

reduction is unnecessary, to fund a more appropriate program such as technology-related training for teachers, dropout or drug abuse prevention programs and building new school facilities.

It is for similar reasons that I could not support an amendment (No. 1809) to increase funding for 21st Century Community Learning Centers. Again, I do not doubt that after-school programs offer structural, educational, and health services to children and the families of communities. However, the funding for this program had already been increased \$200 million over FY99 funding levels by the Committee. I cannot justify forcing states and localities to spend additional funding on specific programs which might not be appropriate for their communities.

As we continue to raise the bar on the quality of education provided to our children, we have also increased state and local accountability for reaching these high standards. Accountability is a key component of a successful education policy, without it there is less incentive to succeed or exceed goals. Earlier this session, we passed the Education Flexibility Partnership Act (Public Law 106-25), which in exchange for greater accountability, provides states with expanded flexibility to choose which education initiatives best fit the needs of their children. In the five years the Ed-Flex program was in effect, prior to its expansion to all states with the passage of this bill, it has realized modest to spectacular results, and in no case has performance declined or has a state abused its increased flexibility by diverting or misrepresenting funds. I am proud to have voted for Ed-Flex and the principles it upholds.

Unfortunately, some of my colleagues, while espousing the virtues of accountability, would at the same time take away the flexibility states need to respond quickly and effectively to the needs of their students and schools. This is why I opposed an amendment (No. 1861) offered by Senator BINGAMAN, which purported to increase accountability for states. This amendment undermined the principles of responsibility, accountability and flexibility. While the amendment would increase funding for disadvantaged students by \$49 million, it specifically mandated that \$70 million in funding must be used for state accountability programs. This represents a net loss of \$21 million in funding which could have gone directly to the classrooms—funding which could have directly and positively impacted the quality of education provided for economically disadvantaged students. This amendment represents accountability, or at least requires the implementation of an accountability program, without the accompanying flexibility states need to effectively address education issues.

Mr. President, there is another side to responsibility as well. Earlier this year, we made a promise to the Amer-

ican people that we would not raid the Social Security surplus. Even as the President's budget proposal threatened drain the Social Security surplus by \$158 billion over five years and the Democrats continued to filibuster my Social Security Lockbox legislation, we still held true to our commitment not to spend a single penny of the Social Security trust fund. Now, as we are nearing the end of the appropriations process, it is vital that we uphold our responsibility to the American people and keep this promise.

Senator NICKLES offered an amendment (No. 1889) which rightly expressed the sense of the Senate regarding the importance of protecting the Social Security surplus. Recognizing the possibility that the amount of funding appropriated through the 13 appropriations bills could exceed budgetary restraints, the Senate agreed that a solution could be an across-the-board reduction in discretionary funding in an amount equal to that needed to stay within budget constraints, thereby protecting Social Security. My vote reflects my unwavering belief that the social security surplus must be protected from wanton government spending. It also highlights my continuing opposition to raising taxes on America's working families, especially when cutting wasteful Washington spending is certainly a viable alternative.

Some of my colleagues, many of whom are the same individuals who have continued to vote against a Social Security Lockbox, denounced the across-the-board proposal. Although they could have offered a substantial and realistic alternative to across-the-board reductions in reductions, instead they choose to introduce an amendment (No. 2267) which merely denounces the proposal for a reduction in discretionary funding and offers vague support for paying for the budget shortfall by raising taxes and using other offsets.

When my colleagues were pressed about details, they stated that there is currently \$4 trillion in tax expenditures which could be examined and possibly eliminated to raise revenue for excess spending: that "there may very well be an opportunity to squeeze some resources out of tax expenditures * * *". Another term for tax expenditure is tax relief. And when my colleagues talk about squeezing out resources, this includes "squeezing" relief measures such as the tax credit for post-secondary education, the \$500 per child tax credit, estate tax relief and the home interest deduction, among many other provisions which allow families to save and invest in their own and their children's futures. Without a clear explanation of exactly how enough revenue would be raised to fill the budget shortfall, thereby avoiding spending the Social Security surplus, I could not support the alternative amendment to the across-the-board reduction in discretionary spending levels and I will not support any proposal

which would increase the already excessive tax burden on American families.

In addition, some of my colleagues offered an amendment (No. 2268) which would reduce the level of fairness inherent in an across-the-board reduction by insisting on an exemption for specific programs from the resulting decreases in discretionary funding, specifically education funding. While I believe that education is a top national priority, this amendment primarily highlights a general lack of understanding about the actual education funding levels in this appropriations bill.

My votes on these Sense of the Senate amendments simply express my preference for spending reductions versus raising taxes or spending the Social Security surplus. In that there are many specific areas of federal spending that in my view can and should be cut back, I would prefer to see us balance the budget with reductions of that type. Unfortunately, gaining consensus on such reductions will be difficult, although I will continue to press for this type of approach. Failing that, some type of across-the-board reductions may be the last resort.

As I mentioned earlier, the education funding in this bill exceeds the levels requested by the Administration on many fronts. While it is impossible at this point to know exactly what the final spending level will be at the end of the day, even after including all of the President's emergency spending and a possible Balanced Budget Act of 1997 (BBA) pay-back bill, an across-the-board reduction, designed to protect Social Security, would result in approximately a 1.4 percent decrease.

Mr. President, even with a 1.4 percent reduction in discretionary funding, I would further note that special education and education impact aid would have funding levels \$521 million and \$143 million above the President's request levels, respectively. In addition, the Department of Education would be funded \$10.6 million over that which the President requested. Far from under-funding education, this bill continues to provide strong support for our schools and our students.

We have almost completed our appropriations work this year, and I applaud the effort and dedication demonstrated by my colleagues on the Senate Appropriations Committee and in the Senate as whole. I hope, as we go into the final stages of this process, we will continue to abide by the ideals of responsibility, accountability and flexibility by upholding our promise to protect Social Security and by producing a final package which will serve Americans well.

I yield the floor.

TAX RELIEF EXTENSION ACT OF 1999

Mr. LOTT. Mr. President, we have some very important extenders in the Tax Code that need to be acted on before the end of this year or they will

expire. The Finance Committee, in a broad bipartisan way, reported out the bill. We have now cleared it on both sides. So this is very important to get it into conference with the House quickly so we can get this legislation completed before the year's legislative end.

Mr. President, I ask unanimous consent that the Senate now turn to the consideration of Calendar No. 346, S. 1792, the so-called Finance Committee extenders bill, and there be 10 minutes for debate, with no amendments or motions in order.

The PRESIDING OFFICER. The clerk will report the bill by title.

The legislative clerk read as follows:

A bill (S. 1792) to amend the Internal Revenue Code of 1986 to extend expiring provisions, to fully allow the nonrefundable personal credits against regular tax liability, and for other purposes.

There being no objection, the Senate proceeded to consider the bill.

Mr. BAUCUS. Mr. President, I express my support for this bill.

This bill is not perfect. There are many of us in the Senate who have hoped we could have done more. I have argued that the Research and Development tax credit should be made permanent for many years. Companies plan their research many years in advance, and we don't get the full benefit of the R&D credit by allowing it to expire so frequently.

I also support making the AMT exclusion in the bill permanent. Taxpayers should be assured they will receive the full benefits of the personal credits that we enacted with such fanfare just last session.

There are other credits in this bill that should be made permanent, such as the Work Opportunities and Welfare to Work tax credits. These credits help compensate companies for hiring those employees that are the hardest to employ and train—those coming off the welfare rolls.

But we cannot allow the perfect to be the enemy of the good. We stand here in the waning days of this session, and it appears as though enacting legislation that would make these credits permanent is simply not in the cards. They are expensive, and it is not possible to enact major tax legislation that uses a substantial portion of the surplus unless it is in the context of a comprehensive bill.

Above all, we must be fiscally responsible, and protect the surplus for our children and grandchildren.

This bill has been reviewed by all Senators and has received unanimous consent to proceed. I hope the Conferees on the bill will work out the differences between the House and Senate quickly, and send us back a bill the President can sign into law. Doing otherwise risks getting nothing at all, and allowing the gap since these important credits lapsed to grow. This would further undermine their effectiveness, and leave thousands of businesses and individuals with tremendous uncertainty about their tax liabilities for this year.

We cannot and should not leave this important work undone. We should restore these credits as soon as possible, even if that means leaving the debate about permanence for these credits for another day.

Mr. LOTT. Mr. President, I ask consent that following the conclusion or yielding back of time, the bill be advanced to third reading and passed and the motion to reconsider be laid upon the table. I further ask consent that the bill remain at the desk, and once the Senate receives the House companion bill, the Senate proceed to its immediate consideration and all after the enacting clause be stricken, the text of the Senate bill be inserted, the bill be advanced to third reading and passed. I further ask consent that the Senate insist on its amendment, request a conference with the House, and the Chair be authorized to appoint conferees on the part of the Senate, and passage of the Senate bill be vitiated and it be placed back on the calendar.

The PRESIDING OFFICER. Is there objection?

Without objection, it is so ordered.

The bill (S. 1792) was read the third time and passed, as follows:

S. 1792

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 "Tax Relief Extension 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) TABLE OF CONTENTS.—The table of contents for this Act is as follows:

Sec. 1. Short title; etc.

TITLE I—EXTENSION OF EXPIRED AND EXPIRING PROVISIONS

Sec. 101. Extension of minimum tax relief for individuals.

Sec. 102. Extension of exclusion for employer-provided educational assistance.

Sec. 103. Extension of research and experimentation credit and increase in rates for alternative incremental research credit.

Sec. 104. Extension of exceptions under subpart F for active financing income.

Sec. 105. Extension of suspension of net income limitation on percentage depletion from marginal oil and gas wells.

Sec. 106. Extension of work opportunity tax credit and welfare-to-work tax credit.

Sec. 107. Extension and modification of tax credit for electricity produced from certain renewable resources.

Sec. 108. Expansion of brownfields environmental remediation.

Sec. 109. Temporary increase in amount of rum excise tax covered over to Puerto Rico and Virgin Islands.

Sec. 110. Delay requirement that registered motor fuels terminals offer dyed fuel as a condition of registration.

Sec. 111. Extension of production credit for fuel produced by certain gasification facilities.

TITLE II—REVENUE OFFSET PROVISIONS

Subtitle A—General Provisions

Sec. 201. Modification of individual estimated tax safe harbor.

Sec. 202. Modification of foreign tax credit carryover rules.

Sec. 203. Clarification of tax treatment of income and losses on derivatives.

Sec. 204. Inclusion of certain vaccines against streptococcus pneumoniae to list of taxable vaccines.

Sec. 205. Expansion of reporting of cancellation of indebtedness income.

Sec. 206. Imposition of limitation on prefunding of certain employee benefits.

Sec. 207. Increase in elective withholding rate for nonperiodic distributions from deferred compensation plans.

Sec. 208. Limitation on conversion of character of income from constructive ownership transactions.

Sec. 209. Treatment of excess pension assets used for retiree health benefits.

Sec. 210. Modification of installment method and repeal of installment method for accrual method taxpayers.

Sec. 211. Limitation on use of nonaccrual experience method of accounting.

Sec. 212. Denial of charitable contribution deduction for transfers associated with split-dollar insurance arrangements.

Sec. 213. Prevention of duplication of loss through assumption of liabilities giving rise to a deduction.

Sec. 214. Consistent treatment and basis allocation rules for transfers of intangibles in certain non-recognition transactions.

Sec. 215. Distributions by a partnership to a corporate partner of stock in another corporation.

Sec. 216. Prohibited allocations of stock in S corporation ESOP.

Subtitle B—Provisions Relating to Real Estate Investment Trusts

PART I—TREATMENT OF INCOME AND SERVICES PROVIDED BY TAXABLE REIT SUBSIDIARIES

Sec. 221. Modifications to asset diversification test.

Sec. 222. Treatment of income and services provided by taxable REIT subsidiaries.

Sec. 223. Taxable REIT subsidiary.

Sec. 224. Limitation on earnings stripping.

Sec. 225. 100 percent tax on improperly allocated amounts.

Sec. 226. Effective date.

PART II—HEALTH CARE REITS

Sec. 231. Health care REITs.

PART III—CONFORMITY WITH REGULATED INVESTMENT COMPANY RULES

Sec. 241. Conformity with regulated investment company rules.

PART IV—CLARIFICATION OF EXCEPTION FROM IMPERMISSIBLE TENANT SERVICE INCOME

Sec. 251. Clarification of exception for independent operators.

PART V—MODIFICATION OF EARNINGS AND PROFITS RULES

Sec. 261. Modification of earnings and profits rules.

PART VI—MODIFICATION OF ESTIMATED TAX RULES

Sec. 271. Modification of estimated tax rules for closely held real estate investment trusts.

PART VIII—MODIFICATION OF TREATMENT OF CLOSELY-HELD REITS

Sec. 281. Controlled entities ineligible for REIT status.

TITLE III—BUDGET PROVISION

Sec. 301. Exclusion from paygo scorecard.

TITLE I—EXTENSION OF EXPIRED AND EXPIRING PROVISIONS

SEC. 101. EXTENSION OF MINIMUM TAX RELIEF FOR INDIVIDUALS.

(a) IN GENERAL.—The second sentence of section 26(a) (relating to limitations based on amount of tax) is amended by striking “1998” and inserting “calendar year 1998, 1999, or 2000”.

(b) CHILD CREDIT.—Section 24(d)(2) (relating to reduction of credit to taxpayer subject to alternative minimum tax) is amended by striking “December 31, 1998” and inserting “December 31, 2000”.

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

SEC. 102. EXTENSION OF EXCLUSION FOR EMPLOYER-PROVIDED EDUCATIONAL ASSISTANCE.

(a) IN GENERAL.—Section 127(d) (relating to termination) is amended by striking “May 31, 2000” and inserting “December 31, 2000”.

(b) REPEAL OF LIMITATION ON GRADUATE EDUCATION.—

(1) IN GENERAL.—The last sentence of section 127(c)(1) (defining educational assistance) is amended by striking “, and such term also does not include any payment for, or the provision of any benefits with respect to, any graduate level course of a kind normally taken by an individual pursuing a program leading to a law, business, medical, or other advanced academic or professional degree”.

(2) EFFECTIVE DATE.—The amendment made by paragraph (1) shall apply with respect to expenses relating to courses beginning after December 31, 1999.

SEC. 103. EXTENSION OF RESEARCH AND EXPERIMENTATION CREDIT AND INCREASE IN RATES FOR ALTERNATIVE INCREMENTAL RESEARCH CREDIT.

(a) EXTENSION.—

(1) IN GENERAL.—Section 41(h) (relating to termination) is amended—

(A) by striking “June 30, 1999” and inserting “December 31, 2000”;

(B) by striking “36-month” and inserting “54-month”; and

(C) by striking “36 months” and inserting “54 months”.

(2) CONFORMING AMENDMENT.—Section 45C(b)(1)(D) is amended by striking “June 30, 1999” and inserting “December 31, 2000”.

(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.

(c) EXTENSION OF RESEARCH CREDIT TO RESEARCH IN PUERTO RICO AND THE POSSESSIONS OF THE UNITED STATES.—

(1) IN GENERAL.—Section 41(d)(4)(F) (relating to foreign research) is amended by inserting “, the Commonwealth of Puerto Rico, or any possession of the United States” after “United States”.

(2) DENIAL OF DOUBLE BENEFIT.—Section 280C(c)(1) is amended by inserting “or credit” after “deduction” each place it appears.

(3) EFFECTIVE DATE.—The amendments made by this subsection shall apply to amounts paid or incurred after June 30, 1999.

SEC. 104. EXTENSION OF EXCEPTIONS UNDER SUBPART F FOR ACTIVE FINANCING INCOME.

(a) IN GENERAL.—Sections 953(e)(10) and 954(h)(9) (relating to application) are each amended—

(1) by striking “the first taxable year” and inserting “taxable years”;

(2) by striking “January 1, 2000” and inserting “January 1, 2001”; and

(3) by striking “within which such” and inserting “within which any such”.

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

SEC. 105. EXTENSION OF SUSPENSION OF NET INCOME LIMITATION ON PERCENTAGE DEPLETION FROM MARGINAL OIL AND GAS WELLS.

(a) IN GENERAL.—Subparagraph (H) of section 613A(c)(6) (relating to temporary suspension of taxable limit with respect to marginal production) is amended by striking “January 1, 2000” and inserting “January 1, 2001”.

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

SEC. 106. EXTENSION OF WORK OPPORTUNITY TAX CREDIT AND WELFARE-TO-WORK TAX 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, 2000”.

(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) EFFECTIVE DATE.—The amendments made by this section shall apply to individuals who begin work for the employer after June 30, 1999.

SEC. 107. EXTENSION AND MODIFICATION OF TAX CREDIT FOR ELECTRICITY PRODUCED FROM CERTAIN RENEWABLE RESOURCES.

(a) EXTENSION AND MODIFICATION OF PLACED-IN-SERVICE RULES.—Paragraph (3) of section 45(c) is amended to read as follows:

“(3) QUALIFIED FACILITY.—

“(A) WIND FACILITY.—In the case of a facility using wind to produce electricity, the term ‘qualified facility’ means any facility owned by the taxpayer which is originally placed in service after December 31, 1993, and before January 1, 2001.

“(B) CLOSED-LOOP BIOMASS FACILITY.—In the case of a facility using closed-loop biomass to produce electricity, the term ‘qualified facility’ means any facility owned by the taxpayer which is—

“(i) originally placed in service after December 31, 1992, and before January 1, 2001, or

“(ii) originally placed in service before December 31, 1992, and modified to use closed-loop biomass to co-fire with coal after such date and before January 1, 2001.

“(C) BIOMASS FACILITY.—In the case of a facility using biomass (other than closed-loop biomass) to produce electricity, the term ‘qualified facility’ means any facility owned by the taxpayer which is originally placed in service before January 1, 2001.

“(D) LANDFILL GAS OR POULTRY WASTE FACILITY.—

“(i) IN GENERAL.—In the case of a facility using landfill gas or poultry waste to produce electricity, the term ‘qualified facility’ means any facility of the taxpayer which is originally placed in service after December 31, 1999, and before January 1, 2001.

“(ii) LANDFILL GAS.—In the case of a facility using landfill gas, such term shall include equipment and housing (not including

wells and related systems required to collect and transmit gas to the production facility) required to generate electricity which are owned by the taxpayer and so placed in service.

“(E) SPECIAL RULE.—In the case of a qualified facility described in subparagraph (B) or (C) using coal to co-fire with biomass, the 10-year period referred to in subsection (a) shall be treated as beginning no earlier than January 1, 2000.”

(b) EXPANSION OF QUALIFIED ENERGY RESOURCES.—

(1) IN GENERAL.—Section 45(c)(1) (defining qualified energy resources) is amended by striking “and” at the end of subparagraph (A), by striking the period at the end of subparagraph (B) and inserting a comma, and by adding at the end the following new subparagraphs:

“(C) biomass (other than closed-loop biomass),

“(D) landfill gas, and

“(E) poultry waste.”

(2) DEFINITIONS.—Section 45(c), as amended by subsection (a), is amended by redesignating paragraph (3) as paragraph (6) and inserting after paragraph (2) the following new paragraphs:

“(3) BIOMASS.—The term ‘biomass’ means any solid, nonhazardous, cellulosic waste material which is segregated from other waste materials and which is derived from—

“(A) any of the following forest-related resources: mill residues, precommercial thinnings, slash, and brush, but not including old-growth timber,

“(B) urban sources, including waste pallets, crates, and dunnage, manufacturing and construction wood wastes, and landscape or right-of-way tree trimmings, but not including unsegregated municipal solid waste (garbage) or paper that is commonly recycled, or

“(C) agriculture sources, including orchard tree crops, vineyard, grain, legumes, sugar, and other crop by-products or residues.

“(4) LANDFILL GAS.—The term ‘landfill gas’ means gas from the decomposition of any household solid waste, commercial solid waste, and industrial solid waste disposed of in a municipal solid waste landfill unit (as such terms are defined in regulations promulgated under subtitle D of the Solid Waste Disposal Act (42 U.S.C. 6941 et seq.)).

“(5) POULTRY WASTE.—The term ‘poultry waste’ means poultry manure and litter, including wood shavings, straw, rice hulls, and other bedding material for the disposition of manure.”

(c) SPECIAL RULES.—Section 45(d) (relating to definitions and special rules) is amended by adding at the end the following new paragraphs:

“(6) CREDIT ELIGIBILITY IN THE CASE OF GOVERNMENT-OWNED FACILITIES USING POULTRY WASTE.—In the case of a facility using poultry waste to produce electricity and owned by a governmental unit, the person eligible for the credit under subsection (a) is the lessor or the operator of such facility.

“(7) PROPORTIONAL CREDIT FOR FACILITY USING COAL TO CO-FIRE WITH BIOMASS.—In the case of a qualified facility described in subparagraph (B) or (C) of subsection (c)(6) using coal to co-fire with biomass, the amount of the credit determined under subsection (a) for the taxable year shall be reduced by the percentage coal comprises (on a Btu basis) of the average fuel input of the facility for the taxable year.

“(8) DENIAL OF DOUBLE BENEFIT.—No credit shall be allowed under this section with respect to a facility for any taxable year if the credit under section 29 is allowed in such year or has been allowed in any preceding taxable year with respect to any fuel produced from such facility.”

(d) CONFORMING AMENDMENT.—Section 29(d) (relating to other definitions and special rules) is amended by adding at the end the following new paragraph:

“(9) DENIAL OF DOUBLE BENEFIT.—No credit shall be allowed under this section with respect to any fuel produced from a facility for any taxable year if the credit under section 45 is allowed in such year or has been allowed in any preceding taxable year with respect to such facility.”

(e) EFFECTIVE DATE.—The amendments made by this section shall take effect on the date of the enactment of this Act.

SEC. 108. EXPANSION OF BROWNFIELDS ENVIRONMENTAL REMEDIATION.

(a) IN GENERAL.—Section 198(c) is amended to read as follows:

“(c) QUALIFIED CONTAMINATED SITE.—For purposes of this section—

“(1) IN GENERAL.—The term ‘qualified contaminated site’ means any area—

“(A) which is held by the taxpayer for use in a trade or business or for the production of income, or which is property described in section 1221(1) in the hands of the taxpayer, and

“(B) at or on which there has been a release (or threat of release) or disposal of any hazardous substance.

“(2) NATIONAL PRIORITIES LISTED SITES NOT INCLUDED.—Such term shall not include any site which is on, or proposed for, the national priorities list under section 105(a)(8)(B) of the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (as in effect on the date of the enactment of this section).

“(3) TAXPAYER MUST RECEIVE STATEMENT FROM STATE ENVIRONMENTAL AGENCY.—An area shall be treated as a qualified contaminated site with respect to expenditures paid or incurred during any taxable year only if the taxpayer receives a statement from the appropriate environmental agency of the State in which such area is located that such area meets the requirement of paragraph (1)(B).

“(4) APPROPRIATE STATE AGENCY.—For purposes of paragraph (3), the chief executive officer of each State may, in consultation with the Administrator of the Environmental Protection Agency, designate the appropriate State environmental agency within 60 days of the date of the enactment of this section. If the chief executive officer of a State has not designated an appropriate State environmental agency within such 60-day period, the appropriate environmental agency for such State shall be designated by the Administrator of the Environmental Protection Agency.”

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to expenditures paid or incurred after December 31, 1999.

SEC. 109. TEMPORARY INCREASE IN AMOUNT OF RUM EXCISE TAX COVERED OVER TO PUERTO RICO AND VIRGIN ISLANDS.

(a) IN GENERAL.—Section 7652(f)(1) (relating to limitation on cover over of tax on distilled spirits) is amended to read as follows:

“(1) \$10.50 (\$13.50 in the case of distilled spirits brought into the United States after June 30, 1999, and before January 1, 2001), or”.

(b) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendment made by this section shall take effect on July 1, 1999.

(2) SPECIAL RULE.—

(A) IN GENERAL.—For the period beginning after June 30, 1999, and before January 1, 2001, the treasury of Puerto Rico shall make a Conservation Trust Fund transfer within 30 days from the date of each cover over payment made during such period to such treasury under section 7652(e) of the Internal Revenue Code of 1986.

(B) CONSERVATION TRUST FUND TRANSFER.—

(i) IN GENERAL.—For purposes of this paragraph, the term “Conservation Trust Fund transfer” means a transfer to the Puerto Rico Conservation Trust Fund of an amount equal to 50 cents per proof gallon of the taxes imposed under section 5001 or section 7652 of such Code on distilled spirits that are covered over to the treasury of Puerto Rico under section 7652(e) of such Code.

(ii) TREATMENT OF TRANSFER.—Each Conservation Trust Fund transfer shall be treated as principal for an endowment, the income from which to be available for use by the Puerto Rico Conservation Trust Fund for the purposes for which the Trust Fund was established.

(iii) RESULT OF NONTRANSFER.—

(I) IN GENERAL.—Upon notification by the Secretary of the Interior that a Conservation Trust Fund transfer has not been made by the treasury of Puerto Rico during the period described in subparagraph (A), the Secretary of the Treasury shall, except as provided in subclause (II), deduct and withhold from the next cover over payment to be made to the treasury of Puerto Rico under section 7652(e) of such Code an amount equal to the appropriate Conservation Trust Fund transfer and interest thereon at the underpayment rate established under section 6621 of such Code as of the due date of such transfer. The Secretary of the Treasury shall transfer such amount deducted and withheld, and the interest thereon, directly to the Puerto Rico Conservation Trust Fund.

(II) GOOD CAUSE EXCEPTION.—If the Secretary of the Interior finds, after consultation with the Governor of Puerto Rico, that the failure by the treasury of Puerto Rico to make a required transfer was for good cause, and notifies the Secretary of the Treasury of the finding of such good cause before the due date of the next cover over payment following the notification of nontransfer, then the Secretary of the Treasury shall not deduct the amount of such nontransfer from any cover over payment.

(C) PUERTO RICO CONSERVATION TRUST FUND.—For purposes of this paragraph, the term “Puerto Rico Conservation Trust Fund” means the fund established pursuant to a Memorandum of Understanding between the United States Department of the Interior and the Commonwealth of Puerto Rico, dated December 24, 1988.

SEC. 110. DELAY REQUIREMENT THAT REGISTERED MOTOR FUELS TERMINALS OFFER DYED FUEL AS A CONDITION OF REGISTRATION.

Subsection (f)(2) of section 1032 of the Taxpayer Relief Act of 1997, as amended by section 9008 of the Transportation Equity Act for the 21st Century, is amended by striking “July 1, 2000” and inserting “January 1, 2001”.

SEC. 111. EXTENSION OF PRODUCTION CREDIT FOR FUEL PRODUCED BY CERTAIN GASIFICATION FACILITIES.

(a) IN GENERAL.—Section 29(g)(1)(A) (relating to extension for certain facilities) is amended by striking “July 1, 1998” and inserting “July 1, 2000”.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to fuels produced on and after July 1, 1998.

(c) SPECIAL RULE.—

(1) IN GENERAL.—For purposes of the Internal Revenue Code of 1986, the credit determined under section 29 of such Code which is otherwise allowable under such Code by reason of the amendment made by subsection (a) and which is attributable to the suspension period shall not be taken into account prior to October 1, 2004. On or after such date, such credit may be taken into account through the filing of an amended return, an application for expedited refund, an adjust-

ment of estimated taxes, or other means allowed by such Code. Interest shall not be allowed under section 6511(a) of such Code on any overpayment attributable to such credit for any period before the 45th day after the credit is taken into account under the preceding sentence.

(2) SUSPENSION PERIOD.—For purposes of this subsection, the suspension period is the period beginning on July 1, 1998, and ending on September 30, 2004.

(3) EXPEDITED REFUNDS.—

(A) IN GENERAL.—If there is an overpayment of tax with respect to a taxable year by reason of paragraph (1), the taxpayer may file an application for a tentative refund of such overpayment. Such application shall be in such manner and form, and contain such information, as the Secretary may prescribe.

(B) DEADLINE FOR APPLICATIONS.—Subparagraph (A) shall apply only to applications filed before October 1, 2005.

(C) ALLOWANCE OF ADJUSTMENTS.—Not later than 90 days after the date on which an application is filed under this paragraph, the Secretary shall—

(i) review the application,

(ii) determine the amount of the overpayment, and

(iii) apply, credit, or refund such overpayment,

in a manner similar to the manner provided in section 6411(b) of such Code.

(D) CONSOLIDATED RETURNS.—The provisions of section 6411(c) of such Code shall apply to an adjustment under this paragraph in such manner as the Secretary may provide.

(4) CREDIT ATTRIBUTABLE TO SUSPENSION PERIOD.—For purposes of this subsection, in the case of a taxable year which includes a portion of the suspension period, the amount of credit determined under section 29 of such Code for such taxable year which is attributable to such period is the amount which bears the same ratio to the amount of credit determined under such section 29 for such taxable year as the number of months in the suspension period which are during such taxable year bears to the number of months in such taxable year.

(5) WAIVER OF STATUTE OF LIMITATIONS.—If, on October 1, 2004 (or at any time within the 1-year period beginning on such date) credit or refund of any overpayment of tax resulting from the provisions of this subsection is barred by any law or rule of law, credit or refund of such overpayment shall, nevertheless, be allowed or made if claim therefore is filed before the date 1 year after October 1, 2004.

(6) SECRETARY.—For purposes of this subsection, the term “Secretary” means the Secretary of the Treasury (or such Secretary’s delegate).

TITLE II—REVENUE OFFSET PROVISIONS

Subtitle A—General Provisions

SEC. 201. MODIFICATION OF INDIVIDUAL ESTIMATED TAX SAFE HARBOR.

(a) IN GENERAL.—The table contained in clause (i) of section 6654(d)(1)(C) (relating to limitation on use of preceding year’s tax) is amended by striking all matter beginning with the item relating to 1999 or 2000 and inserting the following new items:

“1999	110.5
2000	106
2001	112
2002	110
2003	112
2004 or thereafter	110”.

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

SEC. 202. MODIFICATION OF FOREIGN TAX CREDIT CARRYOVER RULES.

(a) IN GENERAL.—Section 904(c) (relating to limitation on credit) is amended—

(1) by striking “in the second preceding taxable year,” and

(2) by striking “or fifth” and inserting “fifth, sixth, or seventh”.

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

SEC. 203. CLARIFICATION OF TAX TREATMENT OF INCOME AND LOSS ON DERIVATIVES.

(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,

“(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, or

“(iii) to manage such other risks as the Secretary may prescribe in regulations.

“(B) TREATMENT OF NONIDENTIFICATION OR IMPROPER IDENTIFICATION OF HEDGING TRANSACTIONS.—Notwithstanding subsection (a)(7), the Secretary shall prescribe regulations to properly characterize 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) CONFORMING AMENDMENTS.—

(1) Each of the following sections are amended by striking “section 1221” and inserting “section 1221(a)”:

(A) Section 170(e)(3)(A).

(B) Section 170(e)(4)(B).

(C) Section 367(a)(3)(B)(i).

(D) Section 818(c)(3).

(E) Section 865(i)(1).

(F) Section 1092(a)(3)(B)(ii)(II).

(G) Subparagraphs (C) and (D) of section 1231(b)(1).

(H) Section 1234(a)(3)(A).

(2) Each of the following sections are amended by striking “section 1221(1)” and inserting “section 1221(a)(1)”:

(A) Section 198(c)(1)(A)(i).

(B) Section 263A(b)(2)(A).

(C) Clauses (i) and (iii) of section 267(f)(3)(B).

(D) Section 341(d)(3).

(E) Section 543(a)(1)(D)(i).

(F) Section 751(d)(1).

(G) Section 775(c).

(H) Section 856(c)(2)(D).

(I) Section 856(c)(3)(C).

(J) Section 856(e)(1).

(K) Section 856(j)(2)(B).

(L) Section 857(b)(4)(B)(i).

(M) Section 857(b)(6)(B)(iii).

(N) Section 864(c)(4)(B)(iii).

(O) Section 864(d)(3)(A).

(P) Section 864(d)(6)(A).

(Q) Section 954(c)(1)(B)(iii).

(R) Section 995(b)(1)(C).

(S) Section 1017(b)(3)(E)(i).

(T) Section 1362(d)(3)(C)(ii).

(U) Section 4662(c)(2)(C).

(V) Section 7704(c)(3).

(W) Section 7704(d)(1)(D).

(X) Section 7704(d)(1)(G).

(Y) Section 7704(d)(5).

(3) Section 818(b)(2) is amended by striking “section 1221(2)” and inserting “section 1221(a)(2)”.

(4) Section 1397B(e)(2) is amended by striking “section 1221(4)” and inserting “section 1221(a)(4)”.

(d) 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 the enactment of this Act.

SEC. 204. INCLUSION OF CERTAIN VACCINES AGAINST STREPTOCOCCUS PNEUMONIAE TO LIST OF TAXABLE VACCINES.

(a) INCLUSION OF VACCINES.—

(1) 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.”

(2) EFFECTIVE DATE.—

(A) SALES.—The amendment made by this subsection 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, but shall not take effect if subsection (b) does not take effect.

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

(b) VACCINE TAX AND TRUST FUND AMENDMENTS.—

(1) Sections 1503 and 1504 of the Vaccine Injury Compensation Program Modification Act (and the amendments made by such sections) are hereby repealed.

(2) Subparagraph (A) of section 9510(c)(1) is amended by striking “August 5, 1997” and inserting “October 21, 1998”.

(3) The amendments made by this subsection shall take effect as if included in the provisions of the Omnibus Consolidated and Emergency Supplemental Appropriations Act, 1999 to which they relate.

(c) REPORT.—Not later than January 31, 2000, 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. 205. EXPANSION OF REPORTING OF CANCELLATION OF INDEBTEDNESS INCOME.

(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. 206. IMPOSITION OF LIMITATION ON PREFUNDING OF CERTAIN EMPLOYEE BENEFITS.

(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 directly or indirectly 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. 207. 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, 2000.

SEC. 208. LIMITATION ON CONVERSION OF CHARACTER OF INCOME 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 without regard to subsection (e) thereof),

“(H) a foreign personal holding company,

“(I) a foreign investment company (as defined in section 1246(b)), and

“(J) a REMIC.

“(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 one or more other transactions (or acquires one 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. 209. TREATMENT OF EXCESS PENSION ASSETS USED FOR RETIREE HEALTH BENEFITS.

(a) **EXTENSION.**—

(1) **IN GENERAL.**—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".

(2) CONFORMING AMENDMENTS.—

(A) Section 101(e)(3) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1021(e)(3)) is amended by striking "January 1, 1995" and inserting "the date of the enactment of the Tax Relief Extension Act of 1999".

(B) Section 403(c)(1) of such Act (29 U.S.C. 1103(c)(1)) is amended by striking "January 1, 1995" and inserting "the date of the enactment of the Tax Relief Extension Act of 1999".

(C) Paragraph (13) of section 408(b) of such Act (29 U.S.C. 1108(b)(13)) is amended—

(i) by striking "in a taxable year beginning before January 1, 2001" and inserting "made before October 1, 2009", and

(ii) by striking "January 1, 1995" and inserting "the date of the enactment of the Tax Relief Extension Act of 1999".

(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 two 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 DATES.—

(1) IN GENERAL.—The amendments made by this section shall apply to qualified transfers occurring after the date of the enactment of this Act.

(2) TRANSITION RULE.—If the cost maintenance period for any qualified transfer after the date of the enactment of this Act includes any portion of a benefit maintenance period for any qualified transfer on or before such date, the amendments made by subsection (b) shall not apply to such portion of the cost maintenance period (and such portion shall be treated as a benefit maintenance period).

SEC. 210. 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 (1)(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. 211. 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. 212. DENIAL OF CHARITABLE CONTRIBUTION DEDUCTION FOR TRANSFERS ASSOCIATED WITH SPLIT-DOLLAR INSURANCE ARRANGEMENTS.

(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 ANNUITY 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. 213. PREVENTION OF DUPLICATION OF LOSS THROUGH ASSUMPTION OF LIABILITIES GIVING RISE TO A DEDUCTION.

(a) IN GENERAL.—Section 358 (relating to basis to distributees) is amended by adding at the end the following new subsection:

“(h) SPECIAL RULES FOR ASSUMPTION OF LIABILITIES TO WHICH SUBSECTION (d) DOES NOT APPLY.—

“(1) IN GENERAL.—If, after application of the other provisions of this section to an exchange or series of exchanges, the basis of property to which subsection (a)(1) applies exceeds the fair market value of such property, then such basis shall be reduced (but not below such fair market value) by the amount (determined as of the date of the exchange) of any liability—

“(A) which is assumed in exchange for such property, and

“(B) with respect to which subsection (d)(1) does not apply to the assumption.

“(2) EXCEPTION.—Paragraph (1) shall not apply to any liability if the trade or business giving rise to the liability is transferred to the person assuming the liability as part of the exchange.

“(3) LIABILITY.—For purposes of this subsection, the term ‘liability’ shall include any obligation to make payment, without regard to whether the obligation is fixed or contingent or otherwise taken into account for purposes of this title.

“(4) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary to carry out the provisions of this subsection.”

(b) APPLICATION OF COMPARABLE RULES TO PARTNERSHIPS.—The Secretary of the Treasury or his delegate shall prescribe rules which provide appropriate adjustments under subchapter K of chapter 1 of the Internal Revenue Code of 1986 to prevent the acceleration or duplication of losses through the assumption of (or transfer of assets subject to) liabilities described in section 358(h)(3) of such Code (as added by subsection (a)) in transactions involving partnerships.

(c) EFFECTIVE DATES.—

(1) IN GENERAL.—The amendments made by this section shall apply to assumptions of liability after October 18, 1999.

(2) RULES.—The rules prescribed under subsection (b) shall apply to assumptions of liability after October 18, 1999, or such later date as may be prescribed in such rules.

SEC. 214. CONSISTENT TREATMENT AND BASIS ALLOCATION RULES FOR TRANSFERS OF INTANGIBLES IN CERTAIN NONRECOGNITION TRANSACTIONS.

(a) TRANSFERS TO CORPORATIONS.—Section 351 (relating to transfer to corporation controlled by transferor) is amended by redesignating subsection (h) as subsection (i) and by inserting after subsection (g) the following new subsection:

“(h) TREATMENT OF TRANSFERS OF INTANGIBLE PROPERTY.—

“(1) TRANSFERS OF LESS THAN ALL SUBSTANTIAL RIGHTS.—

“(A) IN GENERAL.—A transfer of an interest in intangible property (as defined in section 936(h)(3)(B)) shall be treated under this section as a transfer of property even if the transfer is of less than all of the substantial rights of the transferor in the property.

“(B) ALLOCATION OF BASIS.—In the case of a transfer of less than all of the substantial rights of the transferor in the intangible property, the transferor's basis immediately before the transfer shall be allocated among the rights retained by the transferor and the rights transferred on the basis of their respective fair market values.

“(2) NONRECOGNITION NOT TO APPLY TO INTANGIBLE PROPERTY DEVELOPED FOR TRANSFEREE.—This section shall not apply to a transfer of intangible property developed by

the transferor or any related person if such development was pursuant to an arrangement with the transferee.”

(b) TRANSFERS TO PARTNERSHIPS.—Subsection (d) of section 721 is amended to read as follows:

“(d) TRANSFERS OF INTANGIBLE PROPERTY.—

“(1) IN GENERAL.—Rules similar to the rules of section 351(h) shall apply for purposes of this section.

“(2) TRANSFERS TO FOREIGN PARTNERSHIPS.—For regulatory authority to treat intangibles transferred to a partnership as sold, see section 367(d)(3).”

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to transfers on or after the date of the enactment of this Act.

SEC. 215. DISTRIBUTIONS BY A PARTNERSHIP TO A CORPORATE PARTNER OF STOCK IN ANOTHER CORPORATION.

(a) IN GENERAL.—Section 732 (relating to basis of distributed property other than money) is amended by adding at the end the following new subsection:

“(f) CORRESPONDING ADJUSTMENT TO BASIS OF ASSETS OF A DISTRIBUTED CORPORATION CONTROLLED BY A CORPORATE PARTNER.—

“(1) IN GENERAL.—If—

“(A) a corporation (hereafter in this subsection referred to as the ‘corporate partner’) receives a distribution from a partnership of stock in another corporation (hereafter in this subsection referred to as the ‘distributed corporation’),

“(B) the corporate partner has control of the distributed corporation immediately after the distribution or at any time thereafter, and

“(C) the partnership's adjusted basis in such stock immediately before the distribution exceeded the corporate partner's adjusted basis in such stock immediately after the distribution,

then an amount equal to such excess shall be applied to reduce (in accordance with subsection (c)) the basis of property held by the distributed corporation at such time (or, if the corporate partner does not control the distributed corporation at such time, at the time the corporate partner first has such control).

“(2) EXCEPTION FOR CERTAIN DISTRIBUTIONS BEFORE CONTROL ACQUIRED.—Paragraph (1) shall not apply to any distribution of stock in the distributed corporation if—

“(A) the corporate partner does not have control of such corporation immediately after such distribution, and

“(B) the corporate partner establishes to the satisfaction of the Secretary that such distribution was not part of a plan or arrangement to acquire control of the distributed corporation.

“(3) LIMITATIONS ON BASIS REDUCTION.—

“(A) IN GENERAL.—The amount of the reduction under paragraph (1) shall not exceed the amount by which the sum of the aggregate adjusted bases of the property and the amount of money of the distributed corporation exceeds the corporate partner's adjusted basis in the stock of the distributed corporation.

“(B) REDUCTION NOT TO EXCEED ADJUSTED BASIS OF PROPERTY.—No reduction under paragraph (1) in the basis of any property shall exceed the adjusted basis of such property (determined without regard to such reduction).

“(4) GAIN RECOGNITION WHERE REDUCTION LIMITED.—If the amount of any reduction under paragraph (1) (determined after the application of paragraph (3)(A)) exceeds the aggregate adjusted bases of the property of the distributed corporation—

“(A) such excess shall be recognized by the corporate partner as long-term capital gain, and

“(B) the corporate partner’s adjusted basis in the stock of the distributed corporation shall be increased by such excess.

“(5) CONTROL.—For purposes of this subsection, the term ‘control’ means ownership of stock meeting the requirements of section 1504(a)(2).

“(6) INDIRECT DISTRIBUTIONS.—For purposes of paragraph (1), if a corporation acquires (other than in a distribution from a partnership) stock the basis of which is determined in whole or in part by reference to subsection (a)(2) or (b), the corporation shall be treated as receiving a distribution of such stock from a partnership.

“(7) SPECIAL RULE FOR STOCK IN CONTROLLED CORPORATION.—If the property held by a distributed corporation is stock in a corporation which the distributed corporation controls, this subsection shall be applied to reduce the basis of the property of such controlled corporation. This subsection shall be reapplied to any property of any controlled corporation which is stock in a corporation which it controls.

“(8) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary to carry out the purposes of this subsection, including regulations to avoid double counting and to prevent the abuse of such purposes.”

(b) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendment made by this section shall apply to distributions made after July 14, 1999.

(2) PARTNERSHIPS IN EXISTENCE ON JULY 14, 1999.—In the case of a corporation which is a partner in a partnership as of July 14, 1999, the amendment made by this section shall apply to distributions made to such partner from such partnership after the date of the enactment of this Act.

SEC. 216. PROHIBITED ALLOCATIONS OF STOCK IN S CORPORATION ESOP.

(a) IN GENERAL.—Section 409 (relating to qualifications for tax credit employee stock ownership plans) is amended by redesignating subsection (p) as subsection (q) and by inserting after subsection (o) the following new subsection:

“(p) PROHIBITED ALLOCATIONS OF SECURITIES IN AN S CORPORATION.—

“(1) IN GENERAL.—An employee stock ownership plan holding employer securities consisting of stock in an S corporation shall provide that no portion of the assets of the plan attributable to (or allocable in lieu of) such employer securities may, during a non-allocation year, accrue (or be allocated directly or indirectly under any plan of the employer meeting the requirements of section 401(a)) for the benefit of any disqualified person.

“(2) FAILURE TO MEET REQUIREMENTS.—

“(A) IN GENERAL.—If a plan fails to meet the requirements of paragraph (1), the plan shall be treated as having distributed to any disqualified person the amount allocated to the account of such person in violation of paragraph (1) at the time of such allocation.

“(B) CROSS REFERENCE.—

“For excise tax relating to violations of paragraph (1) and ownership of synthetic equity, see section 4979A.

“(3) NONALLOCATION YEAR.—For purposes of this subsection—

“(A) IN GENERAL.—The term ‘nonallocation year’ means any plan year of an employee stock ownership plan if, at any time during such plan year—

“(i) such plan holds employer securities consisting of stock in an S corporation, and

“(ii) disqualified persons own at least 50 percent of the number of shares of stock in the S corporation.

“(B) ATTRIBUTION RULES.—For purposes of subparagraph (A)—

“(i) IN GENERAL.—The rules of section 318(a) shall apply for purposes of determining ownership, except that—

“(I) in applying paragraph (1) thereof, the members of an individual’s family shall include members of the family described in paragraph (4)(D), and

“(II) paragraph (4) thereof shall not apply.

“(ii) DEEMED-OWNED SHARES.—Notwithstanding the employee trust exception in section 318(a)(2)(B)(i), individual shall be treated as owning deemed-owned shares of the individual.

Solely for purposes of applying paragraph (5), this subparagraph shall be applied after the attribution rules of paragraph (5) have been applied.

“(4) DISQUALIFIED PERSON.—For purposes of this subsection—

“(A) IN GENERAL.—The term ‘disqualified person’ means any person if—

“(i) the aggregate number of deemed-owned shares of such person and the members of such person’s family is at least 20 percent of the number of deemed-owned shares of stock in the S corporation, or

“(ii) in the case of a person not described in clause (i), the number of deemed-owned shares of such person is at least 10 percent of the number of deemed-owned shares of stock in such corporation.

“(B) TREATMENT OF FAMILY MEMBERS.—In the case of a disqualified person described in subparagraph (A)(i), any member of such person’s family with deemed-owned shares shall be treated as a disqualified person if not otherwise treated as a disqualified person under subparagraph (A).

“(C) DEEMED-OWNED SHARES.—

“(i) IN GENERAL.—The term ‘deemed-owned shares’ means, with respect to any person—

“(I) the stock in the S corporation constituting employer securities of an employee stock ownership plan which is allocated to such person under the plan, and

“(II) such person’s share of the stock in such corporation which is held by such plan but which is not allocated under the plan to participants.

“(ii) PERSON’S SHARE OF UNALLOCATED STOCK.—For purposes of clause (i)(II), a person’s share of unallocated S corporation stock held by such plan is the amount of the unallocated stock which would be allocated to such person if the unallocated stock were allocated to all participants in the same proportions as the most recent stock allocation under the plan.

“(D) MEMBER OF FAMILY.—For purposes of this paragraph, the term ‘member of the family’ means, with respect to any individual—

“(i) the spouse of the individual,

“(ii) an ancestor or lineal descendant of the individual or the individual’s spouse,

“(iii) a brother or sister of the individual or the individual’s spouse and any lineal descendant of the brother or sister, and

“(iv) the spouse of any individual described in clause (ii) or (iii).

A spouse of an individual who is legally separated from such individual under a decree of divorce or separate maintenance shall not be treated as such individual’s spouse for purposes of this subparagraph.

“(5) TREATMENT OF SYNTHETIC EQUITY.—For purposes of paragraphs (3) and (4), in the case of a person who owns synthetic equity in the S corporation, except to the extent provided in regulations, the shares of stock in such corporation on which such synthetic equity is based shall be treated as outstanding stock in such corporation and deemed-owned shares of such person if such treatment of synthetic equity of 1 or more such persons results in—

“(A) the treatment of any person as a disqualified person, or

“(B) the treatment of any year as a non-allocation year.

For purposes of this paragraph, synthetic equity shall be treated as owned by a person in the same manner as stock is treated as owned by a person under the rules of paragraphs (2) and (3) of section 318(a). If, without regard to this paragraph, a person is treated as a disqualified person or a year is treated as a nonallocation year, this paragraph shall not be construed to result in the person or year not being so treated.

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

“(A) EMPLOYEE STOCK OWNERSHIP PLAN.—The term ‘employee stock ownership plan’ has the meaning given such term by section 4975(e)(7).

“(B) EMPLOYER SECURITIES.—The term ‘employer security’ has the meaning given such term by section 409(1).

“(C) SYNTHETIC EQUITY.—The term ‘synthetic equity’ means any stock option, warrant, restricted stock, deferred issuance stock right, or similar interest or right that gives the holder the right to acquire or receive stock of the S corporation in the future. Except to the extent provided in regulations, synthetic equity also includes a stock appreciation right, phantom stock unit, or similar right to a future cash payment based on the value of such stock or appreciation in such value.

“(7) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary to carry out the purposes of this subsection.”

(b) COORDINATION WITH SECTION 4975(e)(7).—The last sentence of section 4975(e)(7) (defining employee stock ownership plan) is amended by inserting “, section 409(p),” after “409(n)”.

(c) EXCISE TAX.—

(1) APPLICATION OF TAX.—Subsection (a) of section 4979A (relating to tax on certain prohibited allocations of employer securities) is amended—

(A) by striking “or” at the end of paragraph (1),

(B) by striking the period at the end of paragraph (2) and inserting a comma, and

(C) by striking all that follows paragraph (2) and inserting the following:

“(3) there is any allocation of employer securities which violates the provisions of section 409(p), or a nonallocation year described in subsection (c)(2)(C) with respect to an employee stock ownership plan, or

“(4) any synthetic equity is owned by a disqualified person in any nonallocation year, there is hereby imposed a tax on such allocation or ownership equal to 50 percent of the amount involved.”

(2) LIABILITY.—Section 4979A(c) (defining liability for tax) is amended to read as follows:

“(c) LIABILITY FOR TAX.—The tax imposed by this section shall be paid—

“(1) in the case of an allocation referred to in paragraph (1) or (2) of subsection (a), by—

“(A) the employer sponsoring such plan, or

“(B) the eligible worker-owned cooperative,

which made the written statement described in section 664(g)(1)(E) or in section 1042(b)(3)(B) (as the case may be), and

“(2) in the case of an allocation or ownership referred to in paragraph (3) or (4) of subsection (a), by the S corporation the stock in which was so allocated or owned.”

(3) DEFINITIONS.—Section 4979A(e) (relating to definitions) is amended to read as follows:

“(e) DEFINITIONS AND SPECIAL RULES.—For purposes of this section—

“(1) DEFINITIONS.—Except as provided in paragraph (2), terms used in this section have the same respective meanings as when used in sections 409 and 4978.

“(2) SPECIAL RULES RELATING TO TAX IMPOSED BY REASON OF PARAGRAPH (3) OR (4) OF SUBSECTION (a).—

“(A) PROHIBITED ALLOCATIONS.—The amount involved with respect to any tax imposed by reason of subsection (a)(3) is the amount allocated to the account of any person in violation of section 409(p)(1).

“(B) SYNTHETIC EQUITY.—The amount involved with respect to any tax imposed by reason of subsection (a)(4) is the value of the shares on which the synthetic equity is based.

“(C) SPECIAL RULE DURING FIRST NON-ALLOCATION YEAR.—For purposes of subparagraph (A), the amount involved for the first nonallocation year of any employee stock ownership plan shall be determined by taking into account the total value of all the deemed-owned shares of all disqualified persons with respect to such plan.

“(D) STATUTE OF LIMITATIONS.—The statutory period for the assessment of any tax imposed by this section by reason of paragraph (3) or (4) of subsection (a) shall not expire before the date which is 3 years from the later of—

“(i) the allocation or ownership referred to in such paragraph giving rise to such tax, or

“(ii) the date on which the Secretary is notified of such allocation or ownership.”

(d) EFFECTIVE DATES.—

(1) IN GENERAL.—The amendments made by this section shall apply to plan years beginning after December 31, 2000.

(2) EXCEPTION FOR CERTAIN PLANS.—In the case of any—

(A) employee stock ownership plan established after July 14, 1999, or

(B) employee stock ownership plan established on or before such date if employer securities held by the plan consist of stock in a corporation with respect to which an election under section 1362(a) of the Internal Revenue Code of 1986 is not in effect on such date,

the amendments made by this section shall apply to plan years ending after July 14, 1999.

Subtitle B—Provisions Relating to Real Estate Investment Trusts

PART I—TREATMENT OF INCOME AND SERVICES PROVIDED BY TAXABLE REIT SUBSIDIARIES

SEC. 221. 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)),

“(ii) not more than 20 percent of the value of its total assets is represented by securities of 1 or more taxable REIT subsidiaries, and

“(iii) 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 one issuer,

“(II) the trust does not hold securities possessing more than 10 percent of the total voting power of the outstanding securities of any one 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 one 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 ac-

count in applying paragraph (4)(B)(ii)(III) if—

“(A) the issuer is an individual, or

“(B) 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

“(C) the issuer is a partnership and the trust holds at least a 20 percent profits interest in the partnership.”

SEC. 222. 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 either of the following subparagraphs 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 of 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)”.

(3) DETERMINING RENTS FROM REAL PROPERTY.—

(A)(i) Paragraph (1) of section 856(d) is amended by striking “adjusted bases” each place it occurs and inserting “fair market values”.

(ii) The amendment made by this subparagraph shall apply to taxable years beginning after December 31, 2000.

(B)(i) Clause (i) of section 856(d)(2)(B) is amended by striking “number” and inserting “value”.

(ii) The amendment made by this subparagraph shall apply to amounts received or accrued in taxable years beginning after December 31, 2000, except for amounts paid pursuant to leases in effect on July 12, 1999, or pursuant to a binding contract in effect on such date and at all times thereafter.

SEC. 223. TAXABLE REIT SUBSIDIARY.

(a) IN GENERAL.—Section 856 is amended by adding at the end the following new subsection:

“(1) 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. 224. 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(1)) of a real estate investment trust to such trust.”.

SEC. 225. 100 PERCENT TAX ON IMPROPERLY ALLOCATED AMOUNTS.

(a) IN GENERAL.—Subsection (b) of section 857 (relating to method of taxation of real es-

tate 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 decreased 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. 226. 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 221.—

(1) EXISTING ARRANGEMENTS.—

(A) IN GENERAL.—Except as otherwise provided in this paragraph, the amendment made by section 221 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.

(C) LIMITATION ON TRANSITION RULES.—Subparagraph (A) shall cease to apply to securities of a corporation held, acquired, or received, directly or indirectly, by a real estate investment trust as of the first day after July 12, 1999, on which such trust acquires any additional securities of such corporation other than—

(i) pursuant to a binding contract in effect on July 12, 1999, and at all times thereafter, or

(ii) 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 221 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. 231. 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 one 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. 241. 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. 251. 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. 261. 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 accu-

mulated 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—MODIFICATION OF ESTIMATED TAX RULES

SEC. 271. MODIFICATION OF ESTIMATED TAX RULES FOR CLOSELY HELD REAL ESTATE INVESTMENT TRUSTS.

(a) IN GENERAL.—Subsection (e) of section 6655 (relating to estimated tax by corporations) is amended by adding at the end the following new paragraph:

“(5) TREATMENT OF CERTAIN REIT DIVIDENDS.—

“(A) IN GENERAL.—Any dividend received from a closely held real estate investment trust by any person which owns (after application of subsections (d)(5) and (1)(3)(B) of section 856) 10 percent or more (by vote or value) of the stock or beneficial interests in the trust shall be taken into account in computing annualized income installments under paragraph (2) in a manner similar to the manner under which partnership income inclusions are taken into account.

“(B) CLOSELY HELD REIT.—For purposes of subparagraph (A), the term ‘closely held real estate investment trust’ means a real estate investment trust with respect to which 5 or fewer persons own (after application of subsections (d)(5) and (1)(3)(B) of section 856) 50 percent or more (by vote or value) of the stock or beneficial interests in the trust.”.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to estimated tax payments due on or after November 15, 1999.

PART VII—MODIFICATION OF TREATMENT OF CLOSELY-HELD REITS

SEC. 281. 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 (1)); and”.

(b) CONTROLLED ENTITY.—Section 856 is amended by adding at the end the following new subsection:

“(1) 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; except that section 318(a)(3)(C) shall not be applied under such rules to treat stock owned by a qualified entity as being owned by a person which is not a qualified entity.

“(B) STAPLED ENTITIES.—A group of entities which are stapled entities (as defined in section 269B(c)(2)) shall be treated as one 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 corporation annually increases the value of its real estate assets by at least 10 percent.

“(vi) 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. The requirement of clause (ii) shall not fail to be met merely because a going public transaction is accomplished through a transaction described in section 368(a)(1) with another corporation which had another class of stock outstanding prior to the transaction.

“(C) ELIGIBILITY PERIOD.—

“(i) IN GENERAL.—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, except that the REIT may, subject to clauses (ii), (iii), and (iv), elect to extend such period for an additional 2 taxable years.

“(ii) GOING PUBLIC TRANSACTION.—A REIT may not elect to extend the eligibility period under clause (i) unless it enters into an agreement with the Secretary 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.

“(iii) RETURNS, INTEREST, AND NOTICE.—

“(I) RETURNS.—In the event the corporation ceases to be treated as a REIT by oper-

ation of clause (ii), the corporation shall file any appropriate amended returns reflecting the change in status within 3 months of the close of the extended eligibility period.

“(II) INTEREST.—Interest shall be payable on any tax imposed by reason of clause (ii) for any taxable year but, unless there was a finding under subparagraph (D), no substantial underpayment penalties shall be imposed.

“(III) NOTICE.—The corporation shall, at the same time it files its returns under subclause (I), 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.

“(IV) REGULATIONS.—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.

“(iv) Clauses (ii) and (iii) 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 if the corporation is not a controlled entity as of the beginning of 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 shall 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 14, 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 14, 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. For purposes of the preceding sentence, an entity shall be treated as such a controlled entity on July

14, 1999, if it becomes such an entity after such date in a transaction—

(A) made pursuant to a written agreement which was binding on such date and at all times thereafter, or

(B) described on or before such date in a filing with the Securities and Exchange Commission required solely by reason of the transaction.

TITLE III—BUDGET PROVISION

SEC. 301. EXCLUSION FROM PAYGO SCORECARD.

Any net deficit increase or net surplus increase resulting from the enactment of this Act shall not be counted for purposes of section 252 of the Balanced Budget and Emergency Deficit Control Act of 1985 (2 U.S.C. 902).

Mr. ROTH. Mr. President, today I am pleased to join the distinguished ranking member of the Finance Committee, Senator MOYNIHAN, in discussing Senate passage of the Tax Relief Extension Act of 1999.

The bill the Senate passed today is a consensus package of extensions of expiring tax provisions, known as “extenders.” Working together, Senator MOYNIHAN and I produced a package that was reported out of the Finance Committee unanimously.

In order to get a package that could be approved by unanimous consent, we had to achieve a fair compromise. Every Member would probably differ in the way he or she would write an extenders bill.

Fortunately, Members of the Senate realize the importance of addressing these expiring provisions. The evidence of that importance is demonstrated by the unanimous consent agreement for passage that we entered into today.

The most important of the expiring provisions, as Senator MOYNIHAN noted, is the exclusion of nonrefundable tax credits from the alternative minimum taxes (“AMT”). The Finance Committee bill insures that middle income families will receive the benefits of the \$500 per child tax credit, HOPE Scholarship credit, Lifetime Learning credit, adoption credit, and dependent care tax credit. This relief is extended through December 31, 2000.

There are other important expiring tax provisions the Finance Committee bill addresses. Included is the research and development (“R&D”) tax credit, the tax-free treatment of employer-provided educational assistance, the work opportunity tax credit, the welfare-to-work tax credit, the active finance exception to Subpart F, and the extension and modification of the tax credit for production of electricity from wind and biomass, including poultry waste. There are several other important extenders in this legislation.

Mr. President, I urge the House to pass its extenders bill. We will then proceed to a conference and work out the differences between the two bills. It is important that we work quickly and produce a conference agreement that addresses these important matters.

Mr. MOYNIHAN. Mr. President, I have just a couple of points to make about this extender bill. First, my congratulations to our revered chairman

of the Finance Committee, who brought all sides together in a consensus bill that accomplishes our objective—extend expiring provisions that command support from all Senators. This was not a simple task.

Tax extenders were part of the large tax bill that began working its way through the Congress in July—a bill that in my view needed to be and was vetoed. This fall, Senator ROTH returned to the task and presented a chairman's mark focused on extenders. He built bipartisan support for the bill, and that is why we are here on the Senate floor so soon, ready to pass the legislation by unanimous consent.

This bill is a paid-for extenders package. As such, it meets the standards of Members on both sides of the aisle. It is a bill that can pass this Congress and can be signed by the President.

And it is important that we pass legislation that can be signed. If we do not, approximately 1.1 million Americans will find out that they will lose part or all of the \$500 child credit or the HOPE scholarship credit when they sit down to complete their 1999 tax return. That is because these credits have not yet been permanently exempted from what we call the alternative minimum tax. This legislation will exempt these credits from the alternative minimum tax for 1999 and 2000.

The American people ask us to be responsible in managing our tax laws. To not pass this bill would be irresponsible and contribute to a perception that Members of Congress who agree on what should be done cannot sit down and figure out a way to do them.

Again, my congratulations to the chairman, and let's move expeditiously to a conference with the House of Representatives as soon as they pass similar legislation.

The PRESIDING OFFICER. The Democratic leader is recognized.

Mr. DASCHLE. Mr. President, I appreciate the cooperation we have had on both sides of the aisle to get to this point. A number of Senators have expressed a desire to offer amendments and to change, in some way, the package as it has been presented and passed this morning. We will work with our colleagues to find ways in which to address many of these issues, whether it is in conference or on other vehicles.

There are a number of issues I care about as well, and I share the concerns expressed to me by some of our colleagues. It is very important that before the end of the session we pass this legislation out and get to conference within a time where we might be able to move it further along.

I strongly support the action the Senate has just taken. My only regret is that these matters aren't permanent law and that they require extension at all. There should come a time when we pass them permanently so we aren't required to come back year after year. Having said that, again, I appreciate the work of the majority leader.

I yield the floor.

Mr. LOTT. Mr. President, I agree with that. I might say that there are some permanent provisions in the House Ways and Means version of this bill. They would make permanent the extender with regard to the alternative minimum tax and how it affects the low- and middle-income people and others. Also, I have a bill at the desk to express my strong feeling on this subject that would make the R&D tax credit permanent. I think to come back every year, 2 years, or even every 5 years, causes concern and insecurity with regard to those tax credits. I hope we will make it either permanent, or as long as possible, in the conference.

I know there is at least one Senator who has provisions he hopes will be considered in the conference, and I think they should be. On our side, I have one Senator who feels very strongly that there are three parts of this bill that affect permanent law, which is not extenders. I agree. I think those permanent law issues should be dealt with by the regular committees. One has to do with brownfields, one with a rum provision, maybe in the Virgin Islands—not that you might want to be for them; I am just questioning whether or not they should be in a bill that is supposed to be tax credit extenders. We have other good provisions in here, a welfare-to-work tax credit, and others. So I am glad we are going to get this done before we leave. I thank Senators for the cooperation on both sides.

DISTRICT OF COLUMBIA APPROPRIATIONS ACT, 2000—CONFERENCE REPORT—Continued

Mr. DURBIN. Mr. President, I yield some time at this moment to the Senator from Washington, Mrs. MURRAY.

The PRESIDING OFFICER. The Senator from Washington is recognized.

Mrs. MURRAY. Mr. President, I thank the chairman of the Labor-HHS Subcommittee for his commitment to children and health. He stood with many of us many times. Unfortunately, the Labor bill that is now before us simply doesn't make the grade. I believe a number of our colleagues on this side of the aisle will be speaking against this and voting against this in the hopes that when the President vetoes it, the Senator from Pennsylvania, chairman of the committee, will work out some of the things about which we care deeply.

When you leave something for the last minute, you can't do it justice. This Congress has left our investment in educating our children, in protecting our American workforce, and in ensuring the health of the people of this country for the last minute, and the failures are pretty obvious. The Labor-HHS appropriations bill should have been the first bill we brought to the floor—not the last.

This Congress has tried every trick and every gimmick to play games with

the budget. I am here to say we are nearing the end of this game; and for the American people who are watching this Congress, they must wonder how serious we are about addressing their concerns. If this flawed proposal passes, the American people will be the ones who lose out.

I am on the floor to say this combination D.C./Labor-HHS conference report—with its irresponsible across-the-board cuts—fails to make the vital investments we need, the investments our constituents are asking for.

Mr. President, I will vote against this conference report, and I will tell you why. First, and most important, this bill will not guarantee that we reduce class size.

Now, last year, this Congress, the House and Senate, Democrats and Republicans, made a bipartisan commitment to help our districts hire and train new teachers. We did that because research shows students who learn in classes where there are fewer students in the early grades do better throughout their educational careers. They learn the basics—math, science, and English—and they have fewer discipline problems. We did that because it was a goal of all of us to make a concerted national effort to make sure that young children learned the basics, reduced the discipline problems, went on to college, and would be viable contributors to our economy when they graduated.

Last year, we made that bipartisan commitment and promised the parents of this country we would give their schools targeted money for smaller class sizes for the next 7 years. This bill walks away from that commitment. That is not acceptable. Not only does it walk away, but it broadens the use of the money so much that it could open the door to using vital, public education, class size dollars for private school vouchers.

Now, the President has said he will veto this bill if it does not keep our commitment to hire more teachers to reduce class size. I am proud that 37 Senators have joined with me to sign a letter saying they will back up that veto because we know that guaranteeing smaller classes for our children is worth fighting for.

The Labor-HHS bill's failure on class size is glaring. But to me it is just a start of many things that need to be fixed once this is vetoed and sent back to us in order for Democrats to be supportive.

It also fails to help families gain the literacy skills they need. When the Senate passed its version, we were able to provide an increase of \$103 million, which would have taken thousands of people off of waiting lists for literacy services. But in this conference agreement, they cut the Senate number by \$43 million. Those families were just about to get the skills they needed to rejoin our economy, and this agreement pushes them to back of the line.

This bill fails to make kids safer in our schools. In a year when the tragedy