31, 2000.

SEC. 1234. HARDSHIP EXCEPTION TO 60-DAY RULE.

(a) EXEMPT TRUSTS.—Paragraph (3) of section 402(c) (relating to transfer must be made within 60 days of receipt) is amended to read as follows:

''(3) TRANSFER MUST BE MADE WITHIN 60 DAYS OF RECEIPT.—

''(A) IN GENERAL.—Except as provided in subparagraph (B), paragraph (1) shall not apply to any transfer of a distribution made after the 60th day following the day on which the distributee received the property distributed.

''(B) HARDSHIP EXCEPTION.—The Secretary may waive the 60-day requirement under subparagraph (A) where the failure to waive such requirement would be against equity or good conscience, including casualty, disaster, or other events beyond the reasonable control of the individual subject to such requirement.''.

(b) IRAs.—Paragraph (3) of section 408(d) (relating to rollover contributions) is amended by adding after subparagraph (H) the following new subparagraph:

''(I) WAIVER OF 60-DAY REQUIREMENT.—The Secretary may waive the 60-day requirement under subparagraphs (A) and (D) where the failure to waive such requirement would be against equity or good conscience, including casualty, disaster, or other events beyond the reasonable control of the individual subject to such requirement.''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to distributions after December 31, 2000.

SEC. 1235. TREATMENT OF FORMS OF DISTRIBUTION.

(a) PLAN TRANSFERS.—

(1) IN GENERAL.—Paragraph (6) of section 411(d) (relating to accrued benefit not to be decreased by amendment) is amended by adding at the end the following:

''(D) PLAN TRANSFERS.—

''(i) A defined contribution plan (in this subparagraph referred to as the 'transferee plan') shall not be treated as failing to meet the requirements of this subsection merely because the transferee plan does not provide some or all of the forms of distribution previously available under another defined contribution plan (in this subparagraph referred to as the 'transferor plan') to the extent that—

''(I) the forms of distribution previously available under the transferor plan applied to the account of a participant or beneficiary under the transferor plan that was transferred from the transferor plan to the transferee plan pursuant to a direct transfer rather than pursuant to a distribution from the transferor plan;

''(II) the terms of both the transferor plan and the transferee plan authorize the transfer described in subclause (I);

''(III) the transfer described in subclause (I) was made pursuant to a voluntary election by the participant or beneficiary whose account was transferred to the transferee plan;

''(IV) the election described in subclause (III) was made after the participant or beneficiary received a notice describing the consequences of making the election;

''(V) if the transferor plan provides for an annuity as the normal form of distribution under the plan in accordance with section 417, the transfer is made with the consent of the participant's spouse (if any), and such consent meets requirements similar to the requirements imposed by section 417(a)(2); and

''(VI) the transferee plan allows the participant or beneficiary described in subclause (III) to receive any distribution to which the participant or beneficiary is entitled under the transferee plan in the form of a single sum distribution.

''(ii) Clause (i) shall apply to plan mergers and other transactions having the effect of a direct transfer, including consolidations of benefits attributable to different employers within a multiple employer plan.

''(E) ELIMINATION OF FORM OF DISTRIBUTION.—Except to the extent provided in regulations, a defined contribution plan shall not be treated as failing to meet the requirements of this section merely because of the elimination of a form of distribution previously available thereunder. This subparagraph shall not apply to the elimination of a form of distribution with respect to any participant unless—

''(i) a single sum payment is available to such participant at the same time or times as the form of distribution being eliminated; and

''(ii) such single sum payment is based on the same or greater portion of the participant's account as the form of distribution being eliminated.''.

(2) EFFECTIVE DATE.—The amendment made by this subsection shall apply to years beginning after December 31, 2000.

(b) REGULATIONS.—

(1) IN GENERAL.—The last sentence of paragraph (6)(B) of section 411(d) (relating to accrued benefit not to be decreased by amendment) is amended to read as follows: ''The Secretary may by regulations provide that this subparagraph shall not apply to any plan amendment that does not adversely affect the rights of participants in a material manner.''.

(2) SECRETARY DIRECTED.—Not later than December 31, 2001, the Secretary of the Treasury is directed to issue final regulations under section 411(d)(6) of the Internal Revenue Code of 1986. Such regulations shall apply to plan years beginning after December 31, 2001, or such earlier date as is specified by the Secretary of the Treasury.

SEC. 1236. RATIONALIZATION OF RESTRICTIONS ON DISTRIBUTIONS.

(a) MODIFICATION OF SAME DESK EXCEPTION.—

(1) SECTION 401(k).—

(A) Section 401(k)(2)(B)(i)(I) (relating to qualified cash or deferred arrangements) is amended by striking ''separation from service'' and inserting ''severance from employment''.

(B) Subparagraph (A) of section 401(k)(10) (relating to distributions upon termination of plan or disposition of assets or subsidiary) is amended to read as follows:

''(A) IN GENERAL.—An event described in this subparagraph is the termination of the plan without establishment or maintenance of another defined contribution plan (other than an employee stock ownership plan as defined in section 4975(e)(7)).''.

(C) Section 401(k)(10) is amended—

(i) in subparagraph (B)—

(I) by striking ''An event'' in clause (i) and inserting ''A termination'', and

(II) by striking ''the event'' in clause (i) and inserting ''the termination'',

(ii) by striking subparagraph (C), and

(iii) by striking ''OR DISPOSITION OF ASSETS OR SUBSIDIARY'' in the heading.

(2) SECTION 403(b).—

(A) Paragraphs (7)(A)(ii) and (11)(A) of section 403(b) are each amended by striking ''separates from service'' and inserting ''has a severance from employment''.

(B) The heading for paragraph (11) of section 403(b) is amended by striking ''SEPARATION FROM SERVICE'' and inserting ''SEVERANCE FROM EMPLOYMENT''.

(3) SECTION 457.—Clause (ii) of section 457(d)(1)(A) is amended by striking ''is separated from service'' and inserting ''has a severance from employment''.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to distributions after December 31, 2000.

SEC. 1237. PURCHASE OF SERVICE CREDIT IN GOVERNMENTAL DEFINED BENEFIT PLANS.

(a) 403(b) PLANS.—Subsection (b) of section 403 is amended by adding at the end the following new paragraph:

''(13) TRUSTEE-TO-TRUSTEE TRANSFERS TO PURCHASE PERMISSIVE SERVICE CREDIT.—No amount shall be includible in gross income by reason of a direct trustee-to-trustee transfer to a defined benefit governmental plan (as defined in section 414(d)) if such transfer is—

''(A) for the purchase of permissive service credit (as defined in section 415(n)(3)(A)) under such plan, or

''(B) a repayment to which section 415 does not apply by reason of subsection (k)(3) thereof.''.

(b) 457 PLANS.—

(1) Subsection (e) of section 457 is amended by adding after paragraph (17) the following new paragraph:

''(18) TRUSTEE-TO-TRUSTEE TRANSFERS TO PURCHASE PERMISSIVE SERVICE CREDIT.—No amount shall be includible in gross income by reason of a direct trustee-to-trustee transfer to a defined benefit governmental plan (as defined in section 414(d)) if such transfer is—

''(A) for the purchase of permissive service credit (as defined in section 415(n)(3)(A)) under such plan, or

''(B) a repayment to which section 415 does not apply by reason of subsection (k)(3) thereof.''.

(2) Section 457(b)(2) is amended by striking ''(other than rollover amounts)'' and inserting ''(other than rollover amounts and amounts received in a transfer referred to in subsection (e)(16))''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to trustee-to-trustee transfers after December 31, 2000.

SEC. 1238. EMPLOYERS MAY DISREGARD ROLLOVERS FOR PURPOSES OF CASH-OUT AMOUNTS.

(a) IN GENERAL.—Section 411(a)(11) (relating to restrictions on certain mandatory distributions) is amended by adding at the end the following:

''(D) SPECIAL RULE FOR ROLLOVER CONTRIBUTIONS.—A plan shall not fail to meet the requirements of this paragraph if, under the terms of the plan, the present value of the nonforfeitable accrued benefit is determined without regard to that portion of such benefit which is attributable to rollover contributions (and earnings allocable thereto). For purposes of this subparagraph, the term 'rollover contributions' means any rollover contribution under sections 402(c), 403(a)(4), 403(b)(8), 408(d)(3)(A)(ii), and 457(e)(16).''.

(b) ELIGIBLE DEFERRED COMPENSATION PLANS.—Clause (i) of section 457(e)(9)(A) is amended by striking ''such amount'' and inserting ''the portion of such amount which is not attributable to rollover contributions (as defined in section 411(a)(11)(D))''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to distributions after December 31, 2000.

SEC. 1239. MINIMUM DISTRIBUTION AND INCLUSION REQUIREMENTS FOR SECTION 457 PLANS.

(a) MINIMUM DISTRIBUTION REQUIREMENTS.—Paragraph (2) of section 457(d) (relating to distribution requirements) is amended to read as follows:

''(2) MINIMUM DISTRIBUTION REQUIREMENTS.—A plan meets the minimum distribution requirements of this paragraph if such plan meets the requirements of section 401(a)(9).''

(b) INCLUSION IN GROSS INCOME.—

(1) YEAR OF INCLUSION.—Subsection (a) of section 457 (relating to year of inclusion in gross income) is amended to read as follows:

''(a) YEAR OF INCLUSION IN GROSS INCOME.—

''(1) IN GENERAL.—Any amount of compensation deferred under an eligible deferred compensation plan, and any income attributable to the amounts so deferred, shall be includible in gross income only for the taxable year in which such compensation or other income—

''(A) is paid to the participant or other beneficiary, in the case of a plan of an eligible employer described in subsection (e)(1)(A), and

''(B) is paid or otherwise made available to the participant or other beneficiary, in the case of a plan of an eligible employer described in subsection (e)(1)(B).

''(2) SPECIAL RULE FOR ROLLOVER AMOUNTS.—To the extent provided in section 72(t)(9), section 72(t) shall apply to any amount includible in gross income under this subsection.''.

(2) CONFORMING AMENDMENT.—So much of paragraph (9) of section 457(e) as precedes subparagraph (A) is amended to read as follows:

''(9) BENEFITS OF TAX EXEMPT ORGANIZATION PLANS NOT TREATED AS MADE AVAILABLE BY REASON OF CERTAIN ELECTIONS, ETC.—In the case of an eligible deferred compensation plan of an employer described in subsection (e)(1)(B)—''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to distributions after December 31, 2000.

Subtitle D—Strengthening Pension Security and Enforcement

SEC. 1241. REPEAL OF 150 PERCENT OF CURRENT LIABILITY FUNDING LIMIT.

(a) IN GENERAL.—Section 412(c)(7) (relating to full-funding limitation) is amended—

(1) by striking ''the applicable percentage'' in subparagraph (A)(i)(I) and inserting ''in the case of plan years beginning before January 1, 2004, the applicable percentage'', and

(2) by amending subparagraph (F) to read as follows:

''(F) APPLICABLE PERCENTAGE.—For purposes of subparagraph (A)(i)(I), the applicable percentage shall be determined in accordance with the following table:

"In the case of any plan year beginning in—	The applicable percentage is—
2001	160
2002	165
2003	170.''.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to plan years beginning after December 31, 2000.

SEC. 1242. MAXIMUM CONTRIBUTION DEDUCTION RULES MODIFIED AND APPLIED TO ALL DEFINED BENEFIT PLANS.

(a) IN GENERAL.—Subparagraph (D) of section 404(a)(1) (relating to special rule in case of certain plans) is amended to read as follows:

''(D) SPECIAL RULE IN CASE OF CERTAIN PLANS.—

''(i) IN GENERAL.—In the case of any defined benefit plan, except as provided in regulations, the maximum amount deductible under the limitations of this paragraph shall not be less than the unfunded termination liability (determined as if the proposed termination date referred to in section 4041(b)(2)(A)(i)(II) of the Employee Retirement Income Security Act of 1974 were the last day of the plan year).

''(ii) PLANS WITH LESS THAN 100 PARTICIPANTS.—For purposes of this subparagraph, in the case of a plan which has less than 100 participants for the plan year, termination liability shall not include the liability attributable to benefit increases for highly compensated employees (as defined in section 414(q)) resulting from a plan amendment which is made or becomes effective, whichever is later, within the last 2 years before the termination date.

''(iii) RULE FOR DETERMINING NUMBER OF PARTICIPANTS.—For purposes of determining whether a plan has more than 100 participants, all defined benefit plans maintained by the same employer (or any member of such employer's controlled group (within the meaning of section 412(l)(8)(C))) shall be treated as 1 plan, but only employees of such member or employer shall be taken into account.

''(iv) PLANS ESTABLISHED AND MAINTAIN BY PROFESSIONAL SERVICE EMPLOYERS.—Clause (i) shall not apply to a plan described in section 4021(b)(13) of the Employee Retirement Income Security Act of 1974.''.

(b) CONFORMING AMENDMENT.—Paragraph (6) of section 4972(c) is amended to read as follows:

''(6) EXCEPTIONS.—In determining the amount of nondeductible contributions for any taxable year, there shall not be taken into account so much of the contributions to 1 or more defined contribution plans which are not deductible when contributed solely because of section 404(a)(7) as does not exceed the greater of—

''(A) the amount of contributions not in excess of 6 percent of compensation (within the meaning of section 404(a)) paid or accrued (during the taxable year for which the contributions were made) to beneficiaries under the plans, or

''(B) the sum of—

''(i) the amount of contributions described in section 401(m)(4)(A), plus

''(ii) the amount of contributions described in section 402(g)(3)(A).

For purposes of this paragraph, the deductible limits under section 404(a)(7) shall first be applied to amounts contributed to a defined benefit plan and then to amounts described in subparagraph (B).''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to plan years beginning after December 31, 2000.

SEC. 1244. EXCISE TAX RELIEF FOR SOUND PENSION FUNDING.

(a) IN GENERAL.—Subsection (c) of section 4972 (relating to nondeductible contributions) is amended by adding at the end the following new paragraph:

''(7) DEFINED BENEFIT PLAN EXCEPTION.—In determining the amount of nondeductible contributions for any taxable year, an employer may elect for such year not to take into account any contributions to a defined benefit plan except to the extent that such contributions exceed the full-funding limitation (as defined in section 412(c)(7), determined without regard to subparagraph (A)(i)(I) thereof). For purposes of this paragraph, the deductible limits under section 404(a)(7) shall first be applied to amounts contributed to defined contribution plans and then to amounts described in this paragraph. If an employer makes an election under this paragraph for a taxable year, paragraph (6) shall not apply to such employer for such taxable year.''.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to years beginning after December 31, 2000.

SEC. 1245. EXCISE TAX ON FAILURE TO PROVIDE NOTICE BY DEFINED BENEFIT PLANS SIGNIFICANTLY REDUCING FUTURE BENEFIT ACCRUALS.

(a) IN GENERAL.—Chapter 43 of subtitle D (relating to qualified pension, etc., plans) is amended by adding at the end the following new section:

''SEC. 4980F. FAILURE OF APPLICABLE PLANS REDUCING BENEFIT ACCRUALS TO SATISFY NOTICE REQUIREMENTS.

''(a) IMPOSITION OF TAX.—There is hereby imposed a tax on the failure of any applicable pension plan to meet the requirements of subsection (e) with respect to any applicable individual.

''(b) AMOUNT OF TAX.—

''(1) IN GENERAL.—The amount of the tax imposed by subsection (a) on any failure with respect to any applicable individual shall be $100 for each day in the noncompliance period with respect to such failure.

''(2) NONCOMPLIANCE PERIOD.—For purposes of this section, the term 'noncompliance period' means, with respect to any failure, the period beginning on the date the failure first occurs and ending on the date the failure is corrected.

''(c) LIMITATIONS ON AMOUNT OF TAX.—

''(1) OVERALL LIMITATION FOR UNINTENTIONAL FAILURES.—In the case of failures that are due to reasonable cause and not to willful neglect, the tax imposed by subsection (a) for failures during the taxable year of the employer (or, in the case of a multiemployer plan, the taxable year of the trust forming part of the plan) shall not exceed $500,000. For purposes of the preceding sentence, all multiemployer plans of which the same trust forms a part shall be treated as 1 plan. For purposes of this paragraph, if not all persons who are treated as a single employer for purposes of this section have the same taxable year, the taxable years taken into account shall be determined under principles similar to the principles of section 1561.

''(2) WAIVER BY SECRETARY.—In the case of a failure which is due to reasonable cause and not to willful neglect, the Secretary may waive part or all of the tax imposed by subsection (a) to the extent that the payment of such tax would be excessive relative to the failure involved.

''(d) LIABILITY FOR TAX.—The following shall be liable for the tax imposed by subsection (a):

''(1) In the case of a plan other than a multiemployer plan, the employer.

''(2) In the case of a multiemployer plan, the plan.

''(e) NOTICE REQUIREMENTS FOR PLANS SIGNIFICANTLY REDUCING BENEFIT ACCRUALS.—

''(1) IN GENERAL.—If an applicable pension plan is amended to provide for a significant reduction in the rate of future benefit accrual, the plan administrator shall provide written notice to each applicable individual (and to each employee organization representing applicable individuals).

''(2) NOTICE.—The notice required by paragraph (1) shall be written in a manner calculated to be understood by the average plan participant and shall provide sufficient information (as determined in accordance with regulations prescribed by the Secretary) to allow applicable individuals to understand the effect of the plan amendment.

''(3) TIMING OF NOTICE.—Except as provided in regulations, the notice required by paragraph (1) shall be provided within a reasonable time before the effective date of the plan amendment.

''(4) DESIGNEES.—Any notice under paragraph (1) may be provided to a person designated, in writing, by the person to which it would otherwise be provided.

''(5) NOTICE BEFORE ADOPTION OF AMENDMENT.—A plan shall not be treated as failing to meet the requirements of paragraph (1) merely because notice is provided before the adoption of the plan amendment if no material modification of the amendment occurs before the amendment is adopted.

''(f) APPLICABLE INDIVIDUAL; APPLICABLE PENSION PLAN.—For purposes of this section—

''(1) APPLICABLE INDIVIDUAL.—The term 'applicable individual' means, with respect to any plan amendment—

''(A) any participant in the plan, and

''(B) any beneficiary who is an alternate payee (within the meaning of section 414(p)(8)) under an applicable qualified domestic relations order (within the meaning of section 414(p)(1)(A)),

who may reasonably be expected to be affected by such plan amendment.

''(2) APPLICABLE PENSION PLAN.—The term 'applicable pension plan' means—

''(A) any defined benefit plan, or

''(B) an individual account plan which is subject to the funding standards of section 412,

which had 100 or more participants who had accrued a benefit, or with respect to whom contributions were made, under the plan (whether or not vested) as of the last day of the plan year preceding the plan year in which the plan amendment becomes effective.''

(b) CLERICAL AMENDMENT.—The table of sections for chapter 43 of subtitle D is amended by adding at the end the following new item:

''Sec. 4980F. Failure of applicable plans reducing benefit accruals to satisfy notice requirements.''

(c) EFFECTIVE DATES.—

(1) IN GENERAL.—The amendments made by this section shall apply to plan amendments taking effect on or after the date of the enactment of this Act.

(2) TRANSITION.—Until such time as the Secretary of the Treasury issues regulations under sections 4980F(e)(2) and (3) of the Internal Revenue Code of 1986 (as added by the amendment made by subsection (a)), a plan shall be treated as meeting the requirements of such section if it makes a good faith effort to comply with such requirements.

(3) SPECIAL RULE.—The period for providing any notice required by the amendments made by this section shall not end before the date which is 3 months after the date of the enactment of this Act.

Subtitle E—Reducing Regulatory Burdens

SEC. 1251. REPEAL OF THE MULTIPLE USE TEST.

(a) IN GENERAL.—Paragraph (9) of section 401(m) is amended to read as follows:

''(9) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary to carry out the purposes of this subsection and subsection (k), including regulations permitting appropriate aggregation of plans and contributions.''.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to years beginning after December 31, 2000.

SEC. 1252. MODIFICATION OF TIMING OF PLAN VALUATIONS.

(a) IN GENERAL.—Section 412(c)(9) (relating to annual valuation) is amended—

(1) by striking ''For purposes'' and inserting the following:

''(A) IN GENERAL.—For purposes'', and

(2) by adding at the end the following:

''(B) ELECTION TO USE PRIOR YEAR VALUATION.—

''(i) IN GENERAL.—Except as provided in clause (ii), if, for any plan year—

''(I) an election is in effect under this subparagraph with respect to a plan, and

''(II) the assets of the plan are not less than 125 percent of the plan's current liability (as defined in paragraph (7)(B)), determined as of the valuation date for the preceding plan year,

then this section shall be applied using the information available as of such valuation date.

''(ii) EXCEPTIONS.—

''(I) ACTUAL VALUATION EVERY 3 YEARS.—Clause (i) shall not apply for more than 2 consecutive plan years and valuation shall be under subparagraph (A) with respect to any plan year to which clause (i) does not apply by reason of this clause.

''(II) REGULATIONS.—Subclause (I) shall not apply to the extent that more frequent valuations are required under the regulations under subparagraph (A).

''(iii) ADJUSTMENTS.—Information under clause (i) shall, in accordance with regulations, be actuarially adjusted to reflect significant differences in participants.

''(iv) ELECTION.—An election under this subparagraph, once made, shall be irrevocable without the consent of the Secretary.''.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to plan years beginning after December 31, 2000.

SEC. 1253. FLEXIBILITY AND NONDISCRIMINATION AND LINE OF BUSINESS RULES.

The Secretary of the Treasury shall, on or before December 31, 2000, modify the existing regulations issued under section 401(a)(4) and section 414(r) of the Internal Revenue Code of 1986 in order to expand (to the extent that the Secretary determines appropriate) the ability of a pension plan to demonstrate compliance with the nondiscrimination and line of business requirements based upon the facts and circumstances surrounding the design and operation of the plan, even though the plan is unable to satisfy the mechanical tests currently used to determine compliance.

SEC. 1255. ESOP DIVIDENDS MAY BE REINVESTED WITHOUT LOSS OF DIVIDEND DEDUCTION.

(a) IN GENERAL.—Section 404(k)(2)(A) (defining applicable dividends) is amended by striking ''or'' at the end of clause (ii), by redesignating clause (iii) as clause (iv), and by inserting after clause (ii) the following new clause:

''(iii) is, at the election of such participants or their beneficiaries—

''(I) payable as provided in clause (i) or (ii), or

''(II) paid to the plan and reinvested in qualifying employer securities, or''.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2000.

SEC. 1256. NOTICE AND CONSENT PERIOD REGARDING DISTRIBUTIONS.

(a) EXPANSION OF PERIOD.—

(1) IN GENERAL.—Subparagraph (A) of section 417(a)(6) is amended by striking ''90-day'' and inserting ''180-day''.

(2) MODIFICATION OF REGULATIONS.—The Secretary of the Treasury shall modify the regulations under sections 402(f), 411(a)(11), and 417 of the Internal Revenue Code of 1986 to substitute ''180 days'' for ''90 days'' each place it appears in Treasury Regulations sections 1.402(f)–1, 1.411(a)–11(c), and 1.417(e)–1(b).

(3) EFFECTIVE DATE.—The amendments made by paragraph (1) and the modifications required by paragraph (2) shall apply to years beginning after December 31, 2000.

(b) CONSENT REGULATION INAPPLICABLE TO CERTAIN DISTRIBUTIONS.—

(1) IN GENERAL.—The Secretary of the Treasury shall modify the regulations under section 411(a)(11) of the Internal Revenue Code of 1986 to provide that the description of a participant's right, if any, to defer receipt of a distribution shall also describe the consequences of failing to defer such receipt.

(2) EFFECTIVE DATE.—The modifications required by paragraph (1) shall apply to years beginning after December 31, 2000.

SEC. 1257. REPEAL OF TRANSITION RULE RELATING TO CERTAIN HIGHLY COMPENSATED EMPLOYEES.

(a) IN GENERAL.—Paragraph (4) of section 1114(c) of the Tax Reform Act of 1986 is hereby repealed.

(b) EFFECTIVE DATE.—The repeal made by subsection (a) shall apply to plan years beginning after December 31, 2000.

SEC. 1258. EMPLOYEES OF TAX-EXEMPT ENTITIES.

(a) IN GENERAL.—The Secretary of the Treasury shall modify Treasury Regulations section 1.410(b)–6(g) to provide that employees of an organization described in section 403(b)(1)(A)(i) of the Internal Revenue Code of 1986 who are eligible to make contributions under section 403(b) pursuant to a salary reduction agreement may be treated as excludable with respect to a plan under section 401(k), or section 401(m) of such Code that is provided under the same general arrangement as a plan under such section 401(k), if—

(1) no employee of an organization described in section 403(b)(1)(A)(i) of such Code is eligible to participate in such section 401(k) plan or section 401(m) plan, and

(2) 95 percent of the employees who are not employees of an organization described in section 403(b)(1)(A)(i) of such Code are eligible to participate in such section 401(k) plan or section 401(m) plan.

(b) EFFECTIVE DATE.—The modification required by subsection (a) shall apply as of the same date set forth in section 1426(b) of the Small Business Job Protection Act of 1996.

SEC. 1259. CLARIFICATION OF TREATMENT OF EMPLOYER-PROVIDED RETIREMENT ADVICE.

(a) IN GENERAL.—Subsection (a) of section 132 (relating to exclusion from gross income) is amended by striking ''or'' at the end of paragraph (5), by striking the period at the end of paragraph (6) and inserting '', or'', and by adding at the end the following new paragraph:

''(7) qualified retirement planning services.''.

(b) QUALIFIED RETIREMENT PLANNING SERVICES DEFINED.—Section 132 is amended by redesignating subsection (m) as subsection (n) and by inserting after subsection (l) the following:

''(m) QUALIFIED RETIREMENT PLANNING SERVICES.—

''(1) IN GENERAL.—For purposes of this section, the term 'qualified retirement planning services' means any retirement planning service provided to an employee and his spouse by an employer maintaining a retirement plan.

''(2) NONDISCRIMINATION RULE.—Subsection (a)(7) shall apply in the case of highly compensated employees only if such services are available on substantially the same terms to each member of the group of employees normally provided education and information regarding the employer's pension plan.''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to years beginning after December 31, 2000.

SEC. 1260. PROVISIONS RELATING TO PLAN AMENDMENTS.

(a) IN GENERAL.—If this section applies to any plan or contract amendment—

(1) such plan or contract shall be treated as being operated in accordance with the terms of the plan during the period described in subsection (b)(2)(A), and

(2) such plan shall not fail to meet the requirements of section 411(d)(6) of the Internal Revenue Code of 1986 by reason of such amendment.

(b) AMENDMENTS TO WHICH SECTION APPLIES.—

(1) IN GENERAL.—This section shall apply to any amendment to any plan or annuity contract which is made—

(A) pursuant to any amendment made by this title, or pursuant to any regulation issued under this title, and

(B) on or before the last day of the first plan year beginning on or after January 1, 2003.

In the case of a government plan (as defined in section 414(d) of the Internal Revenue Code of 1986, this paragraph shall be applied by substituting ''2005'' for ''2003''.

(2) CONDITIONS.—This section shall not apply to any amendment unless—

(A) during the period—

(i) beginning on the date the legislative or regulatory amendment described in paragraph (1)(A) takes effect (or in the case of a plan or contract amendment not required by such legislative or regulatory amendment, the effective date specified by the plan), and

(ii) ending on the date described in paragraph (1)(B) (or, if earlier, the date the plan or contract amendment is adopted),

the plan or contract is operated as if such plan or contract amendment were in effect, and

(B) such plan or contract amendment applies retroactively for such period.

SEC. 1261. MODEL PLANS FOR SMALL BUSINESSES.

(a) IN GENERAL.—Not later than December 31, 2000, the Secretary of the Treasury is directed to issue at least one model defined contribution plan and at least one model defined benefit plan that fit the needs of small businesses and that shall be treated as meeting the requirements of section 401(a) of the Internal Revenue Code of 1986 with respect to the form of the plan. To the extent that the requirements of section 401(a) of such Code are modified after the issuance of such plans, the Secretary of the Treasury shall, in a timely manner, issue model amendments that, if adopted in a timely manner by an employer that has a model plan in effect, shall cause such model plan to be treated as meeting the requirements of section 401(a) of such Code, as modified, with respect to the form of the plan.

(b) PROTOTYPE PLAN ALTERNATIVE.—The Secretary of the Treasury may satisfy the requirements of subsection (a) through the enhancement and simplification of the Secretary's programs for prototype plans in such a manner as to achieve the purposes of subsection (a).

SEC. 1262. SIMPLIFIED ANNUAL FILING REQUIREMENT FOR PLANS WITH FEWER THAN 25 EMPLOYEES.

(a) IN GENERAL.—In the case of a retirement plan which covers less than 25 employees on the 1st day of the plan year and meets the requirements described in subsection (b), the Secretary of the Treasury shall provide for the filing of a simplified annual return that is substantially similar to the annual return required to be filed by a one-participant retirement plan.

(b) REQUIREMENTS.—A plan meets the requirements of this subsection if it—

(1) meets the minimum coverage requirements of section 410(b) of the Internal Revenue Code of 1986 without being combined with any other plan of the business that covers the employees of the business,

(2) does not cover a business that is a member of an affiliated service group, a controlled group of corporations, or a group of businesses under common control, and

(3) does not cover a business that leases employees.

SEC. 1263. IMPROVEMENT OF EMPLOYEE PLANS COMPLIANCE RESOLUTION SYSTEM.

The Secretary of the Treasury shall continue to update and improve the Employee Plans Compliance Resolution System (or any successor program) giving special attention to—

(1) increasing the awareness and knowledge of small employers concerning the availability and use of the program,

(2) taking into account special concerns and circumstances that small employers face with respect to compliance and correction of compliance failures,

(3) extending the duration of the self-correction period under the Administrative Policy Regarding Self-Correction for significant compliance failures,

(4) expanding the availability to correct insignificant compliance failures under the Administrative Policy Regarding Self-Correction during audit, and

(5) assuring that any tax, penalty, or sanction that is imposed by reason of a compliance failure is not excessive and bears a reasonable relationship to the nature, extent, and severity of the failure.

SEC. 1264. TREATMENT OF MULTIEMPLOYER PLANS UNDER SECTION 415.

(a) IN GENERAL.—Paragraph (11) of section 415(b) (relating to limitation for defined benefit plans) is amended to read as follows:

''(11) SPECIAL LIMITATION RULE FOR GOVERNMENTAL AND MULTIEMPLOYER PLANS.—In the case of a governmental plan (as defined in section 414(d)) or a multiemployer plan (as defined in section 414(f)), subparagraph (B) of paragraph (1) shall not apply.''.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to years beginning after December 31, 2000.

TITLE XIII—MISCELLANEOUS PROVISIONS

Subtitle A—Provisions Primarily Affecting Individuals

SEC. 1301. EXCLUSION FOR FOSTER CARE PAYMENTS TO APPLY TO PAYMENTS BY QUALIFIED PLACEMENT AGENCIES.

(a) IN GENERAL.—The matter preceding subparagraph (B) of section 131(b)(1) (defining qualified foster care payment) is amended to read as follows:

''(1) IN GENERAL.—The term 'qualified foster care payment' means any payment made pursuant to a foster care program of a State or political subdivision thereof—

''(A) which is paid by—

''(i) a State or political subdivision thereof, or

''(ii) a qualified foster care placement agency, and''.

(b) QUALIFIED FOSTER INDIVIDUALS TO INCLUDE INDIVIDUALS PLACED BY QUALIFIED PLACEMENT AGENCIES.—Subparagraph (B) of section 131(b)(2) (defining qualified foster individual) is amended to read as follows:

''(B) a qualified foster care placement agency.''

(c) QUALIFIED FOSTER CARE PLACEMENT AGENCY DEFINED.—Subsection (b) of section 131 is amended by redesignating paragraph (3) as paragraph (4) and by inserting after paragraph (2) the following new paragraph:

''(3) QUALIFIED FOSTER CARE PLACEMENT AGENCY.—The term 'qualified foster care placement agency' means any placement agency which is licensed or certified by—

''(A) a State or political subdivision thereof, or

''(B) an entity designated by a State or political subdivision thereof,

for the foster care program of such State or political subdivision to make foster care payments to providers of foster care.''

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

SEC. 1302. MILEAGE REIMBURSEMENTS TO CHARITABLE VOLUNTEERS EXCLUDED FROM GROSS INCOME.

(A) IN GENERAL.—Part III of subchapter B of chapter 1 is amended by inserting after section 138 the following new section:

''SEC. 138A. MILEAGE REIMBURSEMENTS TO CHARITABLE VOLUNTEERS.

''(a) IN GENERAL.—Gross income of an individual does not include amounts received, from an organization described in section 170(c), as reimbursement of operating expenses with respect to use of a passenger automobile for the benefit of such organization. The preceding sentence shall apply only to the extent that such reimbursement would be deductible under section 274(d) (determined by applying the standard business mileage rate established pursuant to section 274(d)) if the organization were not so described and such individual were an employee of such organization.

''(b) NO DOUBLE BENEFIT.—Subsection (a) shall not apply with respect to any expenses if the individual claims a deduction or credit for such expenses under any other provision of this title.

''(c) EXEMPTION FROM REPORTING REQUIREMENTS.—Section 6041 shall not apply with respect to reimbursements excluded from income under subsection (a).''

(b) CLERICAL AMENDMENT.—The table of sections for part III of subchapter B of chapter 1 is amended by inserting after the item relating to section 138 the following new items:

''Sec. 138A. Reimbursement for use of passenger automobile for charity.''

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

SEC. 1303. W–2 TO INCLUDE EMPLOYER SOCIAL SECURITY TAXES.

(a) IN GENERAL.—Subsection (a) of section 6051 (relating to receipts for employees) is amended by striking ''and'' at the end of paragraph (10), by striking the period at the end of paragraph (11) and inserting a comma, and by inserting after paragraph (11) the following new paragraphs:

''(12) the amount of tax imposed by section 3111(a), and

''(13) the amount of tax imposed by section 3111(b).''

(b) EFFECTIVE DATE.—The amendment made by this section shall apply with respect to remuneration paid after December 31, 1999.

SEC. 1304. CONSISTENT TREATMENT OF SURVIVOR BENEFITS FOR PUBLIC SAFETY OFFICERS KILLED IN THE LINE OF DUTY.

Subsection (b) of section 1528 of the Taxpayer Relief Act of 1997 (Public Law 105–34) is amended by striking the period and inserting ', and to amounts received in taxable years beginning after December 31, 1999, with respect to individuals dying on or before December 31, 1996.''

Subtitle B—Provisions Primarily Affecting Businesses

SEC. 1311. DISTRIBUTIONS FROM PUBLICLY TRADED PARTNERSHIPS TREATED AS QUALIFYING INCOME OF REGULATED INVESTMENT COMPANIES.

(a) IN GENERAL.—Paragraph (2) of section 851(b) (defining regulated investment company) is amended by inserting ''income derived from an interest in a publicly traded partnership (as defined in section 7704(b)),'' after ''dividends, interest,''.

(b) SOURCE FLOW-THROUGH RULE NOT TO APPLY.—The last sentence of section 851(b) is amended by inserting ''(other than a publicly traded partnership (as defined in section 7704(b)))'' after ''derived from a partnership''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2000.

SEC. 1312. SPECIAL PASSIVE ACTIVITY RULE FOR PUBLICLY TRADED PARTNERSHIPS TO APPLY TO REGULATED INVESTMENT COMPANIES.

(a) IN GENERAL.—Subsection (k) of section 469 (relating to separate application of section in case of publicly traded partnerships) is amended by adding at the end the following new paragraph:

''(4) APPLICATION TO REGULATED INVESTMENT COMPANIES.—For purposes of this section, a regulated investment company (as defined in section 851) holding an interest in a publicly traded partnership shall be treated as a taxpayer described in subsection (a)(2) with respect to items attributable to such interest.''.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years beginning after December 31, 2000.

SEC. 1313. LARGE ELECTRIC TRUCKS, VANS, AND BUSES ELIGIBLE FOR DEDUCTION FOR CLEAN-FUEL VEHICLES IN LIEU OF CREDIT.

(a) IN GENERAL.—Paragraph (1) of section 30(c) (relating to credit for qualified electric vehicles) is amended by adding at the end the following new flush sentence:

''Such term shall not include any vehicle described in subclause (I) or (II) of section 179A(b)(1)(A)(iii).''

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to property placed in service after December 31, 1999.

SEC. 1314. MODIFICATIONS TO SPECIAL RULES FOR NUCLEAR DECOMMISSIONING COSTS.

(a) REPEAL OF LIMITATION ON DEPOSITS INTO FUND BASED ON COST OF SERVICE.—Subsection (b) of section 468A is amended to read as follows:

''(b) LIMITATION ON AMOUNTS PAID INTO FUND.—The amount which a taxpayer may pay into the Fund for any taxable year shall not exceed the ruling amount applicable to such taxable year.''

(b) CLARIFICATION OF TREATMENT OF FUND TRANSFERS.—Subsection (e) of section 468A is amended by adding at the end the following new paragraph:

''(8) TREATMENT OF FUND TRANSFERS.—If, in connection with the transfer of the taxpayer's interest in a nuclear powerplant, the taxpayer transfers the Fund with respect to such powerplant to the transferee of such interest and the transferee elects to continue the application of this section to such Fund—

''(A) the transfer of such Fund shall not cause such Fund to be disqualified from the application of this section, and

''(B) no amount shall be treated as distributed from such Fund, or be includible in gross income, by reason of such transfer.''

(c) TRANSFERS OF BALANCES IN NONQUALIFIED FUNDS.—Section 468A is amended by redesignating subsections (f) and (g) as subsections (g) and (h), respectively, and by inserting after subsection (e) the following new subsection:

''(f) TRANSFERS OF BALANCES IN NONQUALIFIED FUNDS INTO QUALIFIED FUNDS.—

''(1) IN GENERAL.—Notwithstanding subsection (b), any taxpayer maintaining a Fund to which this section applies with respect to a nuclear powerplant may transfer into such Fund amounts held in any nonqualified fund of such taxpayer with respect to such powerplant.

''(2) MAXIMUM AMOUNT PERMITTED TO BE TRANSFERRED.—The amount permitted to be transferred under paragraph (1) shall not exceed the balance in the nonqualified fund as of December 31, 1998.

''(3) DEDUCTION FOR AMOUNTS TRANSFERRED.—

''(A) IN GENERAL.—The deduction allowed by subsection (a) for any transfer permitted by this subsection shall be allowed ratably over the remaining estimated useful life (within the meaning of subsection (d)(2)(A)) of the nuclear powerplant, beginning with the later of the taxable year during which the transfer is made or the taxpayer's first taxable year beginning after December 31, 2001.

''(B) DENIAL OF DEDUCTION FOR PREVIOUSLY DEDUCTED AMOUNTS.—No deduction shall be allowed for any transfer under this subsection of an amount for which a deduction was allowed when such amount was paid into the nonqualified fund. For purposes of the preceding

sentence, a ratable portion of each transfer shall be treated as being from previously deducted amounts to the extent thereof.

''(C) TRANSFERS OF QUALIFIED FUNDS.—If—

''(i) any transfer permitted by this subsection is made to any Fund to which this section applies, and

''(ii) such Fund is transferred thereafter,

any deduction under this subsection for taxable years ending after the date that such Fund is transferred shall be allowed to the transferee and not to the transferor. The preceding sentence shall not apply if the transferor is an organization exempt from tax imposed by this chapter.

''(4) NEW RULING AMOUNT REQUIRED.—Paragraph (1) shall not apply to any transfer unless the taxpayer requests from the Secretary a new schedule of ruling amounts in connection with such transfer.

''(5) NONQUALIFIED FUND.—For purposes of this subsection, the term 'nonqualified fund' means, with respect to any nuclear powerplant, any fund in which amounts are irrevocably set aside pursuant to the requirements of any State or Federal agency exclusively for the purpose of funding the decommissioning of such powerplant.

''(6) NO BASIS IN QUALIFIED FUNDS.—Notwithstanding any other provision of law, the basis of any Fund to which this section applies shall not be increased by reason of any transfer permitted by this subsection.''

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

SEC. 1315. CONSOLIDATION OF LIFE INSURANCE COMPANIES WITH OTHER CORPORATIONS.

(a) IN GENERAL.—Section 1504(b) (defining includible corporation) is amended by striking paragraph (2).

(b) CONFORMING AMENDMENTS.—

(1) Subsection (c) of section 1503 is amended by striking paragraph (2) (relating to losses of recent nonlife affiliates).

(2) Section 1504 is amended by striking subsection (c) and by redesignating subsections (d), (e), and (f) as subsections (c), (d), and (e), respectively.

(3) Section 1503(c)(1) (relating to special rule for application of certain losses against income of insurance companies taxed under section 801) is amended by striking ''an election under section 1504(c)(2) is in effect for the taxable year and''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2004.

(d) NO CARRYBACK BEFORE JANUARY 1, 2005.—To the extent that a consolidated net operating loss is allowed or increased by reason of the amendments made by this section, such loss may not be carried back to a taxable year beginning before January 1, 2005.

(e) NONTERMINATION OF GROUP.—No affiliated group shall terminate solely as a result of the amendments made by this section.

(f) WAIVER OF 5-YEAR WAITING PERIOD.—Under regulations prescribed by the Secretary of the Treasury or his delegate, an automatic waiver from the 5-year waiting period for reconsolidation provided in section 1504(a)(3) of such Code shall be granted to any corporation which was previously an includible corporation but was subsequently deemed a nonincludible corporation as a result of becoming a subsidiary of a corporation which was not an includible corporation solely by operation of section 1504(c)(2) of such Code (as in effect on the day before the date of enactment of this Act).

Subtitle C—Provisions Relating to Excise Taxes

SEC. 1321. CONSOLIDATION OF HAZARDOUS SUBSTANCE SUPERFUND AND LEAKING UNDERGROUND STORAGE TANK TRUST FUND.

(a) IN GENERAL.—Subchapter A of chapter 98 (relating to trust fund code) is amended by striking sections 9507 and 9508 and inserting the following new section:

''SEC. 9507. ENVIRONMENTAL REMEDIATION TRUST FUND.

''(a) CREATION OF TRUST FUND.—There is established in the Treasury of the United States a trust fund to be known as the 'Environmental Remediation Trust Fund' consisting of such amounts as may be—

''(1) appropriated to the Environmental Remediation Trust Fund as provided in this section,

''(2) appropriated to the Environmental Remediation Trust Fund pursuant to section 517(b) of the Superfund Revenue Act of 1986, or

''(3) credited to the Environmental Remediation Trust Fund as provided in section 9602(b).

''(b) TRANSFERS TO ENVIRONMENTAL REMEDIATION TRUST FUND.—

''(1) IN GENERAL.—There are hereby appropriated to the Environmental Remediation Trust Fund amounts equivalent to—

''(A) the taxes received in the Treasury under—

''(i) section 59A, 4611, 4661, or 4671 (relating to environmental taxes),

''(ii) section 4041(d) (relating to additional taxes on motor fuels),

''(iii) section 4081 (relating to tax on gasoline, diesel fuel, and kerosene) to the extent attributable to the Environmental Remediation Trust Fund financing rate under such section,

''(iv) section 4091 (relating to tax on aviation fuel) to the extent attributable to the Environmental Remediation Trust Fund financing rate under such section, and

''(v) section 4042 (relating to tax on fuel used in commercial transportation on inland waterways) to the extent attributable to the Environmental Remediation Trust Fund financing rate under such section,

''(B) amounts recovered on behalf of the Environmental Remediation Trust Fund under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (hereinafter in this section referred to as 'CERCLA'),

''(C) all moneys recovered or collected under section 311(b)(6)(B) of the Clean Water Act,

''(D) penalties assessed under title I of CERCLA,

''(E) punitive damages under section 107(c)(3) of CERCLA, and

''(F) amounts received in the Treasury and collected under section 9003(h)(6) of the Solid Waste Disposal Act.

''(2) LIMITATION ON TRANSFERS.—

''(A) IN GENERAL.—Except as provided in subparagraph (B), no amount may be appropriated or credited to the Environmental Remediation Trust Fund on and after the date of any expenditure from any such Trust Fund which is not permitted by this section. The determination of whether an expenditure is so permitted shall be made without regard to—

''(i) any provision of law which is not contained or referenced in this title or in a revenue Act, and

''(ii) whether such provision of law is a subsequently enacted provision or directly or indirectly seeks to waive the application of this paragraph.

''(B) EXCEPTION FOR PRIOR OBLIGATIONS.—Subparagraph (A) shall not apply to any expenditure to liquidate any contract entered into (or for any amount otherwise obligated) in accordance with the provisions of this section.''

''(c) EXPENDITURES FROM ENVIRONMENTAL REMEDIATION TRUST FUND.—

''(1) IN GENERAL.—Amounts in the Environmental Remediation Trust Fund shall be available, as provided in appropriation Acts, only for purposes of making expenditures—

''(A) to carry out the purposes of—

''(i) paragraphs (1), (2), (5), and (6) of section 111(a) of CERCLA as in effect on July 12, 1999,

''(ii) section 111(c) of CERCLA (as so in effect), other than paragraphs (1) and (2) thereof, and

''(iii) section 111(m) of CERCLA (as so in effect), or

''(B) to carry out section 9003(h) of the Solid Waste Disposal Act as in effect on July 12, 1999.

''(2) EXCEPTION FOR CERTAIN TRANSFERS, ETC., OF HAZARDOUS SUBSTANCES.—No amount in the Environmental Remediation Trust Fund or derived from the Environmental Remediation Trust Fund shall be available or used for the transfer or disposal of hazardous waste carried out pursuant to a cooperative agreement between the Administrator of the Environmental Protection Agency and a State if the following conditions apply—

''(A) the transfer or disposal, if made on December 13, 1985, would not comply with a State or local requirement,

''(B) the transfer is to a facility for which a final permit under section 3005(a) of the Solid Waste Disposal Act was issued after January 1, 1983, and before November 1, 1984, and

''(C) the transfer is from a facility identified as the McColl Site in Fullerton, California.

''(3) TRANSFERS FROM TRUST FUND FOR CERTAIN REPAYMENTS AND CREDITS.—

''(A) IN GENERAL.—The Secretary shall pay from time to time from the Environmental Remediation Trust Fund into the general fund of the Treasury amounts equivalent to—

''(i) amounts paid under—

''(I) section 6420 (relating to amounts paid in respect of gasoline used on farms),

''(II) section 6421 (relating to amounts paid in respect of gasoline used for certain nonhighway purposes or by local transit systems), and

''(III) section 6427 (relating to fuels not used for taxable purposes), and

''(ii) credits allowed under section 34,

with respect to the taxes imposed by section 4041(d) or by sections 4081 and 4091 (to the extent attributable to the Leaking Underground Storage Tank Trust Fund financing rate or the Environmental Remediation Trust Fund financing rate under such sections).

''(B) TRANSFERS BASED ON ESTIMATES.—Transfers under subparagraph (A) shall be made on the basis of estimates by the Secretary, and proper adjustments shall be made in amounts subsequently transferred to the extent prior estimates were in excess of or less than the amounts required to be transferred.

''(d) LIABILITY OF UNITED STATES LIMITED TO AMOUNT IN TRUST FUND.—

''(1) GENERAL RULE.—Any claim filed against the Environmental Remediation Trust Fund may be paid only out of the Environmental Remediation Trust Fund.

''(2) COORDINATION WITH OTHER PROVISIONS.—Nothing in CERCLA or the Superfund Amendments and Reauthorization Act of 1986 (or in any amendment made by either of such Acts) shall authorize the payment by the United States Government of any amount with respect to any such claim out of any source other than the Environmental Remediation Trust Fund.

''(3) ORDER IN WHICH UNPAID CLAIMS ARE TO BE PAID.—If at any time the Environmental Remediation Trust Fund has insufficient funds to pay all of the claims payable out of the Environmental Remediation Trust Fund at such time, such claims shall, to the extent permitted under paragraph (1), be paid in full in the order in which they were finally determined.''

(b) CONFORMING AMENDMENTS.—

(1) Subsections (c) and (d) of section 4611 are each amended by striking ''Hazardous Substance Superfund'' each place it appears and inserting ''Environmental Remediation Trust Fund''.

(2) Subsection (c) of section 4661 is amended by striking ''Hazardous Substance Superfund'' and inserting ''Environmental Remediation Trust Fund''.

(3) Sections 4041(d), 4042(b), 4081(a)(2)(B), 4081(d)(3), 4091(b), 4092(b), 6421(f), and 6427(l) are each amended by striking ''Leaking Underground Storage Tank'' each place it appears (other than the headings) and inserting ''Environmental Remediation''.

(4) The heading for subsection (d) of section 4041 is amended by striking ''LEAKING UNDERGROUND STORAGE TANK'' and inserting ''ENVIRONMENTAL REMEDIATION''.

(5) The headings for subsections (a)(2)(B) and (d)(3) of section 4081 and section 4091(b)(2) are each amended by striking ''LEAKING UNDERGROUND STORAGE TANK'' and inserting ''ENVIRONMENTAL REMEDIATION''.

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect on October 1, 1999.

(d) ENVIRONMENTAL REMEDIATION TRUST FUND TREATED AS CONTINUATION OF OLD TRUST FUNDS.—The Environmental Remediation Trust Fund established by the amendments made by this section shall be treated for all purposes of law as a continuation of both the Hazardous Substance Superfund and the Leaking Underground Storage Tank Trust Fund. Any reference in any law to the Hazardous Substance Superfund or the Leaking Underground Storage Tank Trust Fund shall be deemed to include (wherever appropriate) a reference to the Environmental Remediation Trust Fund established by such amendments.

SEC. 1322. REPEAL OF CERTAIN MOTOR FUEL EXCISE TAXES ON FUEL USED BY RAILROADS AND ON INLAND WATERWAY TRANSPORTATION.

(a) REPEAL OF LEAKING UNDERGROUND STORAGE TANK TRUST FUND TAXES ON FUEL USED IN TRAINS.—

(1) IN GENERAL.—Paragraph (1) of section 4041(d) is amended by adding at the end the following new sentence: ''The preceding sentence shall not apply to any sale for use, or use, of fuel in a diesel-powered train.''

(2) CONFORMING AMENDMENTS.—

(A) Paragraph (3) of section 6421(f) is amended by striking ''with respect to—'' and all that follows through ''so much of'' and inserting ''with respect to so much of''.

(B) Paragraph (3) of section 6427(l) is amended by striking ''with respect to—'' and all that follows through ''so much of'' and inserting ''with respect to so much of''.

(b) REPEAL OF 4.3-CENT MOTOR FUEL EXCISE TAXES ON RAILROADS AND INLAND WATERWAY TRANSPORTATION WHICH REMAIN IN GENERAL FUND.—

(1) TAXES ON TRAINS.—

(A) IN GENERAL.—Subparagraph (A) of section 4041(a)(1) is amended by striking ''or a diesel-powered train'' each place it appears and by striking ''or train''.

(B) CONFORMING AMENDMENTS.—

(i) Subparagraph (C) of section 4041(a)(1) is amended by striking clause (ii) and by redesignating clause (iii) as clause (ii).

(ii) Subparagraph (C) of section 4041(b)(1) is amended by striking all that follows ''section 6421(e)(2)'' and inserting a period.

(iii) Paragraph (3) of section 4083(a) is amended by striking ''or a diesel-powered train''.

(iv) Section 6421(f) is amended by striking paragraph (3).

(v) Section 6427(l) is amended by striking paragraph (3).

(2) FUEL USED ON INLAND WATERWAYS.—

(A) IN GENERAL.—Paragraph (1) of section 4042(b) is amended by adding ''and'' at the end of subparagraph (A), by striking '', and'' at the end of subparagraph (B) and inserting a period, and by striking subparagraph (C).

(B) CONFORMING AMENDMENT.—Paragraph (2) of section 4042(b) is amended by striking subparagraph (C).

(c) EFFECTIVE DATE.—The amendments made by this subsection shall take effect on October 1, 1999 (October 1, 2003, in the case of the amendments made by subsection (b)), but shall not take effect if section 1321 does not take effect.

SEC. 1323. REPEAL OF EXCISE TAX ON FISHING TACKLE BOXES.

(a) IN GENERAL.—Paragraph (6) of section 4162(a) (defining sport fishing equipment) is amended by striking subparagraph (C) and by redesignating subparagraphs (D) through (J) as subparagraphs (C) through (I), respectively.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to articles sold by the manufacturer, producer, or importer more than 30 days after the date of the enactment of this Act.

SEC. 1324. CLARIFICATION OF EXCISE TAX IMPOSED ON ARROW COMPONENTS.

(a) IN GENERAL.—Paragraph (2) of section 4161(b) (relating to bows and arrows, etc.) is amended to read as follows:

''(2) ARROWS.—

''(A) IN GENERAL.—There is hereby imposed on the sale by the manufacturer, producer, or importer of any shaft, point, article used to attach a point to a shaft, nock, or vane of a type used in the manufacture of any arrow which after its assembly—

''(i) measures 18 inches overall or more in length, or

''(ii) measures less than 18 inches overall in length but is suitable for use with a bow described in paragraph (1)(A),

a tax equal to 12.4 percent of the price for which so sold.

''(B) REDUCED RATE ON CERTAIN HUNTING POINTS.—Subparagraph (A) shall be applied by substituting '11 percent' for '12.4 percent' in the case of a point which is designed primarily for use in hunting fish or large animals.''

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to articles sold by the manufacturer, producer, or importer after the close of the first calendar month ending more than 30 days after the date of the enactment of this Act.

Subtitle D—Improvements in Low-Income Housing Credit

SEC. 1331. INCREASE IN STATE CEILING ON LOW-INCOME HOUSING CREDIT.

(a) INCREASE IN STATE CEILING.—Clause (i) of section 42(h)(3)(C) (relating to State housing credit ceiling) is amended by striking ''$1.25'' and inserting ''the applicable amount under subparagraph (H)''.

(b) APPLICABLE AMOUNT; ADJUSTMENT OF STATE CEILING FOR INCREASES IN COST-OF-LIVING.—Paragraph (3) of section 42(h) (relating to housing credit dollar amount for agencies) is amended by adding at the end the following new subparagraphs:

''(H) INITIAL AMOUNT OF STATE CEILING.—For purposes of subparagraph (C)(i), the applicable amount shall be determined under the following table:

''For calendar year	The applicable amount is
2000	$1.35
2001	1.45
2002	1.55
2003	1.65
2004 and thereafter	1.75.

''(I) COST-OF-LIVING ADJUSTMENT.—

''(i) IN GENERAL.—In the case of a calendar year after 2004 the $1.75 amount in subparagraph (H) shall be increased by an amount equal to—

''(I) such dollar amount, multiplied by

''(II) the cost-of-living adjustment determined under section 1(f)(3) for such calendar year by substituting 'calendar year 2003' for 'calendar year 1992' in subparagraph (B) thereof.

''(ii) ROUNDING.—Any increase under clause (i) which is not a multiple of 5 cents shall be rounded to the next lowest multiple of 5 cents.''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to calendar years after 1999.

SEC. 1332. MODIFICATION OF CRITERIA FOR ALLOCATING HOUSING CREDITS AMONG PROJECTS.

(a) SELECTION CRITERIA.—Subparagraph (C) of section 42(m)(1) (relating to certain selection criteria must be used) is amended—

(1) by inserting '', including whether the project includes the use of existing housing as part of a community revitalization plan'' before the comma at the end of clause (iii), and

(2) by striking clauses (v), (vi), and (vii) and inserting the following new clauses:

''(v) tenant populations with special housing needs,

''(vi) public housing waiting lists,

''(vii) tenant populations of individuals with children, and

''(viii) projects intended for eventual tenant ownership.''

(b) PREFERENCE FOR COMMUNITY REVITALIZATION PROJECTS LOCATED IN QUALIFIED CENSUS TRACTS.—Clause (ii) of section 42(m)(1)(B) is amended by striking ''and'' at the end of subclause (I), by adding ''and'' at the end of subclause (II), and by inserting after subclause (II) the following new subclause:

''(III) projects which are located in qualified census tracts (as defined in subsection (d)(5)(C)) and the development of which contributes to a concerted community revitalization plan,''.

SEC. 1333. ADDITIONAL RESPONSIBILITIES OF HOUSING CREDIT AGENCIES.

(a) MARKET STUDY; PUBLIC DISCLOSURE OF RATIONALE FOR NOT FOLLOWING CREDIT ALLOCATION PRIORITIES.—Subparagraph (A) of section 42(m)(1) (relating to responsibilities of housing credit agencies) is amended by striking ''and'' at the end of clause (i), by striking the period at the end of clause (ii) and inserting a comma, and by adding at the end the following new clauses:

''(iii) a comprehensive market study of the housing needs of low-income individuals in the area to be served by the project is conducted before the credit allocation is made and at the developer's expense by a disinterested party who is approved by such agency, and

''(iv) a written explanation is available to the general public for any allocation of a housing credit dollar amount which is not made in accordance with established priorities and selection criteria of the housing credit agency.''.

(b) SITE VISITS.—Clause (iii) of section 42(m)(1)(B) (relating to qualified allocation plan) is amended by inserting before the period ''and in monitoring for noncompliance with habitability standards through regular site visits''.

SEC. 1334. MODIFICATIONS TO RULES RELATING TO BASIS OF BUILDING WHICH IS ELIGIBLE FOR CREDIT.

(a) HOME ASSISTANCE NOT TO DISQUALIFY BUILDING FOR ADDITIONAL CREDIT AVAILABLE TO BUILDINGS IN HIGH COST AREAS.—Clause (i) of section 42(i)(2)(E) (relating to buildings receiving HOME assistance) is amended by striking the last sentence.

(b) ADJUSTED BASIS TO INCLUDE PORTION OF CERTAIN BUILDINGS USED BY LOW-INCOME INDIVIDUALS WHO ARE NOT TENANTS AND BY PROJECT EMPLOYEES.—Paragraph (4) of section 42(d) (relating to special rules relating to determination of adjusted basis) is amended—

(1) by striking ''subparagraph (B)'' in subparagraph (A) and inserting ''subparagraphs (B) and (C)'',

(2) by redesignating subparagraph (C) as subparagraph (D), and

(3) by inserting after subparagraph (B) the following new subparagraph:

''(C) INCLUSION OF BASIS OF PROPERTY USED TO PROVIDE SERVICES FOR CERTAIN NONTENANTS.—

''(i) IN GENERAL.—The adjusted basis of any building located in a qualified census tract (as defined in paragraph (5)(C)) shall be determined by taking into account the adjusted basis of property (of a character subject to the allowance for depreciation and not otherwise taken into account) used throughout the taxable year in providing any community service facility.

''(ii) LIMITATION.—The increase in the adjusted basis of any building which is taken into account by reason of clause (i) shall not exceed 20 percent of the eligible basis of the qualified low-income housing project of which it is a part.

For purposes of the preceding sentence, all community service facilities which are part of the same qualified low-income housing project shall be treated as 1 facility.

''(iii) COMMUNITY SERVICE FACILITY.—For purposes of this subparagraph, the term 'community service facility' means any facility designed to serve primarily individuals whose income is 60 percent or less of area median income (within the meaning of subsection (g)(1)(B)).''.

SEC. 1335. OTHER MODIFICATIONS.

(a) ALLOCATION OF CREDIT LIMIT TO CERTAIN BUILDINGS.—

(1) The first sentence of section 42(h)(1)(E)(ii) is amended by striking ''(as of'' the first place it appears and inserting ''(as of the later of the date which is 6 months after the date that the allocation was made or''.

(2) The last sentence of section 42(h)(3)(C) is amended by striking ''project which'' and inserting ''project which fails to meet the 10 percent test under paragraph (1)(E)(ii) on a date after the close of the calendar year in which the allocation was made or which''.

(b) DETERMINATION OF WHETHER BUILDINGS ARE LOCATED IN HIGH COST AREAS.—The first sentence of section 42(d)(5)(C)(ii)(I) is amended—

(1) by inserting ''either'' before ''in which 50 percent'', and

(2) by inserting before the period '' or which has a poverty rate of at least 25 percent''.

SEC. 1336. CARRYFORWARD RULES.

(a) IN GENERAL.—Clause (ii) of section 42(h)(3)(D) (relating to unused housing credit carryovers allocated among certain states) is amended by striking ''the excess'' and all that follows and inserting ''the excess (if any) of—

''(I) the unused State housing credit ceiling for the year preceding such year, over

''(II) the aggregate housing credit dollar amount allocated for such year.''.

(b) CONFORMING AMENDMENT.—The second sentence of section 42(h)(3)(C) (relating to State housing credit ceiling) is amended by striking ''clauses (i) and (iii)'' and inserting ''clauses (i) through (iv)''.

SEC. 1337. EFFECTIVE DATE.

Except as otherwise provided in this subtitle, the amendments made by this subtitle shall apply to—

(1) housing credit dollar amounts allocated after December 31, 2000, and

(2) buildings placed in service after such date to the extent paragraph (1) of section 42(h) of the Internal Revenue Code of 1986 does not apply to any building by reason of paragraph (4) thereof, but only with respect to bonds issued after such date.

Subtitle E—Entrepreneurial Equity Capital Formation

PART I—TAX-FREE CONVERSIONS OF SPECIALIZED SMALL BUSINESS INVESTMENT COMPANIES INTO PASS-THRU ENTITIES

SEC. 1341. MODIFICATIONS TO PROVISIONS RELATING TO REGULATED INVESTMENT COMPANIES.

(a) IN GENERAL.—Section 851 (relating to definition of regulated investment company) is amended by adding at the end the following new subsection:

''(i) SPECIAL RULES FOR SPECIALIZED SMALL BUSINESS INVESTMENT COMPANIES.—

''(1) IN GENERAL.—For purposes of determining whether a specialized small business investment company is a regulated investment company for purposes of this subchapter—

''(A) income derived from an investment as a limited partner in a partnership shall be treated as qualifying income under subsection (b)(2) if—

''(i) the company does not participate in the active management of the normal business operations of the partnership, and

''(ii) the company's investment in such partnership is an investment permitted for specialized small business investment companies under the Small Business Investment Act of 1958, and

''(B) the requirements of subsection (b)(3) shall be treated as met if, at the close of each quarter of the taxable year, at least 50 percent of the value of its total assets is represented by—

''(i) assets described in subsection (b)(3)(A)(i), and

''(ii) other investments permitted to be made by a specialized small business investment company under the Small Business Investment Act of 1958.

''(2) COORDINATION OF DISTRIBUTION REQUIREMENTS WITH SBIC REQUIREMENTS.—A specialized small business investment company shall be treated as meeting the requirements of section 852(a)(1) if the deduction for dividends paid during the taxable year (as defined in section 561, but without regard to capital gain dividends) equals or exceeds the lesser of the amount required under section 852(a)(1) or 100 percent of the maximum amount that the company would be permitted to distribute during such year under the Small Business Investment Act of 1958.

''(3) SPECIALIZED SMALL BUSINESS INVESTMENT COMPANY.—For purposes of this subsection, the term 'specialized small business investment company' has the meaning given to such term by section 1044(c)(3).

''(4) REFERENCES TO 1958 ACT.—For purposes of this subsection, references to the Small Business Investment Act of 1958 shall be treated as references to such Act as in effect on May 13, 1993.''

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

SEC. 1342. TAX-FREE REORGANIZATION OF SPECIALIZED SMALL BUSINESS INVESTMENT COMPANY AS A PARTNERSHIP.

(a) IN GENERAL.—If, within 180 days after the date of the enactment of this Act, a corporation which is a specialized small business investment company transfers substantially all of its assets to a partnership (including its license to operate as a specialized small business investment company) solely in exchange for partnership interests in such partnership, no gain or loss shall be recognized to the corporation on such a transfer if—

(1) immediately after such exchange, such corporation holds partnership interests in such partnership having a value equal to at least 80 percent of the total value of all partnership interests in such partnership, and

(2) before the 90th day after such exchange, such corporation transfers all partnership interests held by the corporation in such partnership, and all remaining assets of the corporation, to its shareholders in the complete liquidation of such corporation.

(b) NONRECOGNITION OF GAIN OR LOSS TO CORPORATION ON DISTRIBUTION OF PARTNERSHIP INTERESTS.—In the case of any distribution of a partnership interest acquired by the liquidating corporation in an exchange to which subsection (a) applies—

(1) no gain or loss shall be recognized to the liquidating corporation by reason of such distribution, and

(2) such distribution shall not be treated as a sale or exchange for purposes of section 708(b)(1)(B) of the Internal Revenue Code of 1986.

(c) GAIN RECOGNIZED BY SHAREHOLDERS ON RECEIPT OF PROPERTY OTHER THAN PARTNERSHIP INTERESTS.—

(1) IN GENERAL.—No gain or loss shall be recognized to a shareholder of a corporation on the transfer of such shareholder's stock in such corporation to such corporation solely in exchange for a partnership interest in the partnership referred to in subsection (a)(1).

(2) RECEIPT OF PROPERTY.—If paragraph (1) would apply to an exchange but for the fact that there is received, in addition to the partnership interests permitted to be received under paragraph (1), other property or money, then—

(A) gain (if any) to such recipient shall be recognized, but not in excess of—

(i) the amount of money received, plus

(ii) the fair market value of such other property received, and

(B) no loss to such recipient shall be recognized.

(d) BASIS.—The basis of property received in any exchange to which this section applies shall be determined in accordance with rules similar to the rules of section 358 of the Internal Revenue Code of 1986.

(e) ADDITIONAL REQUIREMENTS.—This section shall not apply to any specialized small business investment company unless—

(1) such company elects to be subject to tax on its built-in gains computed in a manner similar to that provided in section 1374 of such Code (without regard to any recognition period (as defined in subsection (d)(7) thereof)), and

(2) such company distributes all of its accumulated earnings and profits (in distributions to which section 301 of such Code applies) before its liquidation under this section.

If, after making an election under paragraph (1), a company ceases to be a specialized small business investment company, such company shall be treated as having disposed of all of its assets for purposes of applying paragraph (1).

(f) SPECIALIZED SMALL BUSINESS INVESTMENT COMPANY.—For purposes of this section, the term ''specialized small business investment company'' has the meaning given to such term by section 1044(c)(3) of such Code.

PART II—ADDITIONAL INCENTIVES RELATED TO INVESTING IN SPECIALIZED SMALL BUSINESS INVESTMENT COMPANIES

SEC. 1346. EXPANSION OF NONRECOGNITION TREATMENT FOR SECURITIES GAIN ROLLED OVER INTO SPECIALIZED SMALL BUSINESS INVESTMENT COMPANIES.

(a) EXTENSION OF ROLLOVER PERIOD.—Paragraph (1) of section 1044(a) (relating to nonrecognition of gain) is amended by striking ''60-day period'' and inserting ''180-day period''.

(b) INCREASE OF MAXIMUM EXCLUSION.—

(1) IN GENERAL.—Paragraphs (1) and (2) of section 1044(b) (relating to limitations) are amended to read as follows:

''(1) LIMITATION ON INDIVIDUALS.—In the case of an individual, the amount of gain which may be excluded under subsection (a) for any taxable year shall not exceed—

''(A) $750,000, reduced by

''(B) the amount of gain excluded under subsection (a) for all preceding taxable years.

''(2) LIMITATION ON C CORPORATIONS.—In the case of a C corporation, the amount of gain which may be excluded under subsection (a) for any taxable year shall not exceed—

''(A) $2,000,000, reduced by

''(B) the amount of gain excluded under subsection (a) for all preceding taxable years.''

(2) CONFORMING AMENDMENT.—Subparagraph (A) of section 1044(b)(3) (relating to special rules for married individuals) is amended to read as follows:

''(A) SEPARATE RETURNS.—In the case of a separate return by a married individual, paragraph (1) shall be applied by substituting '$375,000' for '$750,000'.''

(c) EXTENSION TO PREFERRED STOCK.—Paragraph (1) of section 1044(a) is amended by striking ''common''.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to sales occurring after the date of the enactment of this Act.

SEC. 1347. MODIFICATIONS TO EXCLUSION FOR GAIN FROM QUALIFIED SMALL BUSINESS STOCK.

(a) IN GENERAL.—Section 1202 (relating to 50-percent exclusion for gain from certain small business stock) is amended by redesignating subsection (k) as subsection (l) and by inserting

after subsection (j) the following new subsection:

''(k) SPECIAL RULES FOR SPECIALIZED SMALL BUSINESS INVESTMENT COMPANIES.—

''(1) INCREASE IN EXCLUSION.—In the case of—

''(A) the sale or exchange of stock in a specialized small business investment company, and

''(B) any amount treated under subsection (g) as gain described in subsection (a) by reason of the sale or exchange of stock in a specialized small business investment company,

subsection (a) shall be applied by substituting '60 percent' for '50 percent'.

''(2) WAIVER OF ACTIVE BUSINESS REQUIREMENT.—Notwithstanding any provision of subsection (e), a corporation shall be treated as meeting the active business requirements of such subsection for any period during which such corporation qualifies as a specialized small business investment company.

''(3) SPECIALIZED SMALL BUSINESS INVESTMENT COMPANY.—For purposes of this section, the term 'specialized small business investment company' means any eligible corporation (as defined in subsection (e)(4)) which is licensed to operate under section 301(d) of the Small Business Investment Act of 1958 (as in effect on May 13, 1993).''

(b) CONFORMING AMENDMENT.—Section 1202(c)(2) is amended to read as follows:

''(2) ACTIVE BUSINESS REQUIREMENT, ETC.—Stock in a corporation shall not be treated as qualified small business stock unless, during substantially all of the taxpayer's holding period for such stock, such corporation meets the active business requirements of subsection (e) and such corporation is a C corporation.''

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

Subtitle F—Other Provisions

SEC. 1351. INCREASE IN VOLUME CAP ON PRIVATE ACTIVITY BONDS.

(a) IN GENERAL.—Subsection (d) of section 146 (relating to volume cap) is amended by striking paragraph (2), by redesignating paragraphs (3) and (4) as paragraphs (2) and (3), respectively, and by striking paragraph (1) and inserting the following new paragraph:

''(1) IN GENERAL.—The State ceiling applicable to any State for any calendar year shall be the greater of—

''(A) an amount equal to $75 multiplied by the State population, or

''(B) $225,000,000.

Subparagraph (B) shall not apply to any possession of the United States.''.

(b) CONFORMING AMENDMENT.—Sections 25(f)(3) and 42(h)(3)(E)(iii) are each amended by striking ''section 146(d)(3)(C)'' and inserting ''section 146(d)(2)(C)''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to calendar years after 1999.

SEC. 1352. TAX TREATMENT OF ALASKA NATIVE SETTLEMENT TRUSTS.

(a) IN GENERAL.—Subpart A of part I of subchapter J of chapter 1 (relating to general rules for taxation of trusts and estates) is amended by adding at the end the following new section:

''SEC. 646. ELECTING ALASKA NATIVE SETTLEMENT TRUSTS.

''(a) IN GENERAL.—Except as otherwise provided in this section, the provisions of this subchapter and section 1(e) shall apply to all Settlement Trusts.

''(b) BENEFICIARIES OF ELECTING TRUST NOT TAXED ON CONTRIBUTIONS.—

''(1) IN GENERAL.—In the case of a Settlement Trust for which an election under paragraph (2) is in effect for any taxable year, no amount shall be includible in the gross income of a beneficiary of the Settlement Trust by reason of a contribution to the Settlement Trust made during such taxable year.

''(2) ONE-TIME ELECTION.—

''(A) IN GENERAL.—A Settlement Trust may elect to have the provisions of this section apply to the trust and its beneficiaries.

''(B) TIME AND METHOD OF ELECTION.—An election under subparagraph (A) shall be made—

''(i) before the due date (including extensions) for filing the Settlement Trust's return of tax for the 1st taxable year of the Settlement Trust ending after December 31, 1999, and

''(ii) by attaching to such return of tax a statement specifically providing for such election.

''(C) PERIOD ELECTION IN EFFECT.—Except as provided in paragraph (3), an election under subparagraph (A)—

''(i) shall apply to the 1st taxable year described in subparagraph (B)(i) and all subsequent taxable years, and

''(ii) may not be revoked once it is made.

''(c) SPECIAL RULES WHERE TRANSFER RESTRICTIONS MODIFIED.—

''(1) TRANSFER OF BENEFICIAL INTERESTS.—If, at any time, a beneficial interest in a Settlement Trust may be disposed of to a person in a manner which would not be permitted by section 7(h) of the Alaska Native Claims Settlement Act (43 U.S.C. 1606(h)) if the interest were Settlement Common Stock—

''(A) no election may be made under subsection (b)(2) with respect to such trust, and

''(B) if such an election is in effect as of such time, such election shall cease to apply for purposes of subsection (b)(1) as of the 1st day of the taxable year following the taxable year in which such disposition is first permitted.

''(2) STOCK IN CORPORATION.—If—

''(A) the Settlement Common Stock in any Native Corporation which transferred assets to a Settlement Trust making an election under subsection (b)(2) may be disposed of to a person in a manner not permitted by section 7(h) of the Alaska Native Claims Settlement Act (43 U.S.C. 1606(h)), and

''(B) at any time after such disposition of stock is first permitted, such corporation transfers assets to such trust,

subparagraph (B) of paragraph (1) shall be applied to such trust on and after the date of the transfer in the same manner as if the trust permitted dispositions of beneficial interests in the trust in a manner not permitted by such section 7(h).

''(c) TAX TREATMENT OF DISTRIBUTIONS TO BENEFICIARIES.—

''(1) IN GENERAL.—In the case of a Settlement Trust for which an election under subsection (b)(2) is in effect for any taxable year, any distribution to a beneficiary shall be included in gross income of the beneficiary as ordinary income to the extent such distribution reduces the earnings and profits of any Native Corporation making a contribution to such Trust.

''(2) EARNINGS AND PROFITS.—The earnings and profits of any Native Corporation making a contribution to a Settlement Trust shall not be reduced on account thereof at the time of such contribution, but such earnings and profits shall be reduced (up to the amount of such contribution) as distributions are thereafter made by the Settlement Trust which exceed the sum of—

''(A) such Trust's total undistributed net income for all prior years during which an election under subsection (b)(2) is in effect, and

''(B) such Trust's distributable net income.

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

''(1) NATIVE CORPORATION.—The term 'Native Corporation' has the meaning given such term by section 3(m) of the Alaska Native Claims Settlement Act (43 U.S.C. 1602(m)).

''(2) SETTLEMENT TRUST.—The term 'Settlement Trust' means a trust which constitutes a Settlement Trust under section 39 of the Alaska Native Claims Settlement Act (43 U.S.C. 1629e).''

(b) WITHHOLDING ON DISTRIBUTIONS BY ELECTING ANCSA SETTLEMENT TRUSTS.—Section 3402 is amended by adding at the end the following new subsection:

''(t) TAX WITHHOLDING ON DISTRIBUTIONS BY ELECTING ANCSA SETTLEMENT TRUSTS.—

''(1) IN GENERAL.—Any Settlement Trust (as defined in section 646(d)) for which an election under section 646(b)(2) is in effect (in this subsection referred to as an 'electing trust') and which makes a payment to any beneficiary which is includable in gross income under section 646(c) shall deduct and withhold from such payment a tax in an amount equal to such payment's proportionate share of the annualized tax.

''(2) EXCEPTION.—The tax imposed by paragraph (1) shall not apply to any payment to the extent that such payment, when annualized, does not exceed an amount equal to the amount in effect under section 6012(a)(1)(A)(i) for taxable years beginning in the calendar year in which the payment is made.

''(3) ANNUALIZED TAX.—For purposes of paragraph (1), the term 'annualized tax' means, with respect to any payment, the amount of tax which would be imposed by section 1(c) (determined without regard to any rate of tax in excess of 31 percent) on an amount of taxable income equal to the excess of—

''(A) the annualized amount of such payment, over

''(B) the amount determined under paragraph (2).

''(4) ANNUALIZATION.—For purposes of this subsection, amounts shall be annualized in the manner prescribed by the Secretary.

''(5) ALTERNATE WITHHOLDING PROCEDURES.—At the election of an electing trust, the tax imposed by this subsection on any payment made by such trust shall be determined in accordance with such tables or computational procedures as may be specified in regulations prescribed by the Secretary (in lieu of in accordance with paragraphs (2) and (3)).

''(6) COORDINATION WITH OTHER SECTIONS.—For purposes of this chapter and so much of subtitle F as relates to this chapter, payments which are subject to withholding under this subsection shall be treated as if they were wages paid by an employer to an employee.''

(c) REPORTING.—Section 6041 is amended by adding at the end the following new subsection:

''(f) APPLICATION TO ALASKA NATIVE SETTLEMENT TRUSTS.—In the case of any distribution from a Settlement Trust (as defined in section 646(d)) to a beneficiary which is includable in gross income under section 646(c), this section shall apply, except that—

''(1) this section shall apply to such distribution without regard to the amount thereof,

''(2) the Settlement Trust shall include on any return or statement required by this section information as to the character of such distribution (if applicable) and the amount of tax imposed by chapter 1 which has been deducted and withheld from such distribution, and

''(3) the filing of any return or statement required by this section shall satisfy any requirement to file any other form or schedule under this title with respect to distributive share information (including any form or schedule to be included with the trust's tax return).''

(d) CLERICAL AMENDMENT.—The table of sections for subpart A of part I of subchapter J of chapter 1 is amended by adding at the end the following new item:

''Sec. 646. Electing Alaska Native Settlement Trusts.''

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years of Settlement Trusts ending after December 31, 1999, and to contributions to such trusts after such date.

SEC. 1353. INCREASE IN THRESHOLD FOR JOINT COMMITTEE REPORTS ON REFUNDS AND CREDITS.

(a) GENERAL RULE.—Subsections (a) and (b) of section 6405 are each amended by striking ''$1,000,000'' and inserting ''$2,000,000''.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall take effect on the date of the enactment of this Act, except that such amendment shall not apply with respect to any refund or credit with respect to a report that has been made before such date of enactment under section 6405 of the Internal Revenue Code of 1986.

SEC. 1354. CLARIFICATION OF DEPRECIATION STUDY.

Paragraph (1) of section 2022 of the Tax and Trade Relief Extension Act of 1998 (Public Law 105–277; 112 Stat. 2681-903) is amended by inserting after ''1986,'' the following: ''including such periods and methods applicable to section 1250 property used in connection with a franchise (within the meaning of section 1253) and owned by the franchisee,''.

Subtitle G—Tax Court Provisions

SEC. 1361. TAX COURT FILING FEE IN ALL CASES COMMENCED BY FILING PETITION.

(a) IN GENERAL.—Section 7451 (relating to fee for filing a Tax Court petition) is amended by striking all that follows ''petition'' and inserting a period.

(b) EFFECTIVE DATE.—The amendment made by this section shall take effect on the date of the enactment of this Act.

SEC. 1362. EXPANDED USE OF TAX COURT PRACTICE FEE.

Subsection (b) of section 7475 (relating to use of fees) is amended by inserting before the period at the end ''and to provide services to pro se taxpayers''.

SEC. 1363. CONFIRMATION OF AUTHORITY OF TAX COURT TO APPLY DOCTRINE OF EQUITABLE RECOUPMENT.

(a) CONFIRMATION OF AUTHORITY OF TAX COURT TO APPLY DOCTRINE OF EQUITABLE RECOUPMENT.—Subsection (b) of section 6214 (relating to jurisdiction over other years and quarters) is amended by adding at the end the following new sentence: ''Notwithstanding the preceding sentence, the Tax Court may apply the doctrine of equitable recoupment to the same extent that it is available in civil tax cases before the district courts of the United States and the United States Court of Federal Claims.''.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to any action or proceeding in the Tax Court with respect to which a decision has not become final (as determined under section 7481 of the Internal Revenue Code of 1986) as of the date of the enactment of this Act.

Subtitle H—Tax-Free Transfer of Bottled Distilled Spirits to Bonded Dealers

SEC. 1371. TAX-FREE TRANSFER OF BOTTLED DISTILLED SPIRITS FROM DISTILLED SPIRITS PLANT TO BONDED DEALER.

(a) DOMESTIC BOTTLED DISTILLED SPIRITS.—

(1) IN GENERAL.—The last sentence of section 5212 is amended by inserting before the period ''and shall not apply to bottled distilled spirits transferred from a distilled spirits plant (other than a bonded dealer) to a bonded dealer if the proprietor of such plant notifies (in such form and manner as the Secretary prescribes by regulations) such bonded dealer of the amount of tax determined on the distilled spirits so transferred''.

(2) TRANSFER OF LIABILITY CONTINGENT ON FURNISHING OF CERTAIN INFORMATION.—Paragraph (2) of section 5005(c) is amended by adding at the end the following new sentence: ''In the case of a transfer of bottled distilled spirits from a distilled spirits plant to a bonded dealer, the preceding provisions of this subsection shall apply only to the extent of the amount specified by the proprietor of such plant in accordance with the last sentence of section 5212.''

(b) COMPARABLE TREATMENT FOR IMPORTED BOTTLED DISTILLED SPIRITS.—Subsection (a) of section 5232 is amended to read as follows:

''(a) TRANSFER TO DISTILLED SPIRITS PLANT WITHOUT PAYMENT OF TAX.—

''(1) IN GENERAL.—Distilled spirits imported or brought into the United States in bulk containers may, under such regulations as the Secretary shall prescribe, be withdrawn from customs custody and transferred in such bulk containers or by pipeline to the bonded premises of a distilled spirits plant without payment of the internal revenue tax imposed on such distilled spirits by section 5001.

''(2) IMPORTED BOTTLED DISTILLED SPIRITS.—The restriction under paragraph (1) to transfers in bulk or by pipeline shall not apply to bottled distilled spirits transferred from customs custody to a bonded dealer if the proprietor of the customs bonded warehouse notifies (in such form and manner as the Secretary prescribes by regulations) such bonded dealer of the amount of tax determined on the distilled spirits so transferred.

''(3) TRANSFER OF LIABILITY.—The person operating the bonded premises of the distilled spirits plant to which such spirits are transferred shall become liable for the tax on distilled spirits withdrawn from customs custody under this section upon release of the spirits from customs custody, and the importer, or the person bringing such distilled spirits into the United States, shall thereupon be relieved of his liability for such tax. In the case of a transfer of bottled distilled spirits from a customs bonded warehouse to a bonded dealer, the preceding sentence shall apply only to the extent of the amount specified by the proprietor of such warehouse in accordance with paragraph (2).''

(c) PENALTY FOR FALSE OR ERRONEOUS INFORMATION TO BONDED DEALERS.—

(1) IN GENERAL.—Section 5684 is amended by redesignating subsections (b) and (c) as subsections (c) and (d), respectively, and inserting after subsection (a) the following new subsection:

''(b) FALSE OR ERRONEOUS INFORMATION TO BONDED DEALERS.—Any distilled spirits plant or importer which furnishes false or erroneous information to a bonded dealer relating to the amount of tax determined on a product, as required under sections 5212 and 5232, shall, in addition to any other penalty imposed by this title, be liable for a penalty equal to the greater of $1,000 or 5 times the amount of additional tax due on the product.''

(2) CONFORMING AMENDMENT.—Subsection (c) of section 5684, as redesignated by paragraph (1), is amended by striking ''subsection (a)'' and inserting ''subsections (a) and (b)''.

SEC. 1372. ESTABLISHMENT OF DISTILLED SPIRITS PLANT.

Section 5171 is amended—

(1) by striking from subsection (a) ''or processor'' and inserting ''processor, or bonded dealer'', and

(2) by striking from subsection (b) ''or both.'' and inserting ''as a bonded dealer, or as any combination thereof.''

SEC. 1373. DISTILLED SPIRITS PLANTS.

Section 5178(a) is amended by adding at the end the following new paragraph:

''(5) BONDED DEALER OPERATIONS.—Any person establishing a distilled spirits plant to conduct operations as a bonded dealer may, as described in the application for registration—

''(A) store distilled spirits in any approved container on the bonded premises of such plant, and

''(B) under such regulations as the Secretary shall prescribe, store taxpaid distilled spirits, beer and wine and such other beverages and items (products) not subject to tax or regulation under this title on such bonded premises.''

SEC. 1374. BONDED DEALERS.

(a) IN GENERAL.—Subpart A of part I of subchapter A of chapter 51 (relating to distilled spirits) is amended by adding at the end the following new section:

''SEC. 5011. ELECTION TO BE TREATED AS BONDED DEALER.

''(a) ELECTION.—

''(1) IN GENERAL.—Any wholesale dealer, or any control State entity, may elect to be treated as a bonded dealer if such wholesale dealer or entity sells bottled distilled spirits exclusively to 1 or more of the following: wholesale dealers in liquor, independent retail dealers, or other bonded dealers.

''(2) ELECTION BY CERTAIN ENTITIES NOT PERMITTED.—

''(A) RETAIL DEALERS.—Except in the case of a control State entity, the election under paragraph (1) may not be made by a retail dealer in liquor.

''(B) SMALL DEALERS.—The election under paragraph (1) may not be made by any person who is part of a group treated as a single taxpayer under section 5061(e)(3) if the gross receipts of such group from the sale of distilled spirits during the 12-month period prior to making such election is less than $10,000,000.

''(3) CONTROL STATE ENTITIES PERMITTED TO SELL TO RELATED RETAIL DEALERS.—In the case of a control State entity, paragraph (1) shall be applied by substituting 'retail dealers' for 'independent retail dealers'.

''(b) INDEPENDENT RETAIL DEALER.—For purposes of subsection (a), the term 'independent retail dealer' means, with respect to a bonded dealer, any retail dealer if—

''(1) the bonded dealer does not have a greater than 10 percent ownership interest in, or control of, the retail dealer,

''(2) the retail dealer does not have a greater than 10 percent ownership interest in, or control of, the bonded dealer, and

''(3) no person has a greater than 10 percent ownership interest in, or control of, both the bonded and retail dealer.

For purposes of this subsection, rules similar to the rules of section 318 shall apply.

''(c) INVENTORY OWNED AT TIME OF ELECTION.—Any bottled distilled spirits in the inventory of any person electing under this section to be treated as a bonded dealer shall not be subject to additional Federal excise tax on such spirits as a result of the election being in effect to the extent that the bonded dealer establishes that the Federal excise tax previously has been determined and paid at the time the election becomes effective.

''(d) REVOCATION OF ELECTION.—The election made under this section may be revoked by the bonded dealer at any time, but once revoked shall not be made again without the consent of the Secretary. When the election is revoked, the bonded dealer shall immediately withdraw the distilled spirits on determination of tax in accordance with a tax payment procedure established by the Secretary.

''(e) APPROVAL OF APPLICATION.—Any application under section 5171(c) submitted by a person electing to be treated as a bonded dealer shall be subject to the same conditions as an application for a basic permit under section 204(a)(2) of title 27 of the United States Code (the Federal Alcohol Administration Act) and shall be accorded notice and hearing as described in section 204(b) of such title 27.

''(f) ADDITIONAL TAX.—

''(1) IN GENERAL.—In addition to any other tax imposed by this chapter, there is hereby imposed on each bonded dealer a tax for each semimonthly period under section 5061(d) for which an election under this section is in effect for such dealer.

''(2) AMOUNT OF TAX.—The tax imposed by this subsection for any semimonthly period shall be equal to 1.5 percent of the liability for tax under sections 5001 and 7652 of such dealer for such semimonthly period.

''(3) PAYMENT OF TAX.—The tax imposed by this subsection shall be paid with the return of tax for such semimonthly period.

''(4) TAXPAYERS NOT PAYING ON SEMIMONTHLY BASIS.—If the taxes referred to in paragraph (2) are not paid on the basis of semimonthly periods, this subsection shall be applied by substituting the time such taxes are required to be paid for such periods.

''(5) TERMINATION.—The tax imposed by this subsection shall not apply to any semimonthly period ending after December 31, 2010.''

(b) CONFORMING AMENDMENTS.—

(1) Section 5002(a) is amended by adding the end the following new paragraphs:

''(16) BONDED DEALER.—The term 'bonded dealer' means any person who has elected under section 5011 to be treated as a bonded dealer.

''(17) CONTROL STATE ENTITY.—The term 'control State entity' means a State or a political subdivision of a State in which only the State or a political subdivision thereof is allowed under applicable law to perform distilled spirit operations, or any instrumentality of such a State or political subdivision.''

(2) The table of sections of subpart A of part I of subchapter A of chapter 51 and the table of contents of subtitle E are each amended by adding at the appropriate places:

''Sec. 5011. Election to be treated as bonded dealer.''

SEC. 1375. TIME FOR COLLECTING TAX ON DISTILLED SPIRITS.

(a) IN GENERAL.—Section 5061(d) is amended by adding at the end the following new paragraph:

''(6) ADVANCED PAYMENT OF DISTILLED SPIRITS TAX BY BONDED DEALERS.—Notwithstanding the preceding provisions of this subsection, in the case of any tax imposed by section 5001, 5011(f), or 7652 with respect to a bonded dealer who has an election under section 5011 in effect on September 20 of any year, any payment which would, but for this paragraph, be due in October or November of that year, shall be made on such September 20. No penalty or interest shall be imposed for the period after such September 20 and before the due date for such payment (determined without regard to this paragraph) to the extent that the tax due exceeds the payment which would have been due in such October and November had the election under section 5011 been in effect.''

(b) PAYMENT BY ELECTRONIC FUND TRANSFER.—Section 5061(e)(1) is amended by inserting ''and any bonded dealer,'' after ''respectively,''.

SEC. 1376. EXEMPTION FROM OCCUPATIONAL TAX NOT APPLICABLE.

Section 5113(a) is amended by adding at the end the following new sentence: ''The exemption under this subsection shall not apply to a proprietor of a distilled spirits plant whose premises are used for operations of a bonded dealer.''

SEC. 1377. TECHNICAL, CONFORMING, AND CLERICAL AMENDMENTS.

(a) TECHNICAL AND CONFORMING AMENDMENTS.—

(1) Section 5003(3) is amended by striking ''certain''.

(2) Subsection (a) of section 5214 is amended by inserting ''(other than a bonded dealer)'' after ''distilled spirits plant''.

(3) Section 5362(b)(5) is amended by adding at the end the following new sentence: ''This term shall not apply to premises used for operations as a bonded dealer.''.

(4) Section 5551(a) is amended by inserting ''bonded dealer,'' after ''processor,'' each place it appears.

(5) Section 5601(a) (2), (3), (4), (5), and (b) are amended by inserting '', bonded dealer'' before ''or processor'' each place it appears.

(6) Section 5602 is amended—

(A) by inserting '', warehouseman, processor, or bonded dealer'' after ''distiller'', and

(B) by inserting ''or possessed'' after ''distilled''.

(7) Sections 5180 and 5681 are repealed.

(b) CLERICAL AMENDMENTS.—

(1) The table of sections for subchapter B of chapter 51 is amended by striking the item relating to section 5180.

(2) The table of sections for part IV of subchapter J of chapter 51 is amended by striking the item relating to section 5681.

SEC. 1378. COOPERATIVE AGREEMENTS.

(a) STUDY.—The Secretary of the Treasury shall study and report to Congress concerning possible administrative efficiencies which could inure to the benefit of the Federal Government of cooperative agreements with States regarding the collection of distilled spirits excise taxes. Such study shall include, but not be limited to, possible benefits of the standardization of forms and collection procedures and shall be submitted 1 year after the date of the enactment of this Act.

(b) COOPERATIVE AGREEMENT.—The Secretary of the Treasury is authorized to enter into such cooperative agreements with States which the Secretary deems will increase the efficient collection of distilled spirits excise taxes.

SEC. 1379. EFFECTIVE DATE.

(a) IN GENERAL.—Except as otherwise provided in this section, the amendments made by this subtitle shall take effect at the beginning of the first calendar quarter that begins after one hundred and twenty days following enactment.

(b) AUTHORITY TO ESTABLISH DISTILLED SPIRITS PLANT.—

(1) IN GENERAL.—The amendments made by section 1372 of this Act shall take effect on the date of enactment of this Act.

(2) DEEMED QUALIFICATION IN CERTAIN CASES.—Each wholesale dealer—

(A) who is required to file an application for registration under section 5171(c) of the Internal Revenue Code of 1986,

(B) whose operations are required to be covered by a basic permit under the Federal Alcohol Administration Act (27 U.S.C. 203 and 204) and who has received such a basic permit as an importer, wholesaler, or both, and

(C) has obtained a bond required under this subchapter,

shall be treated as having such application approved as of the first day of the first calendar quarter that begins at least 9 months after the application is filed until such time as the Secretary or the Secretary's delegate takes final action on such application.

(3) CONTROL STATE ENTITIES.—In the case of a control State entity, paragraph (2) shall be applied without regard to subparagraph (B) thereof.

(c) EQUITABLE TREATMENT OF BONDED DEALERS USING LIFO INVENTORY.—The Secretary of the Treasury or the Secretary's delegate shall provide such rules as may be necessary to assure that taxpayers using the last-in first-out method of inventory valuation do not suffer a recapture of their LIFO reserve by reason of making the election under section 5011 of such Code or by reason of operating a bonded wine cellar as permitted by section 5351 of such Code.

SEC. 1380. STUDY.

Not later than June 1, 2002, the Secretary of the Treasury or the Secretary's delegate shall prepare and submit to the Congress a report—

(1) on the extent to which (if any) there has been a decrease in compliance with the provisions of chapter 51 of the Internal Revenue Code of 1986 by reason of the amendments made by this subtitle, and

(2) on any particular compliance issues in applying the credit allowable by section 5010 of such Code under the amendments made by this subtitle.

TITLE XIV—EXTENSIONS OF EXPIRING PROVISIONS

SEC. 1401. RESEARCH CREDIT.

(a) EXTENSION.—

(1) IN GENERAL.—Paragraph (1) of section 41(h) (relating to termination) is amended—

(A) by striking ''June 30, 1999'' and inserting ''June 30, 2004'', and

(B) by striking the material following subparagraph (B).

(2) TECHNICAL AMENDMENT.—Subparagraph (D) of section 45C(b)(1) is amended by striking ''June 30, 1999'' and inserting ''June 30, 2004''.

(3) EFFECTIVE DATE.—The amendments made by this subsection shall apply to amounts paid or incurred after June 30, 1999.

(b) INCREASE IN PERCENTAGES UNDER ALTERNATIVE INCREMENTAL CREDIT.—

(1) IN GENERAL.—Subparagraph (A) of section 41(c)(4) is amended—

(A) by striking ''1.65 percent'' and inserting ''2.65 percent'',

(B) by striking ''2.2 percent'' and inserting ''3.2 percent'', and

(C) by striking ''2.75 percent'' and inserting ''3.75 percent''.

(2) EFFECTIVE DATE.—The amendments made by this subsection shall apply to taxable years beginning after June 30, 1999.

SEC. 1402. SUBPART F EXEMPTION FOR ACTIVE FINANCING INCOME.

(a) IN GENERAL.—Sections 953(e)(10) and 954(h)(9) are each amended—

(1) by striking ''the first taxable year'' and inserting ''taxable years'', and

(2) by striking ''January 1, 2000'' and inserting ''January 1, 2005''.

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

SEC. 1403. TAXABLE INCOME LIMIT ON PERCENTAGE DEPLETION FOR MARGINAL PRODUCTION.

(a) IN GENERAL.—Subparagraph (H) of section 613A(c)(6) is amended by striking ''January 1, 2000'' and inserting ''January 1, 2005''.

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

SEC. 1404. WORK OPPORTUNITY CREDIT AND WELFARE-TO-WORK CREDIT.

(a) TEMPORARY EXTENSION.—Sections 51(c)(4)(B) and 51A(f) (relating to termination) are each amended by striking ''June 30, 1999'' and inserting ''December 31, 2001''.

(b) CLARIFICATION OF FIRST YEAR OF EMPLOYMENT.—Paragraph (2) of section 51(i) is amended by striking ''during which he was not a member of a targeted group''.

(c) ELECTRONIC FILING OF CERTIFICATION.—Not later than July 1, 2001, the Secretary of the Treasury or the Secretary's delegate shall provide an electronic format by which employers may submit requests to designated local agencies (as defined in section 51(d)(11) of the Internal Revenue Code of 1986) for certifications that individuals are members of targeted groups for purposes of section 51 of such Code.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to individuals who begin work for the employer after June 30, 1999.

TITLE XV—REVENUE OFFSETS

SEC. 1501. RETURNS RELATING TO CANCELLATIONS OF INDEBTEDNESS BY ORGANIZATIONS LENDING MONEY.

(a) IN GENERAL.—Paragraph (2) of section 6050P(c) (relating to definitions and special rules) is amended by striking ''and'' at the end of subparagraph (B), by striking the period at the end of subparagraph (C) and inserting '', and'', and by inserting after subparagraph (C) the following new subparagraph:

''(D) any organization a significant trade or business of which is the lending of money.''

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to discharges of indebtedness after December 31, 1999.

SEC. 1502. EXTENSION OF INTERNAL REVENUE SERVICE USER FEES.

(a) IN GENERAL.—Chapter 77 (relating to miscellaneous provisions) is amended by adding at the end the following new section:

''SEC. 7527. INTERNAL REVENUE SERVICE USER FEES.

''(a) GENERAL RULE.—The Secretary shall establish a program requiring the payment of user fees for—

''(1) requests to the Internal Revenue Service for ruling letters, opinion letters, and determination letters, and

''(2) other similar requests.

''(b) PROGRAM CRITERIA.—

''(1) IN GENERAL.—The fees charged under the program required by subsection (a)—

''(A) shall vary according to categories (or subcategories) established by the Secretary,

''(B) shall be determined after taking into account the average time for (and difficulty of) complying with requests in each category (and subcategory), and

''(C) shall be payable in advance.

''(2) EXEMPTIONS, ETC.—The Secretary shall provide for such exemptions (and reduced fees) under such program as the Secretary determines to be appropriate.

''(3) AVERAGE FEE REQUIREMENT.—The average fee charged under the program required by subsection (a) shall not be less than the amount determined under the following table:

''Category	Average Fee
Employee plan ruling and opinion	$250
Exempt organization ruling	$350
Employee plan determination	$300
Exempt organization determination ...	$275
Chief counsel ruling	$200.

''(c) TERMINATION.—No fee shall be imposed under this section with respect to requests made after September 30, 2009.''

(b) CONFORMING AMENDMENTS.—

(1) The table of sections for chapter 77 is amended by adding at the end the following new item:

''Sec. 7527. Internal Revenue Service user fees.''

(2) Section 10511 of the Revenue Act of 1987 is repealed.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to requests made after the date of the enactment of this Act.

SEC. 1503. LIMITATIONS ON WELFARE BENEFIT FUNDS OF 10 OR MORE EMPLOYER PLANS.

(a) BENEFITS TO WHICH EXCEPTION APPLIES.—Section 419A(f)(6)(A) (relating to exception for 10 or more employer plans) is amended to read as follows:

''(A) IN GENERAL.—This subpart shall not apply to a welfare benefit fund which is part of a 10 or more employer plan if the only benefits provided through the fund are 1 or more of the following:

''(i) Medical benefits.

''(ii) Disability benefits.

''(iii) Group term life insurance benefits which do not provide for any cash surrender value or other money that can be paid, assigned, borrowed, or pledged for collateral for a loan.

The preceding sentence shall not apply to any plan which maintains experience-rating arrangements with respect to individual employers.''

(b) LIMITATION ON USE OF AMOUNTS FOR OTHER PURPOSES.—Section 4976(b) (defining disqualified benefit) is amended by adding at the end the following new paragraph:

''(5) SPECIAL RULE FOR 10 OR MORE EMPLOYER PLANS EXEMPTED FROM PREFUNDING LIMITS.—For purposes of paragraph (1)(C), if—

''(A) subpart D of part I of subchapter D of chapter 1 does not apply by reason of section 419A(f)(6) to contributions to provide 1 or more welfare benefits through a welfare benefit fund under a 10 or more employer plan, and

''(B) any portion of the welfare benefit fund attributable to such contributions is used for a purpose other than that for which the contributions were made,

then such portion shall be treated as reverting to the benefit of the employers maintaining the fund.''

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to contributions paid or accrued after June 9, 1999, in taxable years ending after such date.

SEC. 1504. INCREASE IN ELECTIVE WITHHOLDING RATE FOR NONPERIODIC DISTRIBUTIONS FROM DEFERRED COMPENSATION PLANS.

(a) IN GENERAL.—Section 3405(b)(1) (relating to withholding) is amended by striking '10 percent' and inserting '15 percent'.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to distributions after December 31, 1999.

SEC. 1505. CONTROLLED ENTITIES INELIGIBLE FOR REIT STATUS.

(a) IN GENERAL.—Subsection (a) of section 856 (relating to definition of real estate investment trust) is amended by striking ''and'' at the end of paragraph (6), by redesignating paragraph (7) as paragraph (8), and by inserting after paragraph (6) the following new paragraph:

''(7) which is not a controlled entity (as defined in subsection (l)); and''.

(b) CONTROLLED ENTITY.—Section 856 is amended by adding at the end the following new subsection:

''(l) CONTROLLED ENTITY.—

''(1) IN GENERAL.—For purposes of subsection (a)(7), an entity is a controlled entity if, at any time during the taxable year, one person (other than a qualified entity)—

''(A) in the case of a corporation, owns stock—

''(i) possessing at least 50 percent of the total voting power of the stock of such corporation, or

''(ii) having a value equal to at least 50 percent of the total value of the stock of such corporation, or

''(B) in the case of a trust, owns beneficial interests in the trust which would meet the requirements of subparagraph (A) if such interests were stock.

''(2) QUALIFIED ENTITY.—For purposes of paragraph (1), the term 'qualified entity' means—

''(A) any real estate investment trust, and

''(B) any partnership in which one real estate investment trust owns at least 50 percent of the capital and profits interests in the partnership.

''(3) ATTRIBUTION RULES.—For purposes of this paragraphs (1) and (2)—

''(A) IN GENERAL.—Rules similar to the rules of subsections (d)(5) and (h)(3) shall apply.

''(B) STAPLED ENTITIES.—A group of entities which are stapled entities (as defined in section 269B(c)(2)) shall be treated as 1 person.

''(4) EXCEPTION FOR CERTAIN NEW REITS.—

''(A) IN GENERAL.—The term 'controlled entity' shall not include an incubator REIT.

''(B) INCUBATOR REIT.—A corporation shall be treated as an incubator REIT for any taxable year during the eligibility period if it meets all the following requirements for such year:

''(i) The corporation elects to be treated as an incubator REIT.

''(ii) The corporation has only voting common stock outstanding.

''(iii) Not more than 50 percent of the corporation's real estate assets consist of mortgages.

''(iv) From not later than the beginning of the last half of the second taxable year, at least 10 percent of the corporation's capital is provided by lenders or equity investors who are unrelated to the corporation's largest shareholder.

''(v) The directors of the corporation adopt a resolution setting forth an intent to engage in a going public transaction.

No election may be made with respect to any REIT if an election under this subsection was in effect for any predecessor of such REIT.

''(C) ELIGIBILITY PERIOD.—The eligibility period (for which an incubator REIT election can be made) begins with the REIT's second taxable year and ends at the close of the REIT's third taxable year, but, subject to the following rules, it may be extended for an additional 2 taxable years if the REIT so elects:

''(i) A REIT cannot elect to extend the eligibility period unless it agrees that, if it does not engage in a going public transaction by the end of the extended eligibility period, it shall pay Federal income taxes for the 2 years of the extended eligibility period as if it had not made an incubator REIT election and had ceased to qualify as a REIT for those 2 taxable years.

''(ii) In the event the corporation ceases to be treated as a REIT by operation of clause (i), the corporation shall file any appropriate amended returns reflecting the change in status within 3 months of the close of the extended eligibility period. Interest would be payable but, unless there was a finding under subparagraph (D), no substantial underpayment penalties shall be imposed. The corporation shall, at the same time, also notify its shareholders and any other persons whose tax position is, or may reasonably be expected to be, affected by the change in status so they also may file any appropriate amended returns to conform their tax treatment consistent with the corporation's loss of REIT status. The Secretary shall provide appropriate regulations setting forth transferee liability and other provisions to ensure collection of tax and the proper administration of this provision.

''(iii) Clause (i) and (ii) shall not apply if the corporation allows its incubator REIT status to lapse at the end of the initial 2-year eligibility period without engaging in a going public transaction, provided the corporation satisfies the requirements of the closely-held test commencing with its fourth taxable year. In such a case, the corporation's directors may still be liable for the penalties described in subparagraph (D) during the eligibility period.

''(D) SPECIAL PENALTIES.—If the Secretary determines that an incubator REIT election was filed for a principal purpose other than as part of a reasonable plan to undertake a going public transaction, an excise tax of $20,000 would be imposed on each of the corporation's directors for each taxable year for which an election was in effect.

''(E) GOING PUBLIC TRANSACTION.—For purposes of this paragraph, a going public transaction means—

''(i) a public offering of shares of the stock of the incubator REIT;

''(ii) a transaction, or series of transactions, that results in the stock of the incubator REIT being regularly traded on an established securities market and that results in at least 50 percent of such stock being held by shareholders who are unrelated to persons who held such stock before it began to be so regularly traded; or

''(iii) any transaction resulting in ownership of the REIT by 200 or more persons (excluding the largest single shareholder) who in the aggregate own at least 50 percent of the stock of the REIT.

For the purposes of this subparagraph, the rules of paragraph (3) shall apply in determining the ownership of stock.

''(F) DEFINITIONS.—The term 'established securities market' shall have the meaning set forth in the regulations under section 897.''

(c) CONFORMING AMENDMENT.—Paragraph (2) of section 856(h) is amended by striking ''and (6)'' each place it appears and inserting '', (6), and (7)''.

(d) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to taxable years ending after July 12, 1999.

(2) EXCEPTION FOR EXISTING CONTROLLED ENTITIES.—The amendments made by this section shall not apply to any entity which is a controlled entity (as defined in section 856(l) of the Internal Revenue Code of 1986, as added by this section) as of July 12, 1999, which is a real estate investment trust for the taxable year which includes such date, and which has significant business assets or activities as of such date.

SEC. 1506. TREATMENT OF GAIN FROM CONSTRUCTIVE OWNERSHIP TRANSACTIONS.

(a) IN GENERAL.—Part IV of subchapter P of chapter 1 (relating to special rules for determining capital gains and losses) is amended by inserting after section 1259 the following new section:

''SEC. 1260. GAINS FROM CONSTRUCTIVE OWNERSHIP TRANSACTIONS.

''(a) IN GENERAL.—If the taxpayer has gain from a constructive ownership transaction with respect to any financial asset and such gain would (without regard to this section) be treated as a long-term capital gain—

''(1) such gain shall be treated as ordinary income to the extent that such gain exceeds the net underlying long-term capital gain, and

''(2) to the extent such gain is treated as a long-term capital gain after the application of paragraph (1), the determination of the capital gain rate (or rates) applicable to such gain under section 1(h) shall be determined on the basis of the respective rate (or rates) that would have been applicable to the net underlying long-term capital gain.

''(b) INTEREST CHARGE ON DEFERRAL OF GAIN RECOGNITION.—

''(1) IN GENERAL.—If any gain is treated as ordinary income for any taxable year by reason of subsection (a)(1), the tax imposed by this chapter for such taxable year shall be increased by the amount of interest determined under paragraph (2) with respect to each prior taxable year during any portion of which the constructive ownership transaction was open. Any amount payable under this paragraph shall be taken into account in computing the amount of any deduction allowable to the taxpayer for interest paid or accrued during such taxable year.

''(2) AMOUNT OF INTEREST.—The amount of interest determined under this paragraph with respect to a prior taxable year is the amount of interest which would have been imposed under section 6601 on the underpayment of tax for such year which would have resulted if the gain (which is treated as ordinary income by reason of subsection (a)(1)) had been included in gross income in the taxable years in which it accrued (determined by treating the income as accruing at a constant rate equal to the applicable Federal rate as in effect on the day the transaction closed). The period during which such interest shall accrue shall end on the due date (without extensions) for the return of tax imposed by this chapter for the taxable year in which such transaction closed.

''(3) APPLICABLE FEDERAL RATE.—For purposes of paragraph (2), the applicable Federal rate is the applicable Federal rate determined under 1274(d) (compounded semiannually) which would apply to a debt instrument with a term equal to the period the transaction was open.

''(4) NO CREDITS AGAINST INCREASE IN TAX.—Any increase in tax under paragraph (1) shall not be treated as tax imposed by this chapter for purposes of determining—

''(A) the amount of any credit allowable under this chapter, or

''(B) the amount of the tax imposed by section 55.

''(c) FINANCIAL ASSET.—For purposes of this section—

''(1) IN GENERAL.—The term 'financial asset' means—

''(A) any equity interest in any pass-thru entity, and

''(B) to the extent provided in regulations—

''(i) any debt instrument, and

''(ii) any stock in a corporation which is not a pass-thru entity.

''(2) PASS-THRU ENTITY.—For purposes of paragraph (1), the term 'pass-thru entity' means—

''(A) a regulated investment company,

''(B) a real estate investment trust,

''(C) an S corporation,

''(D) a partnership,

''(E) a trust,

''(F) a common trust fund,

''(G) a passive foreign investment company (as defined in section 1297),

''(H) a foreign personal holding company, and

''(I) a foreign investment company (as defined in section 1246(b)).

''(d) CONSTRUCTIVE OWNERSHIP TRANSACTION.—For purposes of this section—

''(1) IN GENERAL.—The taxpayer shall be treated as having entered into a constructive ownership transaction with respect to any financial asset if the taxpayer—

''(A) holds a long position under a notional principal contract with respect to the financial asset,

''(B) enters into a forward or futures contract to acquire the financial asset,

''(C) is the holder of a call option, and is the grantor of a put option, with respect to the financial asset and such options have substantially equal strike prices and substantially contemporaneous maturity dates, or

''(D) to the extent provided in regulations prescribed by the Secretary, enters into 1 or more other transactions (or acquires 1 or more positions) that have substantially the same effect as a transaction described in any of the preceding subparagraphs.

''(2) EXCEPTION FOR POSITIONS WHICH ARE MARKED TO MARKET.—This section shall not apply to any constructive ownership transaction if all of the positions which are part of such transaction are marked to market under any provision of this title or the regulations thereunder.

''(3) LONG POSITION UNDER NOTIONAL PRINCIPAL CONTRACT.—A person shall be treated as holding a long position under a notional principal contract with respect to any financial asset if such person—

''(A) has the right to be paid (or receive credit for) all or substantially all of the investment yield (including appreciation) on such financial asset for a specified period, and

''(B) is obligated to reimburse (or provide credit for) all or substantially all of any decline in the value of such financial asset.

''(4) FORWARD CONTRACT.—The term 'forward contract' means any contract to acquire in the future (or provide or receive credit for the future value of) any financial asset.

''(e) NET UNDERLYING LONG-TERM CAPITAL GAIN.—For purposes of this section, in the case of any constructive ownership transaction with respect to any financial asset, the term 'net underlying long-term capital gain' means the aggregate net capital gain that the taxpayer would have had if—

''(1) the financial asset had been acquired for fair market value on the date such transaction was opened and sold for fair market value on the date such transaction was closed, and

''(2) only gains and losses that would have resulted from the deemed ownership under paragraph (1) were taken into account.

The amount of the net underlying long-term capital gain with respect to any financial asset shall be treated as zero unless the amount thereof is established by clear and convincing evidence.

''(f) SPECIAL RULE WHERE TAXPAYER TAKES DELIVERY.—Except as provided in regulations prescribed by the Secretary, if a constructive ownership transaction is closed by reason of taking delivery, this section shall be applied as if the taxpayer had sold all the contracts, options, or other positions which are part of such transaction for fair market value on the closing date. The amount of gain recognized under the preceding sentence shall not exceed the amount of gain treated as ordinary income under subsection (a). Proper adjustments shall be made in the amount of any gain or loss subsequently realized for gain recognized and treated as ordinary income under this subsection.

''(g) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this section, including regulations—

''(1) to permit taxpayers to mark to market constructive ownership transactions in lieu of applying this section, and

''(2) to exclude certain forward contracts which do not convey substantially all of the economic return with respect to a financial asset.''

(b) CLERICAL AMENDMENT.—The table of sections for part IV of subchapter P of chapter 1 is amended by adding at the end the following new item:

''Sec. 1260. Gains from constructive ownership transactions.''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to transactions entered into after July 11, 1999.

SEC. 1507. TRANSFER OF EXCESS DEFINED BENEFIT PLAN ASSETS FOR RETIREE HEALTH BENEFITS.

(a) EXTENSION.—Paragraph (5) of section 420(b) (relating to expiration) is amended by striking ''in any taxable year beginning after December 31, 2000'' and inserting ''made after September 30, 2009''.

(b) APPLICATION OF MINIMUM COST REQUIREMENTS.—

(1) IN GENERAL.—Paragraph (3) of section 420(c) is amended to read as follows:

''(3) MINIMUM COST REQUIREMENTS.—

''(A) IN GENERAL.—The requirements of this paragraph are met if each group health plan or arrangement under which applicable health benefits are provided provides that the applicable employer cost for each taxable year during the cost maintenance period shall not be less than the higher of the applicable employer costs for each of the 2 taxable years immediately preceding the taxable year of the qualified transfer.

''(B) APPLICABLE EMPLOYER COST.—For purposes of this paragraph, the term 'applicable employer cost' means, with respect to any taxable year, the amount determined by dividing—

''(i) the qualified current retiree health liabilities of the employer for such taxable year determined—

''(I) without regard to any reduction under subsection (e)(1)(B), and

''(II) in the case of a taxable year in which there was no qualified transfer, in the same manner as if there had been such a transfer at the end of the taxable year, by

''(ii) the number of individuals to whom coverage for applicable health benefits was provided during such taxable year.

''(C) ELECTION TO COMPUTE COST SEPARATELY.—An employer may elect to have this paragraph applied separately with respect to individuals eligible for benefits under title XVIII of the Social Security Act at any time during the taxable year and with respect to individuals not so eligible.

''(D) COST MAINTENANCE PERIOD.—For purposes of this paragraph, the term 'cost maintenance period' means the period of 5 taxable years beginning with the taxable year in which the qualified transfer occurs. If a taxable year is in 2 or more overlapping cost maintenance periods, this paragraph shall be applied by taking into account the highest applicable employer cost required to be provided under subparagraph (A) for such taxable year.''

(2) CONFORMING AMENDMENTS.—

(A) Clause (iii) of section 420(b)(1)(C) is amended by striking ''benefits'' and inserting ''cost''.

(B) Subparagraph (D) of section 420(e)(1) is amended by striking ''and shall not be subject to the minimum benefit requirements of subsection (c)(3)'' and inserting ''or in calculating applicable employer cost under subsection (c)(3)(B)''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to qualified transfers occurring after the date of the enactment of this Act.

SEC. 1508. MODIFICATION OF INSTALLMENT METHOD AND REPEAL OF INSTALLMENT METHOD FOR ACCRUAL METHOD TAXPAYERS.

(a) REPEAL OF INSTALLMENT METHOD FOR ACCRUAL BASIS TAXPAYERS.—

(1) IN GENERAL.—Subsection (a) of section 453 (relating to installment method) is amended to read as follows:

''(a) USE OF INSTALLMENT METHOD.—

''(1) IN GENERAL.—Except as otherwise provided in this section, income from an installment sale shall be taken into account for purposes of this title under the installment method.

''(2) ACCRUAL METHOD TAXPAYER.—The installment method shall not apply to income from an installment sale if such income would be reported under an accrual method of accounting

without regard to this section. The preceding sentence shall not apply to a disposition described in subparagraph (A) or (B) of subsection (l)(2).''

(2) CONFORMING AMENDMENTS.—Sections 453(d)(1), 453(i)(1), and 453(k) are each amended by striking ''(a)'' each place it appears and inserting ''(a)(1)''.

(b) MODIFICATION OF PLEDGE RULES.—Paragraph (4) of section 453A(d) (relating to pledges, etc., of installment obligations) is amended by adding at the end the following: ''A payment shall be treated as directly secured by an interest in an installment obligation to the extent an arrangement allows the taxpayer to satisfy all or a portion of the indebtedness with the installment obligation.''

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to sales or other dispositions occurring on or after the date of the enactment of this Act.

SEC. 1509. LIMITATION ON USE OF NONACCRUAL EXPERIENCE METHOD OF ACCOUNTING.

(a) IN GENERAL.—Section 448(d)(5) (relating to special rule for services) is amended—

(1) by inserting ''in fields described in paragraph (2)(A)'' after ''services by such person'', and

(2) by inserting ''CERTAIN PERSONAL'' before ''SERVICES'' in the heading.

(b) EFFECTIVE DATE.—

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

(2) CHANGE IN METHOD OF ACCOUNTING.—In the case of any taxpayer required by the amendments made by this section to change its method of accounting for its first taxable year ending after the date of the enactment of this Act—

(A) such change shall be treated as initiated by the taxpayer,

(B) such change shall be treated as made with the consent of the Secretary of the Treasury, and

(C) the net amount of the adjustments required to be taken into account by the taxpayer under section 481 of the Internal Revenue Code of 1986 shall be taken into account over a period (not greater than 4 taxable years) beginning with such first taxable year.

SEC. 1510. EXCLUSION OF LIKE-KIND EXCHANGE PROPERTY FROM NONRECOGNITION TREATMENT ON THE SALE OF A PRINCIPAL RESIDENCE.

(a) IN GENERAL.—Subsection (d) of section 121 (relating to the exclusion of gain from the sale of a principal residence) is amended by adding at the end the following new paragraph:

''(9) LIKE-KIND EXCHANGES.—Subsection (a) shall not apply to any sale or exchange of a residence if such residence was acquired by the taxpayer during the 5-year period ending on the date of such sale or exchange in an exchange in which any amount of gain was not recognized under section 1031.''

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to any sale or exchange of a principal residence after the date of the enactment of this Act.

TITLE XVI—TECHNICAL CORRECTIONS

SEC. 1601. AMENDMENTS RELATED TO TAX AND TRADE RELIEF EXTENSION ACT OF 1998.

(a) AMENDMENT RELATED TO SECTION 1004(b) OF THE ACT.—Subsection (d) of section 6104 is amended by adding at the end the following new paragraph:

''(6) APPLICATION TO NONEXEMPT CHARITABLE TRUSTS AND NONEXEMPT PRIVATE FOUNDATIONS.—The organizations referred to in paragraphs (1) and (2) of section 6033(d) shall comply with the requirements of this subsection relating to annual returns filed under section 6033 in the same manner as the organizations referred to in paragraph (1).''

(b) AMENDMENTS RELATED TO SECTION 4003 OF THE ACT.—

(1) Subsection (b) of section 4003 of the Tax and Trade Relief Extension Act of 1998 is amended by inserting ''(7)(A)(i)(II),'' after ''(5)(A)(ii)(I),''.

(2) Subparagraph (A) of section 9510(c)(1) is amended by striking ''August 5, 1997'' and inserting ''October 21, 1998''.

(c) VACCINE TAX AND TRUST FUND.—Sections 1503 and 1504 of the Vaccine Injury Compensation Program Modification Act (and the amendments made by such sections) are hereby repealed.

(d) EFFECTIVE DATE.—The amendments made by this section shall take effect as if included in the provisions of the Tax and Trade Relief Extension Act of 1998 to which they relate.

SEC. 1602. AMENDMENTS RELATED TO INTERNAL REVENUE SERVICE RESTRUCTURING AND REFORM ACT OF 1998.

(a) AMENDMENT RELATED TO 1103 OF THE ACT.—Paragraph (6) of section 6103(k) is amended—

(1) by inserting ''and an officer or employee of the Office of Treasury Inspector General for Tax Administration'' after ''internal revenue officer or employee'', and

(2) by striking ''INTERNAL REVENUE'' in the heading and inserting ''CERTAIN''.

(b) AMENDMENT RELATED TO SECTION 3509 OF THE ACT.—Subparagraph (A) of section 6110(g)(5) is amended by inserting '', any Chief Counsel advice,'' after ''technical advice memorandum''.

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect as if included in the provisions of the Internal Revenue Service Restructuring and Reform Act of 1998 to which they relate.

SEC. 1603. AMENDMENTS RELATED TO TAXPAYER RELIEF ACT OF 1997.

(a) AMENDMENT RELATED TO SECTION 302 OF THE ACT.—The last sentence of section 3405(e)(1)(B) is amended by inserting ''(other than a Roth IRA)'' after ''individual retirement plan''.

(b) AMENDMENTS RELATED TO SECTION 1072 OF THE ACT.—

(1) Clause (ii) of section 415(c)(3)(D) and subparagraph (B) of section 403(b)(3) are each amended by striking ''section 125 or'' and inserting ''section 125, 132(f)(4), or''.

(2) Paragraph (2) of section 414(s) is amended by striking ''section 125, 402(e)(3)'' and inserting ''section 125, 132(f)(4), 402(e)(3)''.

(c) AMENDMENT RELATED TO SECTION 1454 OF THE ACT.—Subsection (a) of section 7436 is amended by inserting before the period at the end of the first sentence ''and the proper amount of employment tax under such determination''.

(d) EFFECTIVE DATE.—The amendments made by this section shall take effect as if included in the provisions of the Taxpayer Relief of 1997 to which they relate.

SEC. 1604. OTHER TECHNICAL CORRECTIONS.

(a) AFFILIATED CORPORATIONS IN CONTEXT OF WORTHLESS SECURITIES.—

(1) Subparagraph (A) of section 165(g)(3) is amended to read as follows:

''(A) the taxpayer owns directly stock in such corporation meeting the requirements of section 1504(a)(2), and''.

(2) Paragraph (3) of section 165(g) is amended by striking the last sentence.

(3) The amendments made by this subsection shall apply to taxable years beginning after December 31, 1984.

(b) REFERENCE TO CERTAIN STATE PLANS.—

(1) Subparagraph (B) of section 51(d)(2) is amended—

(A) by striking ''plan approved'' and inserting ''program funded'', and

(B) by striking ''(relating to assistance for needy families with minor children)''.

(2) The amendment made by paragraph (1) shall take effect as if included in the amendments made by section 1201 of the Small Business Job Protection Act of 1996.

(c) AMOUNT OF IRA CONTRIBUTION OF LESSER EARNING SPOUSE.—

(1) Clause (ii) of section 219(c)(1)(B) is amended by striking ''and'' at the end of subclause (I), by redesignating subclause (II) as subclause (III), and by inserting after subclause (I) the following new subclause:

''(II) the amount of any designated nondeductible contribution (as defined in section 408(o)) on behalf of such spouse for such taxable year, and''.

(2) The amendment made by paragraph (1) shall take effect as if included in section 1427 of the Small Business Job Protection Act of 1996.

(d) MODIFIED ENDOWMENT CONTRACTS.—

(1) Paragraph (2) of section 7702A(a) is amended by inserting ''or this paragraph'' before the period.

(2) Clause (ii) of section 7702A(c)(3)(A) is amended by striking ''under the contract'' and inserting ''under the old contract''.

(3) The amendments made by this subsection shall take effect as if included in the amendments made by section 5012 of the Technical and Miscellaneous Revenue Act of 1988.

(e) LUMP-SUM DISTRIBUTIONS.—

(1) Clause (ii) of section 401(k)(10)(B) is amended by adding at the end the following new sentence: ''Such term includes a distribution of an annuity contract from—

''(I) a trust which forms a part of a plan described in section 401(a) and which is exempt from tax under section 501(a), or

''(II) an annuity plan described in section 403(a).''

(2) The amendment made by paragraph (1) shall take effect as if included in section 1401 of the Small Business Job Protection Act of 1996.

(f) TENTATIVE CARRYBACK ADJUSTMENTS OF LOSSES FROM SECTION 1256 CONTRACTS.—

(1) Subsection (a) of section 6411 is amended by striking ''section 1212(a)(1)'' and inserting ''subsection (a)(1) or (c) of section 1212''.

(2) The amendment made by paragraph (1) shall take effect as if included in the amendments made by section 504 of the Economic Recovery Tax Act of 1981.

SEC. 1605. CLERICAL CHANGES.

(1) Subsection (f) of section 67 is amended by striking ''the last sentence'' and inserting ''the second sentence''.

(2) The heading for paragraph (5) of section 408(d) is amended to read as follows:

''(5) DISTRIBUTIONS OF EXCESS CONTRIBUTIONS AFTER DUE DATE FOR TAXABLE YEAR AND CERTAIN EXCESS ROLLOVER CONTRIBUTIONS.—''.

(3) The heading for subparagraph (B) of section 529(e)(3) is amended by striking ''UNDER GUARANTEED PLANS''.

(4)(A) Subsection (e) of section 678 is amended by striking ''an electing small business corporation'' and inserting ''an S corporation''.

(B) Clause (v) of section 6103(e)(1)(D) is amended to read as follows:

''(v) if the corporation was an S corporation, any person who was a shareholder during any part of the period covered by such return during which an election under section 1362(a) was in effect, or''.

(5) Subparagraph (B) of section 995(b)(3) is amended by striking ''the Military Security Act of 1954 (22 U.S.C. 1934)'' and inserting ''section 38 of the International Security Assistance and Arms Export Control Act of 1976 (22 U.S.C. 2778)''.

(6) Subparagraph (B) of section 4946(c)(3) is amended by striking ''the lowest rate of compensation prescribed for GS-16 of the General Schedule under section 5332'' and inserting ''the lowest rate of basic pay for the Senior Executive Service under section 5382''.

TITLE XVIII—COMMITMENT TO DEBT REDUCTION

SEC. 1701. COMMITMENT TO DEBT REDUCTION.

(a) FINDINGS.—The Congress finds that—

(1) the national debt of the United States held by the public is $3.619 trillion as of fiscal year 1999,

(2) the Federal budget is projected to produce a surplus each year in the next 10 fiscal years, and

(3) refunding taxes and reducing the national debt held by the public will assure continued economic growth and financial freedom for future generations.

(b) SENSE OF CONGRESS.—It is the sense of the Congress that the national debt held by the public shall be reduced from $3.619 trillion to a level below $1.61 trillion by fiscal year 2009.

TITLE XVIII—BUDGETARY TREATMENT

SEC. 1801. EXCLUSION OF EFFECTS OF THIS ACT FROM PAYGO SCORECARD.

Upon the enactment of this Act, the Director of the Office of Management and Budget shall not make any estimate of changes in direct spending outlays and receipts under section 252(d) of the Balanced Budget and Emergency Deficit Control Act of 1985 resulting from the enactment of this Act.

The SPEAKER pro tempore. After 2 hours of debate on the bill, as amended, it shall be in order to consider the further amendment printed in Part B of that report if offered by the gentleman from New York (Mr. RANGEL) or his designee, which shall be considered read and debatable for 1 hour, equally divided and controlled by the proponent and an opponent.

Pursuant to Section 2 of the resolution, the Chair may postpone further consideration of the bill until the following legislative day, when consideration shall resume at a time designated by the Speaker.

The gentleman from Texas (Mr. ARCHER) and the gentleman from New York (Mr. RANGEL) each will control 1 hour.

The Chair recognizes the gentleman from Texas (Mr. ARCHER).

GENERAL LEAVE

Mr. ARCHER. Mr. Speaker, I ask unanimous consent that all Members may have 5 legislative days within which to revise and extend their remarks and to include extraneous material on H.R. 2488.

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

There was no objection.

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

Mr. Speaker, I am proud of the Financial Freedom Act of 1999 because it returns a portion of the tax overcharge to American families and individuals whose income taxes, and I repeat that, whose income taxes have created this historic surplus.

After all, it is their money, they earned it, and we should give it back to them or it will surely be spent by the politicians in Washington.

The American people are caught in a tax trap. The harder they work, the longer they work, the more they pay. And that is wrong.

We should be rewarding success, not punishing it, not punishing the American dream. And the evidence is overwhelming that taxpayers are simply paying too much.

Consider these statistics. Americans are paying the highest taxes as they are a percentage of their productivity since World War II. The typical American family pays more than 38 percent of its income in total taxes. That is more than it spends on food, shelter, and clothing combined.

The average household paid $9,445 in Federal income taxes alone last year. Mr. Speaker, that is twice as much as they paid in 1985. Is it any wonder that Americans are working harder and longer just to pay their household bills?

The strongest evidence of all that Americans are paying too much is that the Treasury is overflowing with piles and piles of their hard-earned cash. Believe it or not, Americans are sending so much money to Washington that there is actually more money, far more money, than the Government needs to operate.

Now, if the power company or the phone company overbilled their customers, the customers would rightfully be irate. If a local grocery store charged $5 for a gallon of milk, people would shop somewhere else. But the exact same thing is happening in Washington, and the American people have the right to a refund.

Today we should take a major step in that direction. The Financial Freedom Act is based on the principle of fairness. All American income taxpayers created this surplus, and it is only fair to return it to those who sent it here.

So the biggest component of our bill is an evenhanded 10 percent across-the-board rate reduction. That is fair. That means an average family with an income of about $55,000 will get $1,000 in tax relief, money that can be used however that family sees fit.

□ 0020

A single person making about $25,000 will get $380 to help with a car payment or a student loan. And a senior with income of $30,000 would have an extra $510 for prescription drugs or other health care costs or whatever they need to sustain life.

We also help fix the marriage penalty that makes about 42 million Americans pay higher taxes just because they are married. And our bill gives relief of $250 per couple.

We also help parents and students with the cost of education. We keep student loan interest payments tax deductible, we expand education savings accounts, and we make prepaid college tuition plans tax-free for both public colleges and private colleges. We include a national public school construction initiative to help build and renovate public schools.

In the health area, we make health insurance more affordable and accessible for all Americans because we have a 100 percent deduction for people who buy their own health insurance. And to help with the growing need for long-term care, we provide an additional tax exemption for people who care for their own elderly in their own homes. Where they prefer to look after their own elderly rather than place them in a retirement home, today they get no tax benefit, this bill for the first time will give them that.

This plan also strengthens and simplifies our pension systems, so that more American workers, particularly women, have access to a pension plan, portability and greater retirement security.

To deal with our historically low personal savings rate, and that is right, in this country today we have the lowest savings rate in all history. It is negative. So what do we do? We reduce capital gains taxes which protects existing savings and gives incentive for more. Up to 100 million Americans today are investing in the stock market and will take advantage of this to save their savings. We repeal the death tax which is a dollar-for-dollar tax on savings, and the losers when someone dies are those who are employed by family farms and family businesses that have to be sold. And we include tax breaks for Americans with small savings accounts.

Finally, we simplify the tax code, long overdue. We get rid of 240 pages of the tax code in this bill, including repealing the tax hike time bomb on middle-income Americans that is known as the alternative minimum tax.

Today we will hear a lot about priorities, and I look forward to that debate, because the Republican agenda is based on securing America's future for our children and our grandchildren. We will save Social Security for all time without cutting benefits and without raising taxes, and we have a precise, comprehensive plan to do that. We will strengthen Medicare and include prescription drug benefits for older Americans. We will pay down the public debt. And we provide tax relief for the people who created our surplus in the first place.

We will also hear a lot of predictions about the future. Like a circus palm reader, we will hear dire claims that the government cannot afford this tax cut, that we have other needs, that we should save this money to pay off the debt. And that will all sound very good to very many people. But just as no one knows what the future holds, everyone watching this debate knows one thing for certain, if the money is left in Washington, politicians will spend it most certainly, every dime of it. What we seem to learn from history is that we never seem to learn from history, and that has been true throughout the halls of history. Government will get bigger and our children and grandchildren will be forced to sustain a government structure that takes the largest percentage of their productivity and work in all history.

Mr. Speaker, today's debate is about choices. We are committed to saving Social Security, strengthening Medicare and paying down the public debt, but once we have done that, Republicans believe it is a matter of principle to return excess tax money in Washington to the families and workers who

sent it here in the first place. Republicans believe that Americans have the right to keep more of what they earn, and we are starting today to give it back.

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

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

Mr. Speaker, the majority has said that if this surplus is not returned to the taxpayers, that the politicians in Washington would surely spend it. I have not heard language like this since it would grab these mad criminals who seem like they want to get caught and they say, ''Stop me before I kill again.''

Who are these politicians in Washington? Who will be spending the money? Now, I know that Republicans have a leadership problem, but still, you have the majority. All we are saying is, take some of this money and pay down the Federal debt. We borrowed the money, and we are asking that you join with us in giving a smaller tax cut and save Medicare and save Social Security. Since when have you been so afraid that the trillion dollars, that one-third of it, two-thirds of it goes to the top 10 percent of the highest paid people in the United States, but what is all this business about you do not trust yourselves, that you have to give it back before you do something crazy and spend it?

If you want to have a real tax bill that is going to be signed into law, for openers you try to have it as a bipartisan thing. But if you want a political statement, then God knows that you and the Committee on Rules have worked that out and it has been an ever-changing so-called tax bill. It is hard to know every hour what other changes are being made.

And so all we can say is that we may not be on the side of the angels, but we certainly are on the side of Chairman Greenspan who told our committee, who told the Congress, who told the American people, ''If you don't trust the Republican politicians in Washington that they will spend the money, then pay down the debt.'' And he asked that we consider doing that. He also when asked about the 10 percent across-the-board tax cut suggested that we not do this, that it was not in the best interest of our economy and our country.

And so whatever you decide to do, it just surprises me that you would have a rule that would make the tax cut conditional on the amount of increase in the interest on our national debt. Now, I know the Committee on Rules are expert in tax law and interest and all those other things. They are expert in everything. But constitutionally the Committee on Ways and Means is the tax-writing committee. And if you cannot do it with Democrats and you cannot do it with Republicans, for God sake, do not turn it over to the Committee on Rules.

So if we want to know whether or not the wealthy supporters of your party are going to get an across-the-board tax cut, we cannot even go to the IRS anymore. We have to now go to the Federal Reserve Board Chairman and ask, ''What does it look like for a tax cut for our friends?''

Well, the only thing I can say in justification of doing this in the middle of the night is that I know that you know it is not on the level.

□ 0030

I know that this is a salvo for campaign 2000. If my Republican colleagues can live with it; I do not think the American people can.

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

Mr. ARCHER. Mr. Speaker, I yield 3 minutes to the gentleman from Texas (Mr. SAM JOHNSON), a true American hero and a Member of the Committee on Ways and Means.

Mr. SAM JOHNSON of Texas. Mr. Speaker, I just want to say to the previous speaker and to all of those in New York, my Democratic colleague is going to deny about $3,823 per capita to the taxpayers in his State of New York if he votes against this bill. That is not fair. We ought to return that money to the people of New York, and I think you New Yorkers ought to have it, just so Washington cannot spend it on more government programs.

For too long the American tax system has been punished the very virtues that we live by in America: hard work, marriage, savings, entrepreneurship, and freedom. Let us look at what happens when we play by the rules. If you get married, the government punishes you. You pay more in taxes than an unmarried couple. If you save and invest money for your family's future, you pay capital gains taxes on the earnings from those savings. If you work hard to earn more, you end up paying what is called an alternative minimum tax or AMT and lose your family tax credits.

Finally, if you build a successful business and try to leave it to your kids, they may have to sell it just in order to pay off Uncle Sam when you die. That is an assault on American values, and there are so many examples, and the consequences are devastating.

Our sons and daughters cannot afford to marry and thus never truly make a lifelong commitment to God, each other, and their children. Families give up on trying to save and invest because they see it is cheaper to spend their money than pay taxes on their savings and investments. My Republican colleagues and I are committed to ending this assault on our values of family, investing, savings, hard work, entrepreneurship, and freedom. This bill is one giant step forward for freedom and removing the greedy hand of government from your lives.

Mr. Speaker, 88 percent of nearly $800 billion of tax relief over 10 years goes to families. Let us give America's families a break and vote for freedom.

Mr. RANGEL. Mr. Speaker, I yield 2 minutes to the gentlewoman from Florida (Mrs. MEEK).

(Mrs. MEEK of Florida asked and was given permission to revise and extend her remarks.)

Mrs. MEEK of Florida. Mr. Speaker, I thank the gentleman for yielding me this time.

Mr. Speaker, I rise at this late hour and early morning to support the Rangel substitute and in strong opposition to the Republicans financial reckless and fiscally irresponsible tax cut proposal. The Republican tax cut proposal fails to protect Medicare. I care about Medicare; and Social Security, I care about Social Security. Instead of paying off the national debt, it would explode the deficit, as I understand it in 10 years, and by the year 2009 it would require massive cuts in education, housing, and other programs for our citizens.

Mr. Speaker, Republicans have produced a very strong bill for Wall Street, not main street, not for Joe Lunch Bucket, but for the rich and the middle class. Their bill cuts taxes for the rich, while leaving crumbs for an average American family. Republicans seem to think that the welfare of the Nation means giving rich people welfare-like tax breaks and write off office. A more appropriate name for the Republican tax cut proposal would be the ''Financial Freedom Act for the Rich.'' Mr. Speaker, 45 percent of the benefits of the Republican tax cut will go to the top 1 percent of taxpayers, and 65 percent will go to the wealthiest 10 percent. Such tax relief for the rich today means trouble for the country in the years to come.

Mr. Speaker, I have been around long enough to know what happened back in the 1980s. The Republicans tried to sell us a bill of goods with supply-side economics which tripled the national debt. The country learned the hard way the error of this approach. It never trickled down. But while the country changed, the Republicans did not. Instead of at a time when the Nation is at its strongest militarily, economically and internationally, the Republicans are still trying to do supply-side economics. It is time that we defeat the Republican tax cut bill.

But the American people are not buying it! The investments that we have made in the past seven years have placed our economy in the strong position that it is today. We need to continue our policies of making prudent investments that will maintain the strength and economic vitality of this great country.

What we need is a tax cut that will help middle class Americans save for college and for retirement. We need a tax cut that would provide tax relief to lower and middle income people and not only to the rich. We need to use the rest of the surplus to reduce our national debt, shore up Social Security and Medicare, and make needed investments in education, national defense and infrastructure—improvements that we know America will need to continue as the world's leader in the next century.

The Rangel substitute is a common-sense approach that will allow us to preserve Medicare and Social Security. It is a bill for the

middle class and the poor; for all Americans, not just the rich. Let's maintain fiscal responsibility and keep faith with the American people. Reject the Republicans' welfare bill for the rich. Support the Rangel substitute.

Mr. ARCHER. Mr. Speaker, I yield 3½ minutes to the gentleman from Arizona (Mr. HAYWORTH), a respected Member of the Committee on Ways and Means.

Mr. HAYWORTH. Mr. Speaker, I thank the chairman for yielding me this time.

Mr. Speaker, I would simply point out to the previous speaker that in attempting to deny this legislation for tax fairness and tax equity, my colleague will deny about $3,299 per capita to the taxpayers in the State of Florida if, in fact, my colleague chooses to vote against this bill.

Mr. Speaker, despite all of the talk of the dead of night, it is prime time in Arizona, and it is high time that the American people finally get more of their hard-earned money back in their pocket.

My colleagues will hear a lot of mistaken impressions tonight from my friend on the left, one of them being that somehow we want to sacrifice Social Security and Medicare.

Mr. Speaker, my friends on the left are mistaken. Because they should recall that we voted to install a lockbox, to save 100 percent of the Social Security surplus for Social Security and Medicare. Mr. Speaker, so often we talk about trillions of dollars, but at times it seems all of our eyes glaze over.

Let us put it in simple perspective. When we talk about the surplus that will exist over the next 10 years, think about it in terms of $3 billions right here. And this is what our common sense majority proposes. That we save about 2 of those to go to save and strengthen Social Security and Medicare. But then the question remains about the remaining money, the overcharge that has been charged America's taxpayers.

What should we do with this? Our friends on the left would say, spend it. We say, that is not what people want. The American people gave this money to run this government, but it is not needed, so the money should be returned to the American people.

Mr. Speaker, with reference to the alleged saviors of Social Security, I would point out that the President of the United States came to this podium, Mr. Speaker, and in his State of the Union message he said, now, listen Mr. Speaker, he said he proposed to save 62 percent of the surplus for Social Security.

Hello. The remaining 38 percent, almost 40 percent was going to be spent on new programs. And then the next day, the President of the United States went to Buffalo, New York and in a rare moment of candor said to the people of Buffalo and the people of America, Mr. Speaker, now, we could give that surplus back to you and trust you to spend it right.

Mike Ritter of the Mesa Tribune remembered that remark from the President of the United States, and he offered this cartoon. The headline: No tax cut, says Pres. Americans won't spend their wages correctly. And then the stick-up artist saying, I agree with the President. You'd just waste it anyway, as he sticks up the American people. It is high time to strike a blow for tax fairness and for the American people, the people of Florida, the people of Arizona. Yes to tax fairness; yes to this bill.

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

I was about to challenge the figures that the gentleman from Oklahoma was citing and substitute it with the figures from the Joint Committee on Taxation, but now that I see that he is using cartoons to make his point, I assume he is using the comics for his statistics.

Mr. Speaker, I yield 4 minutes to the gentleman from Wisconsin (Mr. KLECZKA).

□ 0040

Mr. KLECZKA. Mr. Speaker, I think the debate tonight is a little more important than cartoons and bogey figures. We are going to hear time after time the per capita tax savings in the States. That is per capita. That is not per individual. So in Wisconsin, it might come out to $3,000 but the working person in my district will get on average, according to Joint Committee on Taxation, about $400, and the most wealthy individuals from Wisconsin, in Menomonee Falls, will get the balance. Do not give me this $3,000 per capita because that is not by individual.

Let me respond for a moment to a couple of points that were made, one by my good friend, the chairman of the committee, the gentleman from Texas (Mr. ARCHER).

He indicates that the Treasury is bursting with piles and piles of money. He knows and I know and we all know that is totally false. As we close out this fiscal year, the nonSocial Security surplus is actually a $5 billion deficit. There is no bursting of money here. What we are looking at is a possibility, a hope and a prayer that over the next 10 years we are going to have a trillion dollars available to provide for tax cuts.

What does that assume? Fourteen years of unprecedented economic growth.

I would say to the gentleman from Texas (Mr. ARCHER), I hope and pray that will occur, but chances are it will not. I have a better chance to win the lottery than that happening, but what they are proposing to do is give that away today.

We did that once and it did not work. In 1981, we did the same thing. We bet it would come and we bet wrong.

There is no way that we are going to have a trillion dollars over the next 10 years available. Clearly, it is not here today. So what are we doing? Oh, there has been a lot of criticism on rewarding the rich. Two years ago, we provided capital gains tax relief, an 8 percent cut to those who make money buying and selling stocks, a noble, nonsweating profession. I respect them, and those who make their earnings and millions in capital gains should pay at least as much as the worker in my district working 40 hours a week at Alan Bradley, but that is gone. That was 2 years ago.

What are we doing today? We are knocking off another 5 percent, because it is unearned income and not earned income. That is not fair.

That one tax policy change will cost the Treasury over the next 10 years $52 billion that we do not have tonight. Where do those dollars go? Eighty-eight percent of those $52 billion go to the wealthiest eighth percent of our population.

I do not represent a wealthy district, and the chairman in all sincerity says let us return it to those who sent it here, but one half of this tax bill goes to everyone else: Oil and gas leases, forestry, ATM for corporations, a reduction of 10 percent in the capital gains for corporations.

Wait a minute. I thought we were going to give it to the people who sent it here, the hard workers, the middle income families, the ones we wanted to have an extra buck to go buy a gallon of milk. This bill is so slanted, unfairly.

Mr. Speaker, the only way I can term this is Christmas in July. We know the bill is going to be vetoed this fall. Let us do a more credible project, a more credible tax bill.

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

Mr. Speaker, I would simply respond to the gentleman from Wisconsin (Mr. KLECZKA), all of the jobs that are created in the United States of America that increase productivity, better pay for workers, occur because of capital savings.

Today, America saves at the lowest rate in its history. We depend upon foreigners to give us their savings to create the jobs for his workers in Wisconsin so that they can have more productivity and higher pay.

The government does not employ those people, but every time capital gains are taxed, it takes away from the savings pool. Taxes have already been paid once. The result is invested to create jobs, and only through that investment can workers progress, and he wants to take it away and have the government spend it wastefully on many, many programs in Washington, because Washington is wasteful and the American people know it.

Every dollar that is taken reduces the opportunity for those workers to have better jobs. That money is not spent in Washington for productivity or better jobs. So let us take it away and spend it.

Mr. Speaker, I yield 3 minutes to the gentleman from California (Mr.

HERGER), another respected Member of the Committee on Ways and Means.

Mr. HERGER. Mr. Speaker, I rise in strong support of this balanced tax relief proposal, the Financial Freedom Act of 1999, because I believe the time has come to allow hard-working Americans to keep more of what they earn.

Mr. Speaker, it is estimated that over the next 10 years, the Federal Government will overtax to the tune of almost $3 trillion. This plan reserves two-thirds of this amount for retirement security, saving this money for Social Security and Medicare.

Moreover, this House recently passed, by an overwhelming vote, 416 to 12, my Social Security lockbox legislation which would protect every penny in the Social Security trust fund, and I am hopeful that the Senate will soon follow suit.

Now we must take the next step, by recognizing that American taxpayers, not Washington, have created our current economic prosperity, and it is taxpayers, not Washington, who should reap the benefits.

By almost any measure, Americans are currently overtaxed. In fact, Americans now pay more in taxes than they spend on food, on clothing, and on shelter combined. This is simply wrong. The legislation before us today reduces taxes by $792 billion over the next decade. This is $792 billion in the pockets of taxpayers rather than in Washington.

Specifically, this legislation provides all taxpayers with broad-based tax relief by reducing tax rates 10 percent across the board. Additionally, this legislation grants relief to married couples by reducing the marriage tax penalty through the Herger-Weller provision; makes it easier to save for education expenses by expanding education savings accounts; makes long-term health care more affordable and accessible; encourages investment by reducing capital gains taxes; and completely phases out the unfair and destructive death tax so that parents and grandparents will be able to pass on their hard-earned savings to their children and grandchildren.

Mr. Speaker, our choice today is clear. We can side with the American taxpayer or we can side with bigger government and more Washington bureaucracy.

I commend the gentleman from Texas (Mr. ARCHER) for his leadership on this proposal, and I urge all of my colleagues on both sides of the aisle to seize this opportunity to provide the American people with much needed and well deserved tax relief.

Mr. RANGEL. Mr. Speaker, I yield 3 minutes to the gentlewoman from Florida (Mrs. THURMAN).

Mrs. THURMAN. Mr. Speaker, I would like to thank the gentleman from New York (Mr. RANGEL) for yielding me this time.

Mr. Speaker, I am not sure where these numbers are floating around from on this per capita issue, but we need to go back and refer to what the Joint Committee on Taxation had put. In my district, the average income is around $15,000. According to this particular chart, it tells me that my folks are going to get $14 is what they get in 2004.

Now, if I had folks that were making $200,000 and over, which I do not, about 4,000 people out of 600,000, according to the almanac, they might get $4,835; $100,000 to $200,000 about $818.

□ 0050

So you can see that this really is a distribution that goes to the very top level, which brings me to my point. In 1993, we asked all Americans, every American to give up something so that we could get this deficit under control. Do my colleagues know what? They said, ''I am willing to do this for my grandchildren. I am willing to do this for my children. I want you to make sure you pay down this deficit.''

So it is hard for me to believe that Republicans want to thank these men and women who gave up things, COLAs on their veterans groups. Our Federal employees, they gave up $6 billion towards this. What thanks do we give them? We give them a distribution schedule where they might get $14. They want that to go to the deficit.

I do not want to say thank you for this kind of a tax bill. I want to give back to the people like we did in 1997. We did a bipartisan bill. We did what we are talking about here today. We gave interest on student loans. We reduced the capital gains. We provided child care tax credit. We expanded IRAs. We created scholarships for college students.

Now we find ourselves in, again, a fortunate position of still being able to do more for the country. Let us not take that money away. Let us do the issues with Social Security. Let us do our issues with Medicare. Let us listen to the ones we want to give the power to tonight, to the Federal Reserve chairman's advice, and wipe away our debt. That will allow us to lower interest rates and strengthen Social Security and Medicare. Doing that will help everyone. Let us just say no.

Mr. ARCHER. Mr. Speaker, I yield 3½ minutes to the gentleman from Illinois (Mr. WELLER), another respected member of the Committee on Ways and Means.

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

Mr. WELLER. Mr. Speaker, let me begin by saluting the leadership of the gentleman from Texas (Mr. ARCHER), our distinguished chairman, putting together a common sense package of tax relief for working families and those who create jobs.

This is an opportunity to celebrate. I look back over the last 4½ years. I remember what it was like when I came here, massive deficits, high taxes. Of course, now we have a great opportunity thanks to Republican fiscal responsibility. We now not only have the third balanced budget that we are working on in 30 years, but we have a massive surplus of extra tax revenue of almost $3 trillion over the next 10 years.

The Republican budget this year takes several steps and common sense steps with what to do with that extra money. Of course, step number one is we lock away the Social Security surplus, which means that two out of three dollars of that surplus goes for retirement security and strengthening Medicare and Social Security. Number two, by voting for the rule, and those who voted for the rule voted to pay down the national debt by $2 trillion. Of course, step number three is provide tax relief for working families and the middle class.

Let me just take a moment to introduce to my colleagues Shad and Michelle Hallihan of Joliet, Illinois. Shad and Michelle are schoolteachers in the Joliet public schools. They, like 21 million married working couples, suffer the marriage tax penalty. Of course, those 21 million married taxed couples, under our current tax code, these couples pay higher taxes just because they are married.

Thanks to legislation that was offered by myself and the gentleman from California (Mr. HERGER) and others, we have a key provision in this package of tax relief which helps people like Michelle and Shad, providing tax relief for 21 million American working couples who are going to see at least $250 in tax relief. That is a car payment for many. Of course, we simplify the tax code by providing marriage tax relief.

I would also point out that Michelle and Shad are due to have a baby any day now. Of course they may choose to send their child to an Illinois school, and they may want to take advantage of Illinois' prepaid college tuition programs.

This package of tax relief will help Michelle and Shad Hallihan pay for college, if they choose the prepaid college tuition program, at a public or private school. The benefit for them is, the growth of that package that they buy will be tax exempt. That is good. If their child goes to a public school, the school construction provisions will help the Joliet public schools fix leaky roofs and also help the Joliet public schools add on classrooms. That will help Michelle and Shad because they are school teachers, but their children will probably attend the local public schools.

Last, I would like to mention that because Michelle may take a few years off from teaching to be home with her new baby, that we provide for the opportunity for catch-up to allow Michelle, when she goes back into the workforce in the later years and her income is higher, to make up missed contributions to retirement savings.

This package helps people like Michelle and Shad Hallihan, schoolteachers back in Joliet, Illinois. It deserves bipartisan support. I urge an aye vote.

Mr. RANGEL. Mr. Speaker, I yield 2 minutes to the gentleman from Mississippi (Mr. TAYLOR).

Mr. TAYLOR of Mississippi. Mr. Speaker, let me pose a question to my Republican colleagues. What is it that they are so ashamed of that they have to wait until the middle of the night to tell the American people about?

We have been in session for 7 months. They have to wait until the middle of the night in the third week of July to do this. What are they so ashamed of?

For 3 years, they have flatlined the Veterans Administration budget. Zero increase. The guys who saved this country in World War II, they get nothing. The defense budget is $30 billion less than it was just 10 years ago, $30 billion less.

They have controlled the budget process in both Houses of Congress for 5 years, and what have they done? This is a Marine lance corporal. His name is Harry Sheen. He works two part-time jobs to make ends meet. We have 12,000 soldiers, sailors, airmen, and Marines on food stamps. What do they get out of this? They get nothing.

This is the wife of a United States Marine picking up used furniture on the curb at the Marine base at Quantico because there is not enough money for her friends to buy furniture. What do they do for them? They do nothing.

But this $400 billion in this bill is for the fat cats of America, the people who make $800,000 a year or more. These people risk their lives. They risk their lives for $10,000 to $20,000 a year. They are away from their families from anywhere between 120 to 180 days a year away from their family. My colleagues tell them there is not enough to go around. They send them out in 30-year-old helicopters. The newest CH–46s and 47s in the inventory were built in 1972. What have they done for them? Nothing. They ought to be ashamed of themselves.

Mr. ARCHER. Mr. Speaker, I yield 1 minute to the gentleman from Arizona (Mr. HAYWORTH).

Mr. HAYWORTH. Mr. Speaker, I thank the gentleman from Texas, the Chairman of the Committee on Ways and Means, for yielding me this time.

In fact, the shame should belong to those who failed to accurately point out the full story. Of course there is a Commander in Chief, the nominal head of the opposition party, who has repeatedly been AWOL when it comes to providing for the needs of America's military.

I am sure the gentleman from Mississippi (Mr. TAYLOR) joined with us in voting a short time ago in this House to raise the pay of military officers and enlisted men. I am sure that the gentleman understands full well that the President's budget is so woefully inadequate for veterans. We added $1 billion to the President's budget on the Committee on Veterans' Affairs on which I serve.

I know the gentleman knows full well that the paradox of this administration is that this President has put the men and women in uniform of this country in harm's way and deployed to more theaters of operation than all of his post-World War II predecessors combined, even as he cuts the budget. That is the fact.

☐ 0100

Mr. RANGEL. Mr. Speaker, I yield 30 seconds to the gentleman from Mississippi (Mr. TAYLOR).

Mr. TAYLOR of Mississippi. Mr. Speaker, unlike the gentleman from Arizona, and unlike every single Member of the Republican leadership, I served in the armed forces. I enlisted when I was 17. I know what it is like to try to live on an enlisted salary. When we give someone 4.8 percent of nothing, it is still nothing. There are 12,000 enlisted people right now on food stamps.

Now, we can fix that for less than $100 million. We can provide for health care for our military retirees for less than $1.2 billion, but the other side wants to give away $400 billion to the fat cats while they do nothing for them.

Mr. ARCHER. Mr. Speaker, I yield myself 30 seconds.

The gentleman from Mississippi, I am sure, does not intend to preach to Republicans and claim that we have not served our country. I served our country. I served during the Korean War, and I am proud of it.

And I am proud that our Republican majority has added back, over the last 5 years, $40 billion to the Defense Department. We did that over and above what the President has been recommending to downsize and to starve the Defense Department.

Mr. RANGEL. Mr. Speaker, I yield 2 minutes to the gentleman from Wisconsin (Mr. KIND).

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

Mr. KIND. Mr. Speaker, the average family in my Congressional District in western Wisconsin will get roughly, well, less than 1 buck, $1 a day, under this tax cut proposal. And that is why it is not difficult for me to rise at 1 a.m. here in the morning, Washington time, and strongly oppose the most fiscally irresponsible and reckless piece of legislation that I have encountered here in Congress.

This is the wrong tax cut, at the wrong time, for the wrong reason. It is the wrong tax cut, because it relies on projected future surpluses that may never materialize, and it would give us the double economic whammy of higher inflation in the short-term, because of over stimulation of the economy, and higher interest rates in the long term because of the Federal Reserve's response to that stimulation.

It is also the wrong time for a tax cut. There is a lot of focus and talk about this $100 billion tax cut over the next 10 years, but what the supporters of the bill do not want the rest of us to know is that that tax cut explodes to $3 trillion during the years 2010 and 2020, the peak retirement years for the baby boom generation.

The fiscally prudent decision is to do what families in western Wisconsin do when they run into some good times, and that is to take care of existing obligations first. That means shoring up Social Security, Medicare, and paying down the $5.7 trillion debt first. This tax cut plan makes it more difficult rather than easier to reduce the debt burden for our children.

Finally, it is the wrong reason for a tax cut. This is just Washington doing it again in the middle of the night, taking the easy path for short-term political gain instead of making tough decisions for future generations.

Not me. Not tonight. My vote is for the future of my two little boys.

One would think, with the current excitement about projected surpluses, that the end of our fiscal problems is at hand. But this is not the case—it is only the beginning of the hard work ahead given the impending baby boomer retirement.

For thirty years, our Nation has spent beyond its means, both in good times and bad. We were able to cover this spending by going into debt, constantly reaching for the 'national credit card'. But now the circumstances have changed.

We are now enjoying the longest peacetime expansion in our history, and our goal of balancing the budget is becoming a reality.

But our thirty years of deficit spending has left us with an enormous debt burden of 5.7 trillion dollars. During that time, we borrowed $1.76 trillion from the Social Security Trust Fund. We have a tremendous opportunity to begin correcting this situation.

Knowing the financial hole you dug in the past, how would you handle an increase in your family income? Would you immediately promise large gifts to other family members? Would you commit yourself to a large, expensive project? That's the approach this bill takes.

Or would you take care of existing obligations and pay off old debts? How about saving for your retirement? Or investing in your children's education? Or setting aside money for the cost of health care? That's the approach this bill ignores.

These are the tough choices we face. Any budget plan that does not take these into account abrogates our responsibility to our national family and our children.

I urge my colleagues to vote against this tax cut.

Mr. Speaker, I would encourage my colleagues to vote against this reckless tax cut bill.

Mr. ARCHER. Mr. Speaker, I yield 3 minutes to the gentlewoman from Connecticut (Mrs. JOHNSON), another respected Member of the Committee on Ways and Means.

Mrs. JOHNSON of Connecticut. Mr. Speaker, I rise in strong support of this legislation. This is not a bill about

numbers. The numbers will change as the budget process moves forward, both the budget and the tax bill processes. This is a bill about policy.

For the first time in my many years here in Congress and my many years as a member of the Committee on Ways and Means, this is the very first tax bill that lays out a policy that looks to the future: How can America create the high-paying jobs her kids will need in the 21st century.

This bill answers that question. It reforms the complicated rules governing foreign income of our global companies. It will stop Daimler-Chryslers and create Chrysler-Daimlers. We have many, many American companies merging with foreign companies, and when they become Daimler-Chryslers, then they create a power shift over those very high-paying jobs that we need.

We heard testimony directly to that effect, and we know if we do not make these changes, we will not have the strong companies we need to create the high-paying jobs our kids will depend on.

Secondly, we know every single one of those high-paying jobs now requires a greater investment in technology than ever in history, and that will be true in the 21st century. This Tax Code will enable us to create the capital to invest in those jobs.

So if we care about high-paying jobs, we have to plan now to create those. We cannot look at just next year. We have to do a tax bill that lays out the policy we need to create a strong economy and high-paying jobs in the 21st century.

But this bill also looks at personal security. For the first time, it creates pension opportunities for the 50 percent of American people who do not work for employers that offer pensions. Pension opportunities, personal savings opportunities, long-term care premium deductibility, so that people can be not only economically secure in their retirement but they can be personally secure against the catastrophic costs of long-term health care.

Job creation, personal security, and, yes, tax relief and fairness. I am proud to support a bill that creates an across-the-board cut in personal income taxes; relieves the marriage penalty; provides deductions for those who have to pay their own health insurance, thereby reducing the number of uninsureds in our country; provides a small savers deduction; the deduction of student loans, making that permanent.

It is the poorest students who have the biggest loans and the biggest interest payments. This is important if we want an educated work force for the 21st century. I urge support of a sound, thoughtful plan for the future of America.

Mr. RANGEL. Mr. Speaker, I yield 3 minutes to the gentlewoman from Texas (Ms. JACKSON-LEE).

(Ms. JACKSON-LEE of Texas asked and was given permission to revise and extend her remarks.)

Ms. JACKSON-LEE of Texas. Mr. Speaker, I too am an American, and as I listened to my good friend and colleague, the gentleman from Texas (Mr. ARCHER), whose district and mine are neighboring districts, I imagined that just like me he believes in the working people of our Nation, and the working people in our respective districts, and the working people in our great State of Texas.

But when I look at the Republican tax plan, the only thing I can see, Mr. Speaker, is red. I see the $3 trillion that pops up in the second 10 years. I see the $1.4 trillion that results by the tendering of the debt. And I think, Mr. Speaker, if we begin to look at what working Americans understand, they understand red, deficit, and no money. They understand what I am facing in my district.

And, Mr. Speaker, I wonder about the capital gains investment. A major plant in my district, 400 employees, is being closed in the next 15 days, even in this economy, and they ask me what we are going to do about it? And we are now casting a vote for red, for deficit, for spending money and not helping working Americans.

Working Americans understand many words, Mr. Speaker, but they understand three words, in particular: inflation, interest rates going up, and deficit. Inflation means that working Americans cannot buy the durable goods that they need to keep them living the quality of life that we have told them they should expect.

Higher interest rates mean that the young married couple cannot go out and buy that first affordable home. They will have to wait a couple years, or maybe not have the opportunity at all. They understand interest rates.

And deficit they understand, because the tax bill that is on the table will result in a deficit of $47 billion.

☐ 0110

I thank my good friend from Florida (Ms. THURMAN) for indicating that the reason why we are in such a good economy is the 1993 tax or budget vote by Democrats only. That is why this economy is good. But I rise to oppose, on behalf of the working people of my district and this Nation, the Republican tax plan and support the substitute of the gentleman from New York (Mr. RANGEL).

Because he understands and we Democrats understand working people. We understand that the State of Texas does not have an income tax, but yet the substitute is going to provide for deductions for retail and sales taxes. The working people need that.

My school superintendent begged me, begged me, can we get school construction modernization bonds? And the substitute has that. I am standing up for the working people so that schools will be built for our children to be able to go to and the crumbling schools in my district can be repaired.

When I see the tax plans for the Republicans, I see red. I, too, am an American and I am going to stand up for the working people of America and fight against inflation.

Mr. Speaker, I rise in strong opposition to the passage of this bill, which calls for tax cuts that would injure the people of the United States for the next decade and beyond.

When there were initial reports of a budget surplus, there was much rejoicing in and around Capitol Hill. There was also a sigh of relief around the United States, as the American people were finally able to see that this Congress, with the help of the Administration, balanced the budget. But as many are quick to point out, part of that surplus is not a surplus at all—it is residue from the population spike caused by the Baby-Boom. As a result, we cannot treat this like a true surplus. We must treat it with the responsibility of a debtor, who must live up to their end of an agreed-upon bargain.

Now my friends on the other side of the aisle will tell you that the way we repay the debt to the American people, the way to live up to our end of the bargain, is through tax breaks. But that simply ignores our commitments to the American people, the commitments that they have been paying into for decades. As a result, we should not begin to make irresponsible tax cuts until we know that Social Security and Medicare will be there for this and future generations.

Medicare is threatened with insolvency within the next 20 years. It is simply irresponsible for us to enact tax cuts at a time when we are trying to improve this system. We should not let Medicare simply fall away in the night.

Like Social Security, Medicare dutifully serves the American people, and we should prolong its life. This bill, as written, does not put one penny towards Medicare. In fact, it leaves Medicare to die an untimely death. We would do a disservice to the American people by taking away one of our most precious safety nets.

At a time when the American people are clamoring for a more-robust Medicare, a more-responsive Medicare, this Republican-led Congress is ready to take this country in exactly the opposite direction. Just a few weeks ago, thousands of people in my district were relieved to see the President's initiative to add a prescription drug benefit to Medicare. It was exciting news—and many have approached me asking when we could get this done. How can I tell them that this Congress, that Republicans, have instead chosen to give tax cuts to the wealthy rather than to enact this measure that can, literally, mean the difference between life and death. Seniors and others dependent on Medicare should not have to choose between food and medicine!

Furthermore, the tax cuts in this bill are based on optimistic speculation of where this country will be in ten years. It is true, that many of our decisions on the budget must often be based on projections, but we must do so in disciplined fashion. Chairman Alan Greenspan, recently commented that we should allow ''the surpluses to run for a while and unwind a good deal of public debt''. Enacting large tax cuts at this junction, therefore, is premature, especially in light of the stability and solvency of Medicare and Social Security.

At a time where this government is just beginning to get its head above water with the stable tax base that we have, we should not be eviscerating our streams of revenue, thereby sending us back into deficit. We should

not be touching our capital gains taxes—at least not at this time. This bill is based on a 10-year plan, yet it makes decisions that would last far longer than 10 years. And remember, at the end of those 10 years, we will start to see the first baby-boomers reach the age of retirement and remove themselves from our tax base—making this set of large tax cuts even more dangerous in the future than it is now. We cannot afford to put this tax burden, without capital gains, without an estate tax, completely on the shoulders of our next generation—it is simply not fair. We will be creating a new inheritance tax, a tax from one generation to the other, created by our ineffective and irresponsible fiscal policy. I ask this House not to do this.

Let me remind you, there are reasonable tax cuts that have bipartisan support. For instance, just about everyone agrees that we ought to extend the research and development (R&D) tax credit. As a Member of the Committee on Science, I know that this credit provides valuable technology to our economy in a time when that sector drives our economy, and creates high paying jobs.

Members on both sides of the aisle agree that we ought to get rid of the marriage penalty. We ought not let our tax structure dissuade people from getting married, and we ought not to penalize those families who have two roughly co-equal earners because they want to do right by their children.

Similarly, I believe that we also have bipartisan support for tax relief for families who must rely on childcare so that both mother and father can work. If we are to support our families, we ought to enact these reasonable and responsible measures, and quit trying to sell them on tax cuts for the wealthy. In fact, under this tax proposal, most families would receive a tax cut of less than $100 total over 10 years! At the same time, those earning more than $300,000 would save over $20,000. If we are going to be pro-family, we should make sure that our cuts go to the families that need tax relief!

Let us do right by the American people, let us do right by the American family, let us do right for posterity. Vote against the Archer plan, and vote for the Rangel substitute.

Mr. ARCHER. Mr. Speaker, may I inquire as to the remaining time on each side?

The SPEAKER pro tempore (Mr. THORNBERRY). The gentleman from Texas (Mr. ARCHER) has 32½ minutes remaining. The gentleman from New York (Mr. RANGEL) has 38½ minutes remaining.

Mr. ARCHER. Mr. Speaker, am I correct that we will only use 30 minutes of our time on each side tonight?

The SPEAKER pro tempore. The gentleman is correct.

Mr. ARCHER. Mr. Speaker, then I will reserve the 2½ minutes to close the debate for tonight.

Mr. RANGEL. Mr. Speaker, I yield 2 minutes to the gentleman from Oregon (Mr. DEFAZIO).

Mr. DEFAZIO. Mr. Speaker, I thank the gentleman for yielding me the time.

Mr. Speaker, there is no surplus in this year's budget. We are still running a deficit. On top of it, we have got a $5.6-trillion debt, $17,000 for every American from the tiniest baby to the oldest senior citizen in a nursing home. But here we are after midnight talking about a $1-trillion dollar tax cut.

Now, this is based on this future and possibly allusive surplus. That is based on a probably rosy economic scenario. We have done this mistake before. Are we going to do it again?

Now, it is also, and listen up, it is predicated upon further cuts in veterans' health care, further cuts in education and student loans, cuts in Medicare, and it puts Social Security at risk. Yet the Republicans say it is their money, they earned it, and we should give it back.

Well, who is ''they''? That is the key question. Who is the ''they'' to whom we are giving the money back? Let us look at that.

Well, ''they'' happens to be the top one percent of income earners in this country. The people earning a minimum of $300,000 a year and up, they are going to get a $54,000 tax cut on average. That is where those wonderful high numbers come out. Those people, well, they are going to have to get a Brinks truck to handle theirs.

Now, they do not have to worry about veterans' health care. They are not very worried about student loans. Their kids are not eligible. They are not worried about cuts in Medicare, and they do not care about Social Security.

Now, the families who have to make up for the cuts in veterans' health care and in student loans and in Medicare and are worried about Social Security, that is 80 percent of the taxpaying Americans. Every family that earns $63,000 a year or less, what will they get? They will get $310 on average, 90 cents a day.

Now, can we replace those benefits with that? No.

Mr. RANGEL. Mr. Speaker, I yield 4 minutes to the gentleman from California (Mr. SHERMAN).

Mr. SHERMAN. Mr. Speaker, after 15 years of practice as a tax lawyer and a CPA, I thought I knew what tax fraud was. But I have seen tax fraud here tonight.

When they talk about the marriage penalty, they do not tell us that the Republican proposal does not eliminate even half of the marriage penalty. The Rangel proposal does more to eliminate or reduce the marriage penalty than does the extremely expensive Republican proposal.

All the wedding pictures in the world will not hide it. And that is why the Christian right around this country, other pro-family groups, are calling the Republicans and saying, why have you done so little to reduce the marriage penalty? Why is it that the Democrats, with a much smaller bill, are able to do more?

We are told that the Republican bill will provide for school construction. But what does it really contain? An arbitrage provision, an invitation to school districts around this country to go bet on interest rates the way Orange County did before they went bankrupt. The only help they give school districts is an invitation to arbitrage betting.

The Rangel bill, instead, provides interest-free loans for real school construction, just as it provides for the R&D tax credit to be permanent and for employer provided education to be tax free.

Now, there has been a lot of talk about numbers. The Democrats have pointed out that two-thirds of the benefits of this bill go to the top 10 percent. But it is worse than that. We did not talk about the corporate tax benefit.

Eighty percent of the benefits of this bill go to the wealthiest 10 percent of Americans and to giant corporations. And what kind of incentives do we give those giant corporations? Well, take a look at the interest allocation rules. Tens of billions of dollars of our money being spent to reward corporations for closing down factories here in the United States and investing equity capital and moving jobs to foreign countries.

This is not a bill to create jobs in America. Perhaps it will create a few overseas.

But it is worse than that. Because we take that last little 20 percent of the benefits that go to middle-class Americans, and not just middle-class, everybody in the bottom 90 percent, and we say their benefit is contingent, the interest allocation provisions for the giant corporations, they are guaranteed, the huge loopholes for the wealthy, they are guaranteed.

But if the interest costs of the United States go up, even if it is just a Social Security trust fund earning more interest on its investment, then we take away the 10 percent tax cut, which is one of the few things that is available to middle-class taxpayers.

Finally, in talking about the money, often when a Democratic speaker speaks the response is to stand up and say, people in your State will save $3,500 under this bill. Why are you against it? Well, let me tell my colleagues. Yes, it might be $3,000 per person in my State, but that is over 10 years. So it is less than $30 a month. But that is not $30 a month for the average family in my State. That, instead, means $20 for the richest and $10 for the average family in my State.

Let us not ruin the economy.

Mr. RANGEL. Mr. Speaker, I yield myself the remaining time.

The SPEAKER pro tempore. The gentleman is recognized for 2½ minutes.

Mr. RANGEL. Mr. Speaker, we are here at 1:20 in the morning talking

about a bill that no one has seen in its final form. The last time I saw this bill it was a $864 billion tax cut. But that was two days ago.

I can see why the Republicans really do not trust the politicians, because just overnight they lost $72 billion. And from what they have in the rules change, they may lose the whole 10-percent tax cut depending on how Alan Greenspan feels.

But since this thing is not just smoke and mirrors but cartoons and photographs but no bill, then I guess all we are doing is just saying what is it that the Republican party really stands for?

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Now, I do not know how many people you can afford to lose, I do not know how many we want to take. But the truth of the matter is that if the chairman of the committee truly believes that what makes America great is how much trickle down to the people on the bottom that they may not have income tax and they cannot get a cut, but you know something? The people who work hard every day and take home less than their gross pay because they have payroll taxes, they feel that. I know you do not have time to really get down and talk about them, because the air is different when you are dealing with the top 1 percent of those that have high incomes, or those that cut coupons. But one thing is clear. Even though it is 1:20 in the morning, the reporters are gone and you really think you got away with something, take my word for it. The Joint Committee on Taxation will still have these reports tomorrow morning. We will still distribute the reports. And figures do not lie. We know how much you are giving away, we know who you are giving it away to, and you can try to change the formulas all you want to get some votes to pass the rule, but I would not go to sleep this morning thinking that you have enough to pass this bill. And there is one thing that I can guarantee, that you certainly will not have enough votes to override the President's veto.

What I would suggest is this: Why do we not come together as Republicans and Democrats and put together a bill that the President of the United States can really sign?

Mr. ARCHER. Mr. Speaker, I yield the balance of my time to the gentleman from Michigan (Mr. CAMP), another respected member of the Committee on Ways and Means.

The SPEAKER pro tempore (Mr. THORNBERRY). The gentleman from Michigan is recognized for 2½ minutes.

Mr. CAMP. I thank the gentleman for yielding me this time.

Mr. Speaker, I think it is important to point out that we are here talking about tax reduction only after we have balanced the budget, have a surplus and passed legislation to save the Social Security surplus. We have locked the Social Security surplus away in a lockbox and we are now talking about what is left.

It is also important to point out that the average American family today pays double in taxes what it did back in 1985. Today's tax burden is the highest ever in peacetime history.

The key question is, should your hard-earned tax dollars stay here in Washington to be spent on new Federal programs? Or should they be returned to you, the taxpayer, who sent them here in the first place? The answer is clear. You deserve the money.

At a time when we have nearly $1 trillion in non-Social Security surplus, we absolutely must return the taxpayers' money to the people who sent it here. Why should married couples pay more just because they are married? Our bill provides 42 million taxpayers with relief from the marriage penalty. Our bill means that Michigan's farmers and family-owned businesses will not be forced to sell the farm or business just to pay the death tax, and we allow our farmers and other small businesses to take a 100 percent deduction on health insurance costs which are one of the toughest expenses for the self-employed.

Our bill means that a Michigan factory worker and his family will save $1,000 in income taxes. Our across-the-board tax reduction will save the seniors who live in my district over $500 on income taxes, and, if that same senior has a mutual fund, will cut her investment tax rate so more of her savings can stay with her, not the government.

Mr. Speaker, tax relief is needed. There is no doubt about that. We have balanced the budget and set aside the money for Social Security which pays down the debt. Now is the time for the American people to keep the rewards of their hard work. I urge the adoption of this landmark tax relief legislation.

I want to honor the chairman of the Committee on Ways and Means who has worked so hard to bring it forward.

Mr. RYUN of Kansas. Mr. Speaker, I rise today in support of tax relief for all Americans. I also rise today to support American seniors and I applaud this Congress for the decision it made to protect the Social Security Trust Fund. The members of this House are committed to ensuring that not one penny of tax relief will come from our seniors' hard-earned Social Security benefits.

Fortunately, America is working well. Our economy is booming, and Washington is finally showing some fiscal restraint. The result is that over the next 10 years, the federal government will take in enough revenue to fund all federal programs including Social Security and Medicare while setting-aside every penny of the Social Security Trust Fund. Still, there will be nearly one trillion dollars in surplus.

I believe we should give that money back to the taxpayers. The hard working men and women of this country have paid more than their fair share and created the surplus; we in Washington should not spend it.

The tax relief found in the Financial Freedom Act goes a long way to promote prosperity and savings so that more Americans will be able to retire comfortably, rather than living from one Social Security check to another.

Among its many provisions, this legislation reduces income tax rates by 10 percent and provides 100 percent deductability of health insurance premiums. It also phases out the estate tax so that families will be able to pass family homes, farms and businesses on to their children and grandchildren.

Mr. Speaker, I encourage my colleagues to support this reasonable approach to tax relief that protects our seniors' health and retirement.

Mr. PACKARD. Mr. Speaker, I rise in strong support of H.R. 2488, The Financial Freedom Act of 1999.

Americans are clearly over-taxed. Over the next ten years, the average family will pay $5,307 more in taxes than the government needs to operate. This overpayment has created a projected $3 trillion surplus. H.R. 2488 simply refunds this overpayment so hard-working taxpayers can spend their money as they see fit.

The Financial Freedom Act will provide a 10 percent across the board tax reduction for every American. H.R. 2488 will also reduce the Marriage Penalty and Capital Gains tax, and eliminate the Death Tax. I can't think of anything more absurd than penalizing people for investing in our economy, getting married, or even dying. In addition, H.R. 2488 leaves more than $2 trillion for Social Security and Debt Reduction.

Mr. Speaker, it is time we offer meaningful tax relief to the hard working people of this nation. I urge my colleagues to support The Financial Freedom Act and reimburse Americans for their overpayment to the government.

Mr. DAVIS of Illinois. Mr. Speaker, I rise in opposition to this Robin Hood in Reverse, this Marie Antoinette inspired bill, this Voltarian tax package, H.R. 2488, The Financial Freedom Act.

My father always told us that there is nothing new under the sun and I think he was absolutely correct, because Billie Holiday pegged this bill perfectly when she sang:

Them that's got shall get, Them that's not shall lose,
So the Bible says and that still is the rule,
Mamma may have, Papa may have, But God Bless the child that's got his own.

The French philosopher Voltaire is supposed to have once said that the purpose of politics is to take as much money as you can from one group of people and give it to another. The Archer Tax Plan is out of touch with the American People and seems to be more in line with the thinking of Voltaire.

The Treasury Department has estimated that this tax bill will cost the American people almost $300 billion per year.

Who are the people that it will cost? It will cost senior citizens who need Medicare help with their prescription drugs. It will cost children and teachers who need lower class sizes.

It will cost hospitals and medical schools who train doctors and treat poor people. It will cost communities who need to reduce crime. It will cost homeless people who need a place to stay. It will cost victims of AIDS who need to be cured.

It will cost retirees who need social security; and it will cost hungry people who need to be fed.

I can just see Robin Hood turning over in his grave, I can feel Franklin Delano Roosevelt grimace in pain and I can hear Jesus

the Christ saying, as you do unto the least of these my brethren, so have you done unto me.

Can you imagine a tax plan where close to half the benefits would go to the richest 1 percent of the taxpayers, to the average tune of $54,000.

Yes, under this plan, them that's got are the ones who get. Corporate welfare, their Martini lunches, capital gains tax reduction are all protected, while we can look for cuts in Head Start, money for students with disabilities, after school programs and meals for the elderly would all face serious cuts.

Under this plan roads, bridges and streets could crumble, the 43 million people with no health insurance remain uninsured, the over 5 million in severe need of housing receive no relief and the 34 million people who are labeled as moderately or severely hungry and where parents skip meals so that children can eat will get no help. I can hear Marie Antoinette or someone who does not know the impact or consequences of these cuts saying, let them eat cake.

They cannot eat cake; because there will be none, and if there is, it certainly will not be sweet. But we can vote like the representatives a majority of the people want us to be.

We can vote these cuts down and stand up for the people. I thank you Mr. Speaker and yield back the balance of my time.

The SPEAKER pro tempore. Pursuant to section 2 of House Resolution 256, further consideration of the bill will be postponed until the next legislative day.

COMMUNICATION FROM THE SPEAKER

The SPEAKER pro tempore laid before the House the following communication from the Speaker of the House of Representatives:

HOUSE OF REPRESENTATIVES,
OFFICE OF THE SPEAKER,
Washington, DC, July 21, 1999.

Hon. MICHAEL P. FORBES,
House of Representatives,
Washington, DC.

DEAR MR. FORBES: This is to inform you that pursuant to Sec. 3 Public Law 94–304, as amended by Sec. 1, Public Law 99–7, I am withdrawing your appointment to the Commission on Security and Cooperation in Europe effective immediately.

Sincerely,

J. DENNIS HASTERT,
Speaker of the House.

LEAVE OF ABSENCE

By unanimous consent, leave of absence was granted to:

Mrs. CHENOWETH of Idaho (at the request of Mr. ARMEY) for today on account of illness.

SPECIAL ORDERS GRANTED

By unanimous consent, permission to address the House, following the legislative program and any special orders heretofore entered, was granted to:

(The following Members (at the request of Mr. RANGEL) to revise and extend their remarks and include extraneous material:)

Mr. HOYER, for 5 minutes, today.
Mr. CUMMINGS, for 5 minutes, today.
Mr. FILNER, for 5 minutes, today.
Mr. MORAN of Virginia, for 5 minutes, today.
Mr. CARDIN, for 5 minutes, today.
Mr. COYNE, for 5 minutes, today.
Mr. BLUMENAUER, for 5 minutes, today.
Mr. DEFAZIO, for 5 minutes, today.
Mr. LIPINSKI, for 5 minutes, today.
Mr. STUPAK, for 5 minutes, today.
Ms. JACKSON-LEE of Texas, for 5 minutes, today.
Mr. SCOTT, for 5 minutes, today.
Mr. PAYNE, for 5 minutes, today.
Mrs. CHRISTENSEN, for 5 minutes, today.
Mr. OWENS, for 5 minutes, today.
Ms. MILENDER-MCDONALD, for 5 minutes, today.
Mr. DAVIS of Florida, for 5 minutes, today.
Ms. WOOLSEY, for 5 minutes, today.
Ms. KAPTUR, for 5 minutes, today.
Mr. MCGOVERN, for 5 minutes, today.
Mr. GEORGE MILLER of California, for 5 minutes, today.
Mr. NADLER, for 5 minutes, today.
Mr. CONYERS, for 5 minutes, today.
Ms. LEE, for 5 minutes, today.
Ms. SCHAKOWSKY, for 5 minutes, today.
Ms. MCKINNEY, for 5 minutes, today.
Mr. SHERMAN, for 5 minutes, today.
Mrs. MEEK of Florida, for 5 minutes, today.
Mrs. TUBBS JONES of Ohio, for 5 minutes, today.
Mr. BISHOP, for 5 minutes, today.

SENATE CONCURRENT RESOLUTION REFERRED

A concurrent resolution of the Senate of the following title was taken from the Speaker's table and, under the rule, referred as follows:

S. Con. Res. 46. Concurrent resolution expressing the sense of Congress that the July 20, 1999, 30th anniversary of the first lunar landing should be a day of celebration and reflection on the Apollo-11 mission to the Moon and the accomplishments of the Apollo program throughout the 1960's and 1970's; to the Committee on Government Reform.

SENATE ENROLLED BILL SIGNED

The SPEAKER announced his signature to enrolled bills of the Senate of the following titles:

S. 361. An act to direct the Secretary of the Interior to transfer to John R. and Margaret J. Lowe of Big Horn County, Wyoming, certain land so as to correct an error in the patent issued to their predecessors in interest.

S. 449. An act to direct the Secretary of the Interior to transfer to the personal representative of the estate of Fred Steffens of Big Horn County, Wyoming, certain land comprising the Steffens family property.

ADJOURNMENT

Mr. NUSSLE. Mr. Speaker, I move that the House do now adjourn.

The motion was agreed to; accordingly (at 1 o'clock and 26 minutes a.m.), under its previous order, the House adjourned until today, Thursday, July 22, 1999, at 11 a.m.

EXECUTIVE COMMUNICATIONS, ETC.

Under clause 8 of rule XII, executive communications were taken from the Speaker's table and referred as follows:

3157. A letter from the Director, Office of Regulatory Management and Information, Environmental Protection Agency, transmitting the Agency's final rule—Bentazon; Extension of Tolerance for Emergency Exemptions [OPP–300883; FRL 6087–5] (RIN: 2070–AB78) received July 2, 1999, pursuant to 5 U.S.C. 801(a)(1)(A); to the Committee on Agriculture.

3158. A letter from the Director, Office of Regulatory Mangement and Information, Environmental Protection Agency, transmitting the Agency's final rule—Fosetyl-Al; Pesticide Tolerance [OPP–300892; FRL–6090–3] (RIN: 2070–AB78) received July 2, 1999, pursuant to 5 U.S.C. 801(a)(1)(A); to the Committee on Agriculture.

3159. A letter from the Director, Office of Regulatory Management and Information, Environmental Protection Agency, transmitting the Agency's final rule—Imazamox; Pesticide Tolerances for Emergency Exemptions [OPP–300879; FRL–6086–5] (RIN: 2070–AB78) received July 2, 1999, pursuant to 5 U.S.C. 801(a)(1)(A); to the Committee on Agriculture.

3160. A letter from the Director, Office of Regulatory Management and Information, Environmental Protection Agency, transmitting the Agency's final rule—Imidacloprid; Pesticide Tolerances for Emergency Exemptions [OPP–300884; FRL–6088–3] (RIN: 2070–AB78) received July 13, 1999, pursuant to 5 U.S.C. 801(a)(1)(A); to the Committee on Agriculture.

3161. A letter from the Director, Office of Regulatory Management and Information, Environmental Protection Agency, transmitting the Agency's final rule—Myclobutanil; Pesticide Tolerances for Emergency Exemptions; Correction [OPP–300705A; FRL–6089–2] (RIN: 2070–AB78) received July 13, 1999, pursuant to 5 U.S.C. 801(a)(1)(A); to the Committee on Agriculture.

3162. A letter from the Comptroller, Under Secretary of Defense, transmitting a letter reporting a violation of the Antideficiency Act by the Department of the Air Force, case number 95–10; to the Committee on Appropriations.

3163. A letter from the Comptroller, Under Secretary of Defense, transmitting a letter reporting a violation of the Antideficiency Act by the Department of the Air Force, case number 96–04; to the Committee on Appropriations.

3164. A letter from the Alternate OSD Federal Register Liaison Officer, Department of Defense, transmitting the Department's final rule—Civilian Health and Medical Program of the Uniformaed Services (CHAMPUS); Extension of the Active Duty Dependents Dental Plan to Overseas Areas (RIN: 0720–AA36) received July 19, 1999, pursuant to 5 U.S.C. 801(a)(1)(A); to the Committee on Armed Services.

3165. A letter from the Executive Director, National Commission on Libraries and Information Science, transmitting the twenty-seventh annual report of the activities of the Commission covering the period October 1, 1997 through September 30, 1998, pursuant to 20 U.S.C. 1504; to the Committee on Education and the Workforce.

3166. A letter from the Director, Regulations Policy and Management Staff, FDA,