

(Mr. NICKLES) was added as a cosponsor of S. 1199, a bill to require the Secretary of State to report on United States citizens injured or killed by certain terrorist groups.

S. 1200

At the request of Ms. SNOWE, the name of the Senator from Montana (Mr. BAUCUS) was added as a cosponsor of S. 1200, a bill to require equitable coverage of prescription contraceptive drugs and devices, and contraceptive services under health plans.

S. 1207

At the request of Mr. BURNS, the name of the Senator from Indiana (Mr. LUGAR) was added as a cosponsor of S. 1207, a bill to amend the Internal Revenue Code of 1986 to ensure that income averaging for farmers not increase a farmer's liability for the alternative minimum tax.

S. 1293

At the request of Mr. COCHRAN, the name of the Senator from Utah (Mr. BENNETT) was added as a cosponsor of S. 1293, a bill to establish a Congressional Recognition for Excellence in Arts Education Board.

S. 1310

At the request of Ms. COLLINS, the name of the Senator from Kansas (Mr. ROBERTS) was added as a cosponsor of S. 1310, a bill to amend title XVIII of the Social Security Act to modify the interim payment system for home health services, and for other purposes.

S. 1345

At the request of Mr. LAUTENBERG, the name of the Senator from Nevada (Mr. REID) was added as a cosponsor of S. 1345, a bill to amend title 18, United States Code, to prohibit certain interstate conduct relating to exotic animals.

S. 1362

At the request of Mr. BURNS, the name of the Senator from Missouri (Mr. ASHCROFT) was added as a cosponsor of S. 1362, a bill to establish a commission to study the airline industry and to recommend policies to ensure consumer information and choice.

#### SENATE CONCURRENT RESOLUTION 9

At the request of Ms. SNOWE, the names of the Senator from South Carolina (Mr. THURMOND), the Senator from West Virginia (Mr. ROCKEFELLER), the Senator from Maine (Ms. COLLINS), and the Senator from North Carolina (Mr. EDWARDS) were added as cosponsors of Senate Concurrent Resolution 9, a concurrent resolution calling for a United States effort to end restrictions on the freedoms and human rights of the enclaved people in the occupied area of Cyprus.

#### SENATE RESOLUTION 95

At the request of Mr. THURMOND, the name of the Senator from New Mexico (Mr. DOMENICI) was added as a cosponsor of Senate Resolution 95, a resolution designating August 16, 1999, as "National Airborne Day."

#### SENATE RESOLUTION 99

At the request of Mr. REID, the name of the Senator from Maryland (Ms. MI-

KULSKI) was added as a cosponsor of Senate Resolution 99, a resolution designating November 20, 1999, as "National Survivors for Prevention of Suicide Day."

#### AMENDMENT NO. 1069

At the request of Mr. STEVENS, the name of the Senator from Alaska (Mr. MURKOWSKI) was added as a cosponsor of amendment No. 1069 intended to be proposed to S. 1233, an original bill making appropriations for Agriculture, Rural Development, Food and Drug Administration, and Related Agencies programs for the fiscal year ending September 30, 2000, and for other purposes.

#### SENATE RESOLUTION 168—PAYING A GRATUITY TO MARY LYDA NANCE

Mr. HELMS (for himself and Mr. BIDEN) submitted the following resolution; which was considered and agreed to:

#### S. RES. 168

*Resolved*, That the Secretary of the Senate is authorized and directed to pay, from the contingent fund of the Senate, to Mary Lyda Nance, widow of Admiral James W. Nance, an employee of the Senate at the time of his death, the sum of \$200,000, that sum to be considered inclusive of funeral expenses and all other allowances.

#### AMENDMENTS SUBMITTED

#### DEPARTMENT OF THE INTERIOR AND RELATED AGENCIES APPROPRIATIONS ACT, 2000

#### CRAPO (AND OTHERS) AMENDMENT NO. 1372

(Ordered to lie on the table.)

Mr. CRAPO (for himself, Mr. CRAIG, and Mr. BURNS) submitted an amendment to be proposed by them to the bill (H.R. 2466) making appropriations for the Department of the Interior and related agencies for the fiscal year ending September 30, 2000, and for other purposes; as follows:

On page 10, line 16, after "herein," insert the following: "of which not less than \$750,000 shall be available for the development of a voluntary enrollment habitat conservation plan for cold water fish in cooperation with the States of Idaho and Montana (of which \$150,000 shall be used to fund full-time positions of personnel to assist in the development of the plan and \$300,000 shall be made available to each State for data collection, organizational, and related activities), and of which not more than \$64,626,000 shall be available for habitat conservation, and".

#### TAXPAYER REFUND ACT OF 1999

#### BROWNBACK AMENDMENT NO. 1373

(Ordered to lie on the table.)

Mr. BROWNBACK submitted an amendment intended to be proposed by him to the bill (S. 1429) to provide for

reconciliation pursuant to section 104 of the concurrent resolution on the budget for fiscal year 2000; as follows:

Beginning on page 11, strike line 18 and all that follows through page 32, line 14, and insert the following:

#### SEC. 201. ELIMINATION OF MARRIAGE PENALTY IN INDIVIDUAL INCOME TAX RATES.

(a) GENERAL RULE.—Section 1 (relating to tax imposed) is amended by striking subsections (a) through (e) and inserting the following:

"(a) MARRIED INDIVIDUALS FILING JOINT RETURNS AND SURVIVING SPOUSES.—There is hereby imposed on the taxable income of—

"(1) every married individual (as defined in section 7703) who makes a single return jointly with his spouse under section 6013, and

"(2) every surviving spouse (as defined in section 2(a)),

a tax determined in accordance with the following table:

<b>"If taxable income is:</b>	<b>The tax is:</b>
Not over \$50,700 .....	15% of taxable income.
Over \$50,700 but not over \$122,800 .....	\$7,605, plus 28% of the excess over \$50,700.
Over \$122,800 but not over \$256,200 .....	\$27,793, plus 31% of the excess over \$122,800.
Over \$256,200 but not over \$556,900 .....	\$69,147, plus 36% of the excess over \$256,200.
Over \$556,900 .....	\$177,399, plus 39.6% of the excess over \$556,900.

"(b) HEADS OF HOUSEHOLDS.—There is hereby imposed on the taxable income of every head of a household (as defined in section 2(b)) a tax determined in accordance with the following table:

<b>"If taxable income is:</b>	<b>The tax is:</b>
Not over \$33,950 .....	15% of taxable income.
Over \$33,950 but not over \$87,700 .....	\$5,092.50, plus 28% of the excess over \$33,950.
Over \$87,700 but not over \$142,000 .....	\$20,142.50, plus 31% of the excess over \$87,700.
Over \$142,000 but not over \$278,450 .....	\$36,975.50, plus 36% of the excess over \$142,000.
Over \$278,450 .....	\$86,097.50, plus 39.6% of the excess over \$278,450.

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

<b>"If taxable income is:</b>	<b>The tax is:</b>
Not over \$25,350 .....	15% of taxable income.
Over \$25,350 but not over \$61,400 .....	\$3,802.50, plus 28% of the excess over \$25,350.
Over \$61,400 but not over \$128,100 .....	\$13,896.50, plus 31% of the excess over \$61,400.
Over \$128,100 but not over \$278,450 .....	\$34,573.50, plus 36% of the excess over \$128,100.
Over \$278,450 .....	\$88,699.50, plus 39.6% of the excess over \$278,450.

"(d) ESTATES AND TRUSTS.—There is hereby imposed on the taxable income of—

"(1) every estate, and

"(2) every trust,

taxable under this subsection a tax determined in accordance with the following table:

<b>"If taxable income is:</b>	<b>The tax is:</b>
Not over \$1,700 .....	15% of taxable income.
Over \$1,700 but not over \$4,000 .....	\$255, plus 28% of the excess over \$1,700.
Over \$4,000 but not over \$6,100 .....	\$899, plus 31% of the excess over \$4,000.
Over \$6,100 but not over \$8,350 .....	\$1,550, plus 36% of the excess over \$6,100.
Over \$8,350 .....	\$2,360, plus 39.6% of the excess over \$8,350."

(b) INFLATION ADJUSTMENT TO APPLY IN DETERMINING RATES FOR 2000.—Subsection (f) of section 1 is amended—

(1) by striking "1993" in paragraph (1) and inserting "1999",

(2) by striking "1992" in paragraph (3)(B) and inserting "1997", and

(3) by striking paragraph (7).

(c) CONFORMING AMENDMENTS.—

(1) The following provisions are each amended by striking "1992" and inserting "1997" each place it appears:

- (A) Section 25A(h).
- (B) Section 32(j)(1)(B).
- (C) Section 41(e)(5)(C).
- (D) Section 68(b)(2)(B).
- (E) Section 135(b)(2)(B)(ii).
- (F) Section 151(d)(4).
- (G) Section 221(g)(1)(B).
- (H) Section 512(d)(2)(B).
- (I) Section 513(h)(2)(C)(ii).
- (J) Section 877(a)(2).
- (K) Section 911(b)(2)(D)(ii)(II).
- (L) Section 4001(e)(1)(B).
- (M) Section 4261(e)(4)(A)(i).
- (N) Section 6039F(d).
- (O) Section 6334(g)(1)(B).
- (P) Section 7430(c)(1).

(2) Subclause (II) of section 42(h)(6)(G)(i) is amended by striking "1987" and inserting "1997".

(3) Subparagraph (B) of section 59(j)(2) is amended by striking ", determined by substituting '1997' for '1992' in subparagraph (B) thereof".

(4) Subparagraph (B) of section 132(f)(6) is amended by inserting before the period " ", determined by substituting 'calendar year 1992' for 'calendar year 1997' in subparagraph (B) thereof".

(5) Paragraph (2) of section 220(g) of such Code is amended by striking "by substituting 'calendar year 1997' for 'calendar year 1992' in subparagraph (B) thereof".

(6) Subparagraph (B) of section 685(c)(3) is amended by striking " ", by substituting 'calendar year 1997' for 'calendar year 1992' in subparagraph (B) thereof".

(7) Subparagraph (B) of section 2032A(a)(3) is amended by striking "by substituting 'calendar year 1997' for 'calendar year 1992' in subparagraph (B) thereof".

(8) Subparagraph (B) of section 2503(b)(2) is amended by striking "by substituting 'calendar year 1997' for 'calendar year 1992' in subparagraph (B) thereof".

(9) Paragraph (2) of section 2631(c) is amended by striking "by substituting 'calendar year 1997' for 'calendar year 1992' in subparagraph (B) thereof".

(10) Subparagraph (B) of section 6601(j)(3) is amended by striking "by substituting 'calendar year 1997' for 'calendar year 1992' in subparagraph (B) thereof".

(11) Sections 468B(b)(1), 511(b)(1), 641(a), 641(d)(2)(A), and 685(d) are each amended by striking "section 1(e)" each place it appears and inserting "section 1(d)".

(12) Sections 1(f)(2) and 904(b)(3)(E)(ii) are each amended by striking "(d), or (e)" and inserting "or (d)".

(13) Paragraph (1) of section 1(f) is amended by striking "(d), and (e)" and inserting "and (d)".

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

#### SEC. 202. ELIMINATION OF MARRIAGE PENALTY IN STANDARD DEDUCTION.

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

"(2) BASIC STANDARD DEDUCTION.—For purposes of paragraph (1), the basic standard deduction is—

"(A) \$8,500 in the case of—

"(i) a joint return, or

"(ii) a surviving spouse (as defined in section 2(a)),

"(B) \$6,250 in the case of a head of household (as defined in section 2(b)), or

"(C) \$4,250 in any other case."

(b) TECHNICAL AMENDMENTS.—

(1) Paragraph (4) of section 63(c) is amended to read as follows:

"(4) ADJUSTMENTS FOR INFLATION.—In the case of any taxable year beginning in a cal-

endar year after 1999, each dollar amount contained in paragraph (2) or (5) or subsection (f) shall be increased by an amount equal to—

"(A) such dollar amount, multiplied by

"(B) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins."

(2) Subparagraph (A) of section 63(c)(5) is amended by striking "\$500" and inserting "\$700".

(3) Subsection (f) of section 63 is amended by striking "\$600" each place it appears and inserting "\$850" and by striking "\$750" in paragraph (3) and inserting "\$1,050".

(4) Subparagraph (B) of section 1(f)(6) is amended by striking "subsection (c)(4) of section 63 (as it applies to subsections (c)(5)(A) and (f) of such section)" and inserting "section 63(c)(4)".

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

On page 9, line 12, strike "2000" and insert "2002".

Beginning on page 10, strike line 17 and all that follows through page 11, line 12, and insert the following:

"(i) JOINT RETURNS AND SURVIVING SPOUSES.—In the case of the table contained in subsection (a)—

<b>Calendar year:</b>	<b>Applicable dollar amount:</b>
2007 or 2008 .....	\$4,000
2009 and thereafter .....	\$5,000.

"(ii) OTHER TABLES.—In the case of the table contained in subsection (b), (c), or (d)—

<b>Calendar year:</b>	<b>Applicable dollar amount:</b>
2007 or 2008 .....	\$2,000
2009 and thereafter .....	\$2,500.

"(B) COST-OF-LIVING ADJUSTMENT.—In the case of any taxable year beginning in any calendar year after 2009, the applicable dollar amount shall be increased by an amount equal to—

"(i) such dollar amount, multiplied by

"(ii) the cost-of-living adjustment determined under paragraph (3) for the calendar year in which the taxable year begins, determined by substituting 'calendar year 2007' for 'calendar year 1992' in subparagraph (B) thereof."

#### GREGG AMENDMENTS NOS. 1374–1375

(Ordered to lie on the table.)

Mr. GREGG submitted two amendments intended to be proposed by him to the bill, S. 1429, supra; as follows:

##### AMENDMENT No. 1374

At the appropriate place in the bill, insert the following:

#### SEC. \_\_\_\_ ONE-YEAR EXTENSION OF PERIOD OF TAX MORATORIUM UNDER INTERNET TAX FREEDOM ACT.

Section 1101(a) of the Internet Tax Freedom Act (title XI of division C of Public Law 105-277; 112 Stat. 2681-719; 47 U.S.C. 151 note) is amended by striking "3 years after the date of the enactment of this Act" and inserting "4 years after October 21, 1998".

##### AMENDMENT No. 1375

On page 21, before line 1, insert:

(c) MINIMUM DEPENDENT CARE CREDIT ALLOWED FOR STAY-AT-HOME PARENTS.—Section 21(e) (relating to special rules) is amended by adding at the end the following:

"(11) MINIMUM CREDIT ALLOWED FOR STAY-AT-HOME PARENTS.—

"(A) IN GENERAL.—Notwithstanding subsection (d), in the case of any taxpayer with 1 or more qualifying individuals described in subsection (b)(1)(A) under the age of 1, such

taxpayer shall be deemed to have employment-related expenses for the taxable year with respect to each such qualifying individual in an amount equal to the sum of—

"(i) \$200 for each month in such taxable year during which such qualifying individual is under the age of 1, and

"(ii) the amount of employment-related expenses otherwise incurred for such qualifying individual for the taxable year (determined under this section without regard to this paragraph).

"(B) ELECTION TO NOT APPLY THIS PARAGRAPH.—This paragraph shall not apply with respect to any qualifying individual for any taxable year if the taxpayer elects to not have this paragraph apply to such qualifying individual for such taxable year."

On page 21, line 1, strike "(c)" and insert "(d)".

On page 195, strike lines 4 through 23.

#### DASCHLE (AND OTHERS) AMENDMENT NO. 1376

(Ordered to lie on the table.)

Mr. DASCHLE (for himself, Mr. BYRD, Mr. BAUCUS, Mr. BINGAMAN, and Mr. KERREY) submitted an amendment intended to be proposed by him to the bill, S. 1429, supra; as follows:

At the end of the bill add the following:

#### DIVISION II—ENERGY SECURITY TAX INCENTIVES

##### SECTION 1. SHORT TITLE; AMENDMENT OF 1986 CODE; TABLE OF CONTENTS.

(a) SHORT TITLE.—This division may be cited as the "Energy Security Tax Act of 1999".

(b) AMENDMENT OF 1986 CODE.—Except as otherwise expressly provided, whenever in this division 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.—

Sec. 1. Short title; amendment of 1986 Code; table of contents.

##### TITLE I—ENERGY-EFFICIENT PROPERTY USED IN BUSINESS

Sec. 101. Credit for certain energy-efficient property used in business.

##### TITLE II—NONBUSINESS ENERGY SYSTEMS

Sec. 201. Credit for certain nonbusiness energy systems.

##### TITLE III—ALTERNATIVE FUELS

Sec. 301. Allocation of alcohol fuels credit to patrons of a cooperative.

##### TITLE IV—AUTOMOBILES

Sec. 401. Credit for purchase of fuel cell, electric, and hybrid electric vehicles.

##### TITLE V—CLEAN COAL TECHNOLOGIES

Sec. 501. Credit for investment in qualifying clean coal technology.

Sec. 502. Credit for production from qualifying clean coal technology.

Sec. 503. Risk pool for qualifying clean coal technology.

##### TITLE VI—METHANE RECOVERY

Sec. 601. Expansion of section 29 tax credit.

Sec. 602. Credit for capture of coalbed methane gas.

##### TITLE VII—OIL AND GAS PRODUCTION

Sec. 701. Credit for production of re-refined lubricating oil.

Sec. 702. Repeal certain adjustments based on adjusted current earnings relating to oil and gas assets.

Sec. 703. 10-year carryback for percentage depletion for oil and gas property.

#### TITLE VIII—RENEWABLE POWER GENERATION

Sec. 801. Credit for investment in photovoltaic and wind property manufacturing facilities.

Sec. 802. Modifications to credit for electricity produced from renewable resources.

Sec. 803. Proportional credit for producing electricity through co-firing.

Sec. 804. Credit for capital costs of qualified biomass-based generating system.

Sec. 805. Pass-through of renewable energy production incentive payments to end-users.

#### TITLE IX—STEELMAKING

Sec. 901. Credit for energy-efficient steelmaking capacity.

Sec. 902. Extension of credit for electricity to production from steel cogeneration.

#### TITLE X—AGRICULTURE

Sec. 1001. Agricultural conservation tax credit.

#### TITLE I—ENERGY-EFFICIENT PROPERTY USED IN BUSINESS

##### SEC. 101. CREDIT FOR CERTAIN ENERGY-EFFICIENT PROPERTY USED IN BUSINESS.

(a) IN GENERAL.—Subpart E of part IV of subchapter A of chapter 1 (relating to rules for computing investment credit) is amended by inserting after section 48 the following:

##### “SEC. 48A. ENERGY CREDIT.

“(a) IN GENERAL.—For purposes of section 46, the energy credit for any taxable year is the sum of—

“(1) the amount equal to the energy percentage of the basis of each energy property placed in service during such taxable year, and

“(2) the credit amount for each qualified hybrid vehicle placed in service during the taxable year.

“(b) ENERGY PERCENTAGE.—

“(1) IN GENERAL.—The energy percentage is—

“(A) except as otherwise provided in this subparagraph, 10 percent,

“(B) in the case of energy property described in clauses (i), (iii), (vi), (vii), and (viii) of subsection (c)(1)(A), 20 percent,

“(C) in the case of energy property described in subsection (c)(1)(A)(v), 15 percent, and

“(D) in the case of energy property described in subsection (c)(1)(A)(ii) relating to a high risk geothermal well, 20 percent.

“(2) COORDINATION WITH REHABILITATION.—The energy percentage shall not apply to that portion of the basis of any property which is attributable to qualified rehabilitation expenditures.

“(c) ENERGY PROPERTY DEFINED.—

“(1) IN GENERAL.—For purposes of this subpart, the term ‘energy property’ means any property—

“(A) which is—

“(i) solar energy property,

“(ii) geothermal energy property,

“(iii) energy-efficient building property,

“(iv) combined heat and power system property,

“(v) low core loss distribution transformer property,

“(vi) fuel-efficient farm equipment property,

“(vii) qualified aerobic digester property, or

“(viii) qualified wind energy systems equipment property,

“(B)(i) the construction, reconstruction, or erection of which is completed by the taxpayer, or

“(ii) which is acquired by the taxpayer if the original use of such property commences with the taxpayer,

“(C) which can reasonably be expected to remain in operation for at least 5 years,

“(D) with respect to which depreciation (or amortization in lieu of depreciation) is allowable, and

“(E) which meets the performance and quality standards (if any) which—

“(i) have been prescribed by the Secretary by regulations (after consultation with the Secretary of Energy), and

“(ii) are in effect at the time of the acquisition of the property.

“(2) EXCEPTIONS.—

“(A) PUBLIC UTILITY PROPERTY.—Such term shall not include any property which is public utility property (as defined in section 46(f)(5) as in effect on the day before the date of the enactment of the Revenue Reconciliation Act of 1990), except for property described in paragraph (1)(A)(iv).

“(B) CERTAIN WIND EQUIPMENT.—Such term shall not include equipment described in paragraph (1)(A)(viii) which is taken into account for purposes of section 45 for the taxable year.

“(d) DEFINITIONS RELATING TO TYPES OF ENERGY PROPERTY.—For purposes of this section—

“(1) SOLAR ENERGY PROPERTY.—

“(A) IN GENERAL.—The term ‘solar energy property’ means general solar energy property, solar water heating property, and photovoltaic property.

“(B) GENERAL SOLAR ENERGY PROPERTY.—The term ‘general solar energy property’ means equipment which uses solar energy to generate electricity, to heat or cool a structure, or to provide solar process heat.

“(C) SOLAR WATER HEATING PROPERTY.—

“(i) IN GENERAL.—The term ‘solar water heating property’ means property which, when installed in connection with a structure, uses solar energy for the purpose of providing hot water for use within such structure.

“(ii) LIMITATION ON AMOUNT OF CREDIT.—The credit under subsection (a)(1) for the taxable year with respect to solar water heating property shall not exceed \$1,000.

“(iii) ELECTION TO TREAT PROPERTY AS SOLAR WATER HEATING PROPERTY.—Property that is both general solar energy property and solar water heating property shall be treated as general solar energy property for purposes of this section unless the taxpayer elects to treat such property as being only solar water heating property. If such an election is made the energy percentage under subsection (b)(1) shall be 15 percent in lieu of 10 percent.

“(D) PHOTOVOLTAIC PROPERTY.—

“(i) IN GENERAL.—The term ‘photovoltaic property’ means property which, when installed in connection with a structure, uses a solar photovoltaic process to generate electricity for use in such dwelling.

“(ii) LIMITATION ON AMOUNT OF CREDIT.—The credit under subsection (a)(1) for the taxable year with respect to photovoltaic property shall not exceed \$2,000.

“(E) SWIMMING POOLS, ETC., USED AS STORAGE MEDIUM.—The term ‘solar energy property’ shall not include property with respect to which expenditures are properly allocable to a swimming pool, hot tub, or any other energy storage medium which has a function other than the function of such storage.

“(F) SOLAR PANELS.—No solar panel or other property installed as a roof (or portion thereof) shall fail to be treated as solar energy property solely because it constitutes a

structural component of the structure on which it is installed.

“(2) GEOTHERMAL ENERGY PROPERTY.—

“(A) IN GENERAL.—The term ‘geothermal energy property’ means equipment used to produce, distribute, or use energy derived from a geothermal deposit (within the meaning of section 613(e)(2)), but only, in the case of electricity generated by geothermal power, up to (but not including) the electrical transmission stage.

“(B) HIGH RISK GEOTHERMAL WELL.—The term ‘high risk geothermal well’ means a geothermal deposit (within the meaning of section 613(e)(2)) which requires high risk drilling techniques. Such deposit may not be located in a State or national park or in an area in which the relevant State park authority or the National Park Service determines the development of such a deposit will negatively impact on a State or national park.

“(3) ENERGY-EFFICIENT BUILDING PROPERTY.—

“(A) IN GENERAL.—The term ‘energy-efficient building property’ means—

“(i) a fuel cell that—

“(I) generates electricity and heat using an electrochemical process,

“(II) has an electricity-only generation efficiency greater than 35 percent, and

“(III) has a minimum generating capacity of 5 kilowatts,

“(ii) an electric heat pump hot water heater that yields an energy factor of 1.7 or greater under standards prescribed by the Secretary of Energy,

“(iii) an electric heat pump that has a heating system performance factor (HSPF) of 9 or greater and a cooling seasonal energy efficiency ratio (SEER) of 13 or greater,

“(iv) a natural gas heat pump that has a coefficient of performance of not less than 1.25 for heating and not less than 0.60 for cooling,

“(v) a central air conditioner that has a cooling seasonal energy efficiency ratio (SEER) of 13 or greater,

“(vi) an advanced natural gas water heater that—

“(I) increases steady state efficiency and reduces standby and vent losses, and

“(II) has an energy factor of at least 0.65,

“(vii) an advanced natural gas furnace that achieves a 95 percent AFUE, and

“(viii) natural gas cooling equipment—

“(I) that has a coefficient of performance of not less than .60, or

“(II) that uses desiccant technology and has an efficiency rating of 40 percent.

“(B) LIMITATIONS.—The credit under subsection (a)(1) for the taxable year may not exceed—

“(i) \$500 in the case of property described in subparagraph (A) other than clauses (i) and (iv) thereof,

“(ii) \$500 for each kilowatt of capacity in the case of a fuel cell described in subparagraph (A)(i), and

“(iii) \$1,000 in the case of a natural gas heat pump described in subparagraph (A)(iv).

“(4) COMBINED HEAT AND POWER SYSTEM PROPERTY.—

“(A) IN GENERAL.—The term ‘combined heat and power system property’ means property—

“(i) comprising a system for using the same energy source for the sequential generation of electrical power, mechanical shaft power, or both, in combination with steam, heat, or other forms of useful energy,

“(ii) that has an electrical capacity of more than 50 kilowatts, and

“(iii) that produces at least 20 percent of its total useful energy in the form of both thermal energy and electrical or mechanical power.

“(B) ACCOUNTING RULE FOR PUBLIC UTILITY PROPERTY.—In the case that combined heat and power system property is public utility property (as defined in section 46(f)(5) as in effect on the day before the date of the enactment of the Revenue Reconciliation Act of 1990), the taxpayer may only claim the credit under subsection (a)(1) if, with respect to such property, the taxpayer uses a normalization method of accounting.

“(5) LOW CORE LOSS DISTRIBUTION TRANSFORMER PROPERTY.—The term ‘low core loss distribution transformer property’ means a distribution transformer which has energy savings from a highly efficient core of at least 20 percent more than the average for power ratings reported by studies required under section 124 of the Energy Policy Act of 1992.

“(6) FUEL-EFFICIENT FARM EQUIPMENT PROPERTY.—The term ‘fuel-efficient farm equipment property’ means equipment used in a farming business (as defined in section 263A(e)(4)) which achieves a fuel efficiency level equal to or greater than the 90th percentile of that type of equipment for the year in which such equipment is placed in service.

“(7) QUALIFIED AEROBIC DIGESTER PROPERTY.—The term ‘qualified aerobic digester property’ means an aerobic digester for manure or crop waste that achieves at least 65 percent efficiency measured in terms of the fraction of energy input converted to electricity and useful thermal energy.

“(8) QUALIFIED WIND ENERGY SYSTEMS EQUIPMENT PROPERTY.—The term ‘qualified wind energy systems equipment property’ means wind energy systems equipment with a turbine size of not more than 50 kilowatts rated capacity.

“(e) QUALIFIED HYBRID VEHICLES.—For purposes of subsection (a)(2)—

“(1) CREDIT AMOUNT.—

“(A) IN GENERAL.—The credit amount for each qualified hybrid vehicle with a rechargeable energy storage system that provides the applicable percentage of the maximum available power shall be the amount specified in the following table:

“Applicable percentage		Credit amount is:
Greater than or equal to—	Less than—	
5 percent .....	10 percent .....	\$ 500
10 percent .....	20 percent .....	\$1,000
20 percent .....	30 percent .....	\$1,500
30 percent .....		\$2,000

“(B) INCREASE IN CREDIT AMOUNT FOR REGENERATIVE BRAKING SYSTEM.—In the case of a qualified hybrid vehicle that actively employs a regenerative braking system which supplies to the rechargeable energy storage system the applicable percentage of the energy available from braking in a typical 60 miles per hour to 0 miles per hour braking event, the credit amount determined under subparagraph (A) shall be increased by the amount specified in the following table:

“Applicable percentage		Credit amount increase is:
Greater than or equal to—	Less than—	
20 percent .....	40 percent .....	\$ 250
40 percent .....	60 percent .....	\$ 500
60 percent .....		\$1,000

“(2) QUALIFIED HYBRID VEHICLE.—The term ‘qualified hybrid vehicle’ means an automobile that meets all applicable regulatory requirements and that can draw propulsion energy from both of the following on-board sources of stored energy:

“(A) A consumable fuel.

“(B) A rechargeable energy storage system.

“(3) MAXIMUM AVAILABLE POWER.—The term ‘maximum available power’ means the maximum value of the sum of the heat engine and electric drive system power or other non-heat energy conversion devices available for a driver’s command for maximum acceleration at vehicle speeds under 75 miles per hour.

“(4) AUTOMOBILE.—The term ‘automobile’ has the meaning given such term by section 4064(b)(1) (without regard to subparagraphs (B) and (C) thereof). A vehicle shall not fail to be treated as an automobile solely by reason of weight if such vehicle is rated at 8,500 pounds gross vehicle weight rating or less.

“(5) DOUBLE BENEFIT; PROPERTY USED OUTSIDE UNITED STATES, ETC., NOT QUALIFIED.—No credit shall be allowed under subsection (a)(2) with respect to—

“(A) any property for which a credit is allowed under section 25B or 30,

“(B) any property referred to in section 50(b), and

“(C) the portion of the cost of any property taken into account under section 179 or 179A.

“(6) REGULATIONS.—

“(A) TREASURY.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this subsection.

“(B) ENVIRONMENTAL PROTECTION AGENCY.—The Administrator of the Environmental Protection Agency shall prescribe such regulations as may be necessary or appropriate to specify the testing and calculation procedures that would be used to determine whether a vehicle meets the qualifications for a credit under this subsection.

“(7) TERMINATION.—Paragraph (2) shall not apply with respect to any vehicle placed in service during a calendar year ending before January 1, 2003, or after December 31, 2006.

“(f) SPECIAL RULES.—For purposes of this section—

“(1) SPECIAL RULE FOR PROPERTY FINANCED BY SUBSIDIZED ENERGY FINANCING OR INDUSTRIAL DEVELOPMENT BONDS.—

“(A) REDUCTION OF BASIS.—For purposes of applying the energy percentage to any property, if such property is financed in whole or in part by—

“(i) subsidized energy financing, or

“(ii) the proceeds of a private activity bond (within the meaning of section 141) the interest on which is exempt from tax under section 103,

the amount taken into account as the basis of such property shall not exceed the amount which (but for this subparagraph) would be so taken into account multiplied by the fraction determined under subparagraph (B).

“(B) DETERMINATION OF FRACTION.—For purposes of subparagraph (A), the fraction determined under this subparagraph is 1 reduced by a fraction—

“(i) the numerator of which is that portion of the basis of the property which is allocable to such financing or proceeds, and

“(ii) the denominator of which is the basis of the property.

“(C) SUBSIDIZED ENERGY FINANCING.—For purposes of subparagraph (A), the term ‘subsidized energy financing’ means financing provided under a Federal, State, or local program a principal purpose of which is to provide subsidized financing for projects designed to conserve or produce energy.

“(2) CERTAIN PROGRESS EXPENDITURE RULES MADE APPLICABLE.—Rules similar to the rules of subsections (c)(4) and (d) of section 46 (as in effect on the day before the date of the enactment of the Revenue Reconciliation Act of 1990) shall apply for purposes of this section.

“(g) APPLICATION OF SECTION.—

“(1) IN GENERAL.—Except as provided by paragraph (2) and subsection (e), this section

shall apply to property placed in service after December 31, 1999, and before January 1, 2004.

“(2) EXCEPTIONS.—

“(A) SOLAR ENERGY, GEOTHERMAL ENERGY, AND LOW CORE LOSS DISTRIBUTION TRANSFORMER PROPERTY.—Paragraph (1) shall not apply to general solar energy property or geothermal energy property.

“(B) PHOTOVOLTAIC PROPERTY.—In the case of photovoltaic property, this section shall apply to property placed in service after December 31, 1999, and before January 1, 2006.

“(C) FUEL CELL PROPERTY.—In the case of property that is a fuel cell described in subsection (d)(3)(A)(i), this section shall apply to property placed in service after December 31, 1999, and before January 1, 2005.”

(b) ENERGY CREDIT ALLOWABLE AGAINST ENTIRE REGULAR TAX AND ALTERNATIVE MINIMUM TAX.—

(1) IN GENERAL.—Section 38(c) (relating to limitation based on amount of tax) is amended by redesignating paragraph (3) as paragraph (4) and by inserting after paragraph (2) the following:

“(3) SPECIAL RULES FOR ENERGY CREDIT.—

“(A) IN GENERAL.—In the case of a C corporation, this section and section 39 shall be applied separately—

“(i) first with respect to so much of the credit allowed by subsection (a) as is not attributable to the energy credit, and

“(ii) then with respect to the energy credit.

“(B) RULES FOR APPLICATION OF ENERGY CREDIT.—

“(i) IN GENERAL.—In the case of the energy credit, in lieu of applying the preceding paragraphs of this subsection, the amount of such credit allowed under subsection (a) for any taxable year shall not exceed the net chapter 1 tax for such year.

“(ii) NET CHAPTER 1 TAX.—For purposes of clause (i), the term ‘net chapter 1 tax’ means the sum of the regular tax liability for the taxable year and the tax imposed by section 55 for the taxable year, reduced by the sum of the credits allowable under this part for the taxable year (other than under section 34 and other than the energy credit).

“(C) ENERGY CREDIT.—For purposes of this paragraph, the term ‘energy credit’ means the portion of the credit under subsection (a) which is attributable to the credit determined under section 48A and allowable under section 46 (relating to energy credit).”

(2) CONFORMING AMENDMENT.—Section 38(c)(2)(A)(ii)(II) is amended by striking “(other than the empowerment zone employment credit)” and inserting “(other than the credits described in this paragraph and paragraph (3))”.

(c) CONFORMING AMENDMENTS.—

(1) Section 48 is amended to read as follows:

“SEC. 48. REFORESTATION CREDIT.

“(a) IN GENERAL.—For purposes of section 46, the reforestation credit for any taxable year is 20 percent of the portion of the amortizable basis of any qualified timber property which was acquired during such taxable year and which is taken into account under section 194 (after the application of section 194(b)(1)).

“(b) DEFINITIONS.—For purposes of this subpart, the terms ‘amortizable basis’ and ‘qualified timber property’ have the respective meanings given to such terms by section 194.”

(2) Section 39(d) is amended by adding at the end the following:

“(9) NO CARRYBACK OF ENERGY CREDIT BEFORE EFFECTIVE DATE.—No portion of the unused business credit for any taxable year which is attributable to the energy credit determined under section 48A may be carried

back to a taxable year ending before the date of the enactment of section 48A."

(3) Section 280C is amended by adding at the end the following:

"(d) CREDIT FOR ENERGY PROPERTY EXPENSES.—

"(1) IN GENERAL.—No deduction shall be allowed for that portion of the expenses for energy property (as defined in section 48A(c)) otherwise allowable as a deduction for the taxable year which is equal to the amount of the credit determined for such taxable year under section 48A(a).

"(2) SIMILAR RULE WHERE TAXPAYER CAPITALIZES RATHER THAN DEDUCTS EXPENSES.—If—

"(A) the amount of the credit allowable for the taxable year under section 48A (determined without regard to section 38(c)), exceeds

"(B) the amount allowable as a deduction for the taxable year for expenses for energy property (determined without regard to paragraph (1)),

the amount chargeable to capital account for the taxable year for such expenses shall be reduced by the amount of such excess.

"(3) CONTROLLED GROUPS.—Paragraph (3) of subsection (b) shall apply for purposes of this subsection."

(4) Section 29(b)(3)(A)(i)(III) is amended by striking "section 48(a)(4)(C)" and inserting "section 48A(f)(1)(C)".

(5) Section 50(a)(2)(E) is amended by striking "section 48(a)(5)" and inserting "section 48A(f)(2)".

(6) Section 168(e)(3)(B) is amended—

(A) by striking clause (vi)(I) and inserting the following:

"(I) is described in paragraph (1)(B) or (2) of section 48A(d) (or would be so described if 'solar and wind' were substituted for 'solar' in paragraph (1)(B)).", and

(B) in the last sentence by striking "section 48(a)(3)" and inserting "section 48A(c)(2)(A)".

(d) CLERICAL AMENDMENT.—The table of sections for subpart E of part IV of subchapter A of chapter 1 is amended by striking the item relating to section 48 and inserting the following:

"Sec. 48. Reforestation credit.

"Sec. 48A. Energy credit."

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to property placed in service after December 31, 1999, under rules similar to the rules of section 48(m) of the Internal Revenue Code of 1986 (as in effect on the day before the date of the enactment of the Revenue Reconciliation Act of 1990).

## TITLE II—NONBUSINESS ENERGY SYSTEMS

### SEC. 201. CREDIT FOR CERTAIN NONBUSINESS ENERGY SYSTEMS.

(a) IN GENERAL.—Subpart A of part IV of subchapter A of chapter 1 (relating to non-refundable personal credits) is amended by inserting after section 25A the following:

#### "SEC. 25B. NONBUSINESS ENERGY PROPERTY.

"(a) ALLOWANCE OF CREDIT.—

"(1) IN GENERAL.—In the case of an individual, there shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to the sum of—

"(A) the applicable percentage of residential energy property expenditures made by the taxpayer during such year,

"(B) the credit amount (determined under section 48A(f)) for each vehicle purchased during the taxable year which is a qualified hybrid vehicle (as defined in section 48A(f)(2)), and

"(C) the credit amount specified in the following table for a new, highly energy-efficient principal residence:

#### "New, Highly Energy-Efficient Principal Residence:

30 percent property .....	\$1,000.
40 percent property .....	\$1,500.
50 percent property .....	\$2,000.

"(2) APPLICABLE PERCENTAGE.—

"(A) IN GENERAL.—The applicable percentage shall be determined in accordance with the following table:

"Column A—Description	Column B—Applicable Percentage	Column C—Period	
		For the period:	
In the case of:	The applicable percentage is:	Beginning on:	Ending on:
20 percent energy-efficient building property	20 percent	1/1/2000	12/31/2003
10 percent energy-efficient building property	10 percent	1/1/2000	12/31/2001
Solar water heating property	15 percent	1/1/2000	12/31/2006
Photovoltaic property	15 percent	1/1/2000	12/31/2006.

"(B) PERIODS FOR WHICH PERCENTAGE NOT SPECIFIED.—In the case of any residential energy property, the applicable percentage shall be zero for any period for which an applicable percentage is not specified for such property under subparagraph (A).

"(b) MAXIMUM CREDIT.—

"(1) IN GENERAL.—In the case of property described in the following table, the amount of the credit allowed under subsection (a)(1)(A) for the taxable year for each item of such property with respect to a dwelling unit shall not exceed the amount specified for such property in such table:

"Description of property item:	Maximum allowable credit amount is:
20 percent energy-efficient building property (other than a fuel cell or natural gas heat pump).	\$500.
20 percent energy-efficient building property: fuel cell described in section 48A(e)(3)(A).	\$ 500 per each kw/hr of capacity.
natural gas heat pump described in section 48A(e)(3)(D).	\$1,000.
10 percent energy-efficient building property	\$ 250.
Solar water heating property .....	\$1,000.
Photovoltaic property .....	\$2,000.

"(2) COORDINATION OF LIMITATIONS.—If a credit is allowed to the taxpayer for any taxable year by reason of an acquisition of a new, highly energy-efficient principal residence, no other credit shall be allowed under subsection (a)(1)(A) with respect to such residence during the 1-taxable year period beginning with such taxable year.

"(c) DEFINITIONS.—For purposes of this section—

"(1) RESIDENTIAL ENERGY PROPERTY EXPENDITURES.—The term 'residential energy property expenditures' means expenditures made by the taxpayer for qualified energy property installed on or in connection with a dwelling unit which—

"(A) is located in the United States, and

"(B) is used by the taxpayer as a residence. Such term includes expenditures for labor costs properly allocable to the onsite preparation, assembly, or original installation of the property.

"(2) QUALIFIED ENERGY PROPERTY.—

"(A) IN GENERAL.—The term 'qualified energy property' means—

"(i) energy-efficient building property,

"(ii) solar water heating property, and

"(iii) photovoltaic property.

"(B) SWIMMING POOL, ETC., USED AS STORAGE MEDIUM; SOLAR PANELS.—For purposes of this

paragraph, the provisions of subparagraphs (D) and (E) section 48A(e)(1) shall apply.

"(3) ENERGY-EFFICIENT BUILDING PROPERTY.—The term 'energy-efficient building property' has the meaning given to such term by paragraphs (3) and (4) of section 48A(e).

"(4) SOLAR WATER HEATING PROPERTY.—The term 'solar water heating property' means property which, when installed in connection with a structure, uses solar energy for the purpose of providing hot water for use within such structure.

"(5) PHOTOVOLTAIC PROPERTY.—The term 'photovoltaic property' has the meaning given to such term by section 48A(e)(1)(C).

"(6) NEW, HIGHLY ENERGY-EFFICIENT PRINCIPAL RESIDENCE.—

"(A) IN GENERAL.—Property is a new, highly energy-efficient principal residence if—

"(i) such property is located in the United States,

"(ii) the original use of such property commences with the taxpayer and is, at the time of such use, the principal residence of the taxpayer, and

"(iii) such property is certified before such use commences as being 50 percent property, 40 percent property, or 30 percent property.

"(B) 50, 40, OR 30 PERCENT PROPERTY.—

"(i) IN GENERAL.—For purposes of subparagraph (A), property is 50 percent property, 40 percent property, or 30 percent property if the projected energy usage of such property is reduced by 50 percent, 40 percent, or 30 percent, respectively, compared to the energy usage of a reference house that complies with minimum standard practice, such as the 1998 International Energy Conservation Code of the International Code Council, as determined according to the requirements specified in clause (ii).

"(ii) PROCEDURES.—

"(I) IN GENERAL.—For purposes of clause (i), energy usage shall be demonstrated either by a component-based approach or a performance-based approach.

"(II) COMPONENT APPROACH.—Compliance by the component approach is achieved when all of the components of the house comply with the requirements of prescriptive packages established by the Secretary of Energy, in consultation with the Administrator of the Environmental Protection Agency, such that they are equivalent to the results of using the performance-based approach of subclause (II) to achieve the required reduction in energy usage.

"(III) PERFORMANCE-BASED APPROACH.—Performance-based compliance shall be demonstrated in terms of the required percentage reductions in projected energy use. Computer software used in support of performance-based compliance must meet all of the procedures and methods for calculating energy savings reductions that are promulgated by the Secretary of Energy. Such regulations on the specifications for software shall be based in the 1998 California Residential Alternative Calculation Method Approval Manual, except that the calculation procedures shall be developed such that the same energy efficiency measures qualify a home for tax credits regardless of whether the home uses a gas or oil furnace or boiler, or an electric heat pump.

"(IV) APPROVAL OF SOFTWARE SUBMISSIONS.—The Secretary of Energy shall approve software submissions that comply with the calculation requirements of subclause (III).

"(C) DETERMINATIONS OF COMPLIANCE.—A determination of compliance made for the purposes of this paragraph shall be filed with the Secretary of Energy within 1 year of the date of such determination and shall include

the TIN of the certifier, the address of the building in compliance, and the identity of the person for whom such determination was performed. Determinations of compliance filed with the Secretary of Energy shall be available for inspection by the Secretary.

“(D) COMPLIANCE.—

“(i) IN GENERAL.—The Secretary of Energy in consultation with the Secretary of the Treasury shall establish requirements for certification and compliance procedures after examining the requirements for energy consultants and home energy ratings providers specified by the Mortgage Industry National Accreditation Procedures for Home Energy Rating Systems.

“(ii) INDIVIDUALS QUALIFIED TO DETERMINE COMPLIANCE.—Individuals qualified to determine compliance shall be only those individuals who are recognized by an organization certified by the Secretary of Energy for such purposes.

“(D) PRINCIPAL RESIDENCE.—The term ‘principal residence’ has the same meaning as when used in section 121, except that the period for which a building is treated as the principal residence of the taxpayer shall also include the 60-day period ending on the 1st day on which it would (but for this subparagraph) first be treated as his principal residence.

“(d) SPECIAL RULES.—For purposes of this section—

“(1) DOLLAR AMOUNTS IN CASE OF JOINT OCCUPANCY.—In the case of any dwelling unit which is jointly occupied and used during any calendar year as a residence by 2 or more individuals the following shall apply:

“(A) The amount of the credit allowable under subsection (a) by reason of expenditures made during such calendar year by any of such individuals with respect to such dwelling unit shall be determined by treating all of such individuals as 1 taxpayer whose taxable year is such calendar year.

“(B) There shall be allowable with respect to such expenditures to each of such individuals, a credit under subsection (a) for the taxable year in which such calendar year ends in an amount which bears the same ratio to the amount determined under subparagraph (A) as the amount of such expenditures made by such individual during such calendar year bears to the aggregate of such expenditures made by all of such individuals during such calendar year.

“(2) TENANT-STOCKHOLDER IN COOPERATIVE HOUSING CORPORATION.—In the case of an individual who is a tenant-stockholder (as defined in section 216) in a cooperative housing corporation (as defined in such section), such individual shall be treated as having made his tenant-stockholder's proportionate share (as defined in section 216(b)(3)) of any expenditures of such corporation.

“(3) CONDOMINIUMS.—

“(A) IN GENERAL.—In the case of an individual who is a member of a condominium management association with respect to a condominium which he owns, such individual shall be treated as having made his proportionate share of any expenditures of such association.

“(B) CONDOMINIUM MANAGEMENT ASSOCIATION.—For purposes of this paragraph, the term ‘condominium management association’ means an organization which meets the requirements of paragraph (1) of section 528(c) (other than subparagraph (E) thereof) with respect to a condominium project substantially all of the units of which are used as residences.

“(4) JOINT OWNERSHIP OF ENERGY ITEMS.—

“(A) IN GENERAL.—Any expenditure otherwise qualifying as a residential energy property expenditure shall not be treated as failing to so qualify merely because such ex-

penditure was made with respect to 2 or more dwelling units.

“(B) LIMITS APPLIED SEPARATELY.—In the case of any expenditure described in subparagraph (A), the amount of the credit allowable under subsection (a) shall (subject to paragraph (1)) be computed separately with respect to the amount of the expenditure made for each dwelling unit.

“(5) ALLOCATION IN CERTAIN CASES.—

“(A) IN GENERAL.—Except as provided in subparagraph (B), if less than 80 percent of the use of an item is for nonbusiness purposes, only that portion of the expenditures for such item which is properly allocable to use for nonbusiness purposes shall be taken into account. For purposes of this paragraph, use for a swimming pool shall be treated as use which is not for nonbusiness purposes.

“(B) SPECIAL RULE FOR VEHICLES.—For purposes of this section and section 48A, a vehicle shall be treated as used entirely for business or nonbusiness purposes if the majority of the use of such vehicle is for business or nonbusiness purposes, as the case may be.

“(6) DOUBLE BENEFIT; PROPERTY USED OUTSIDE UNITED STATES, ETC., NOT QUALIFIED.—No credit shall be allowed under subsection (a)(1)(B) with respect to—

“(A) any property for which a credit is allowed under section 30 or 48A,

“(B) any property referred to in section 50(b), and

“(C) the portion of the cost of any property taken into account under section 179 or 179A.

“(7) WHEN EXPENDITURE MADE; AMOUNT OF EXPENDITURE.—

“(A) IN GENERAL.—Except as provided in subparagraph (B), an expenditure with respect to an item shall be treated as made when the original installation of the item is completed.

“(B) EXPENDITURES PART OF BUILDING CONSTRUCTION.—In the case of an expenditure in connection with the construction of a structure, such expenditure shall be treated as made when the original use of the constructed structure by the taxpayer begins.

“(C) AMOUNT.—The amount of any expenditure shall be the cost thereof.

“(8) PROPERTY FINANCED BY SUBSIDIZED ENERGY FINANCING.—

“(A) REDUCTION OF EXPENDITURES.—For purposes of determining the amount of residential energy property expenditures made by any individual with respect to any dwelling unit, there shall not be taken into account expenditures which are made from subsidized energy financing (as defined in section 48A(g)(1)).

“(B) DOLLAR LIMITS REDUCED.—The dollar amounts in the table contained in subsection (b)(1) with respect to each property purchased for such dwelling unit for any taxable year of such taxpayer shall be reduced proportionately by an amount equal to the sum of—

“(i) the amount of the expenditures made by the taxpayer during such taxable year with respect to such dwelling unit and not taken into account by reason of subparagraph (A), and

“(ii) the amount of any Federal, State, or local grant received by the taxpayer during such taxable year which is used to make residential energy property expenditures with respect to the dwelling unit and is not included in the gross income of such taxpayer.

“(e) BASIS ADJUSTMENTS.—For purposes of this subtitle, if a credit is allowed under this section for any expenditure with respect to any property, the increase in the basis of such property which would (but for this subsection) result from such expenditure shall be reduced by the amount of the credit so allowed.”.

(b) CONFORMING AMENDMENTS.—

(1) Section 1016(a) is amended by striking “and” at the end of paragraph (26), by striking the period at the end of paragraph (27) and inserting “; and”, and by adding at the end the following:

“(28) to the extent provided in section 25B(e), in the case of amounts with respect to which a credit has been allowed under section 25B.”

(2) The table of sections for subpart A of part IV of subchapter A of chapter 1 is amended by inserting after the item relating to section 25A the following:

“Sec. 25B. Nonbusiness energy property.”

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

### TITLE III—ALTERNATIVE FUELS

#### SEC. 301. ALLOCATION OF ALCOHOL FUELS CREDIT TO PATRONS OF A COOPERATIVE.

(a) IN GENERAL.—Section 40(d) (relating to alcohol used as fuel) is amended by adding at the end the following:

“(6) ALLOCATION OF SMALL ETHANOL PRODUCER CREDIT TO PATRONS OF COOPERATIVE.—

“(A) IN GENERAL.—In the case of a cooperative organization described in section 1381(a), any portion of the credit determined under subsection (a)(3) for the taxable year may, at the election of the organization made on a timely filed return (including extensions) for such year, be apportioned pro rata among patrons of the organization on the basis of the quantity or value of business done with or for such patrons for the taxable year. Such an election, once made, shall be irrevocable for such taxable year.

“(B) TREATMENT OF ORGANIZATIONS AND PATRONS.—The amount of the credit apportioned to patrons pursuant to subparagraph (A)—

“(i) shall not be included in the amount determined under subsection (a) for the taxable year of the organization, and

“(ii) shall be included in the amount determined under subsection (a) for the taxable year of each patron in which the patronage dividend for the taxable year referred to in subparagraph (A) is includible in gross income.

“(C) SPECIAL RULE FOR DECREASING CREDIT FOR TAXABLE YEAR.—If the amount of the credit of a cooperative organization determined under subsection (a)(3) for a taxable year is less than the amount of such credit shown on the cooperative organization's return for such year, an amount equal to the excess of such reduction over the amount not apportioned to the patrons under subparagraph (A) for the taxable year shall be treated as an increase in tax imposed by this chapter on the organization. Any such increase shall not be treated as tax imposed by this chapter for purposes of determining the amount of any credit under this subpart or subpart A, B, E, or G of this part.”

(b) TECHNICAL AMENDMENT.—Section 1388 (relating to definitions and special rules for cooperative organizations) is amended by adding at the end the following:

“(k) CROSS REFERENCE.—

“For provisions relating to the apportionment of the alcohol fuels credit between cooperative organizations and their patrons, see section 40(d)(6).”

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

### TITLE IV—AUTOMOBILES

#### SEC. 401. EXTENSION OF CREDIT FOR QUALIFIED ELECTRIC VEHICLES.

(a) EXTENSION OF CREDIT FOR QUALIFIED ELECTRIC VEHICLES.—Subsection (f) of section 30 (relating to termination) is amended by striking “December 31, 2004” and inserting “December 31, 2006”.

(b) REPEAL OF PHASEOUT.—Subsection (b) of section 30 (relating to limitations) is amended by striking paragraph (2) and redesignating paragraph (3) as paragraph (2).

(c) NO DOUBLE BENEFIT.—

(1) Subsection (d) of section 30 (relating to special rules) is amended by adding at the end the following:

“(5) NO DOUBLE BENEFIT.—No credit shall be allowed under subsection (a) with respect to any vehicle if the taxpayer claims a credit for such vehicle under section 25B(a)(1)(B) or 48A(e).”

(2) Paragraph (3) of section 30(d) (relating to property used outside United States, etc., not qualified) is amended by striking “section 50(b)” and inserting “section 25B, 48A, or 50(b)”.

(3) Paragraph (5) of section 179A(e) (relating to property used outside United States, etc., not qualified) is amended by striking “section 50(b)” and inserting “section 25B, 48A, or 50(b)”.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to property placed in service after the date of the enactment of this Act.

## TITLE V—CLEAN COAL TECHNOLOGIES

### SEC. 501. CREDIT FOR INVESTMENT IN QUALIFYING CLEAN COAL TECHNOLOGY.

(a) ALLOWANCE OF QUALIFYING CLEAN COAL TECHNOLOGY FACILITY CREDIT.—Section 46 (relating to amount of credit) is amended by striking “and” at the end of paragraph (2), by striking the period at the end of paragraph (3) and inserting “, and”, and by adding at the end the following:

“(4) the qualifying clean coal technology facility credit.”

(b) AMOUNT OF QUALIFYING CLEAN COAL TECHNOLOGY FACILITY CREDIT.—Subpart E of part IV of subchapter A of chapter 1 (relating to rules for computing investment credit), as amended by section 101(a), is amended by inserting after section 48A the following:

#### “SEC. 48B. QUALIFYING CLEAN COAL TECHNOLOGY FACILITY CREDIT.

“(a) IN GENERAL.—For purposes of section 46, the qualifying clean coal technology facility credit for any taxable year is an amount equal to 10 percent of the qualified investment in a qualifying clean coal technology facility for such taxable year.

“(b) QUALIFYING CLEAN COAL TECHNOLOGY FACILITY.—

“(1) IN GENERAL.—For purposes of subsection (a), the term ‘qualifying clean coal technology facility’ means a facility of the taxpayer—

“(A)(i) the original use of which commences with the taxpayer or the reconstruction of which is completed by the taxpayer (but only with respect to that portion of the basis which is properly attributable to such reconstruction), or

“(ii) that is acquired through purchase (as defined by section 179(d)(2)),

“(B) that is depreciable under section 167,

“(C) that has a useful life of not less than 4 years, and

“(D) that is used for qualifying clean coal technology.

“(2) SPECIAL RULE FOR SALE-LEASEBACKS.—

For purposes of subparagraph (A) of paragraph (1), in the case of a facility that—

“(A) is originally placed in service by a person, and

“(B) is sold and leased back by such person, or is leased to such person, within 3 months after the date such facility was originally placed in service, for a period of not less than 12 years,

such facility shall be treated as originally placed in service not earlier than the date on which such property is used under the leaseback (or lease) referred to in subparagraph (B). The preceding sentence shall not apply

to any property if the lessee and lessor of such property make an election under this sentence. Such an election, once made, may be revoked only with the consent of the Secretary.

“(3) QUALIFYING CLEAN COAL TECHNOLOGY.—For purposes of paragraph (1)(D)—

“(A) IN GENERAL.—The term ‘qualifying clean coal technology’ means, with respect to clean coal technology—

“(i) applications totaling 1,000 megawatts of advanced pulverized coal or atmospheric fluidized bed combustion technology installed as a new, retrofit, or repowering application and operated between 2000 and 2013 that has a design average net heat rate of not more than 8,750 Btu's per kilowatt hour,

“(ii) applications totaling 1,500 megawatts of pressurized fluidized bed combustion technology installed as a new, retrofit, or repowering application and operated between 2000 and 2013 that has a design average net heat rate of not more than 8,400 Btu's per kilowatt hour,

“(iii) applications totaling 1,500 megawatts of integrated gasification combined cycle technology installed as a new, retrofit, or repowering application and operated between 2000 and 2013 that has a design average net heat rate of not more than 8,550 Btu's per kilowatt hour, and

“(iv) applications totaling 2,000 megawatts or equivalent of technology for the production of electricity installed as a new, retrofit, or repowering application and operated between 2000 and 2013 that has a carbon emission rate that is not more than 85 percent of conventional technology.

“(B) EXCEPTIONS.—Such term shall not include clean coal technology projects receiving or scheduled to receive funding under the Clean Coal Technology Program of the Department of Energy.

“(C) CLEAN COAL TECHNOLOGY.—The term ‘clean coal technology’ means advanced technology that utilizes coal to produce 50 percent or more of its thermal output as electricity including advanced pulverized coal or atmospheric fluidized bed combustion, pressurized fluidized bed combustion, integrated gasification combined cycle, and any other technology for the production of electricity that exceeds the performance of conventional technology.

“(D) CONVENTIONAL TECHNOLOGY.—The term ‘conventional technology’ means—

“(i) coal-fired combustion technology with a design average net heat rate of not less than 9,300 Btu's per kilowatt hour (HHV) and a carbon equivalents emission rate of not more than 0.53 pounds of carbon per kilowatt hour; or

“(ii) natural gas-fired combustion technology with a design average net heat rate of not less than 7,500 Btu's per kilowatt hour (HHV) and a carbon equivalents emission rate of not more than 0.24 pounds of carbon per kilowatt hour.

“(E) DESIGN AVERAGE NET HEAT RATE.—The term ‘design average net heat rate’ shall be based on the design average annual heat input to and the design average annual net electrical output from the qualifying clean coal technology (determined without regard to such technology's co-generation of steam).

“(F) SELECTION CRITERIA.—Selection criteria for clean coal technology facilities—

“(i) shall be established by the Secretary of Energy as part of a competitive solicitation,

“(ii) shall include primary criteria of minimum design average net heat rate, maximum design average thermal efficiency, and lowest cost to the government, and

“(iii) shall include supplemental criteria as determined appropriate by the Secretary of Energy.

“(c) QUALIFIED INVESTMENT.—For purposes of subsection (a), the term ‘qualified investment’ means, with respect to any taxable year, the basis of a qualifying clean coal technology facility placed in service by the taxpayer during such taxable year.

“(d) QUALIFIED PROGRESS EXPENDITURES.—

“(1) INCREASE IN QUALIFIED INVESTMENT.—In the case of a taxpayer who has made an election under paragraph (5), the amount of the qualified investment of such taxpayer for the taxable year (determined under subsection (c) without regard to this section) shall be increased by an amount equal to the aggregate of each qualified progress expenditure for the taxable year with respect to progress expenditure property.

“(2) PROGRESS EXPENDITURE PROPERTY DEFINED.—For purposes of this subsection, the term ‘progress expenditure property’ means any property being constructed by or for the taxpayer and which it is reasonable to believe will qualify as a qualifying clean coal technology facility which is being constructed by or for the taxpayer when it is placed in service.

“(3) QUALIFIED PROGRESS EXPENDITURES DEFINED.—For purposes of this subsection—

“(A) SELF-CONSTRUCTED PROPERTY.—In the case of any self-constructed property, the term ‘qualified progress expenditures’ means the amount which, for purposes of this subpart, is properly chargeable (during such taxable year) to capital account with respect to such property.

“(B) NON-SELF-CONSTRUCTED PROPERTY.—In the case of non-self-constructed property, the term ‘qualified progress expenditures’ means the amount paid during the taxable year to another person for the construction of such property.

“(4) OTHER DEFINITIONS.—For purposes of this subsection—

“(A) SELF-CONSTRUCTED PROPERTY.—The term ‘self-constructed property’ means property for which it is reasonable to believe that more than half of the construction expenditures will be made directly by the taxpayer.

“(B) NON-SELF-CONSTRUCTED PROPERTY.—The term ‘non-self-constructed property’ means property which is not self-constructed property.

“(C) CONSTRUCTION, ETC.—The term ‘construction’ includes reconstruction and erection, and the term ‘constructed’ includes reconstructed and erected.

“(D) ONLY CONSTRUCTION OF QUALIFYING CLEAN COAL TECHNOLOGY FACILITY TO BE TAKEN INTO ACCOUNT.—Construction shall be taken into account only if, for purposes of this subpart, expenditures therefor are properly chargeable to capital account with respect to the property.

“(5) ELECTION.—An election under this subsection may be made at such time and in such manner as the Secretary may by regulations prescribe. Such an election shall apply to the taxable year for which made and to all subsequent taxable years. Such an election, once made, may not be revoked except with the consent of the Secretary.

“(e) COORDINATION WITH OTHER CREDITS.—This section shall not apply to any property with respect to which the rehabilitation credit under section 47 or the energy credit under section 48A is allowed unless the taxpayer elects to waive the application of such credit to such property.”

(c) RECAPTURE.—Section 50(a) (relating to other special rules) is amended by adding at the end the following:

“(6) SPECIAL RULES RELATING TO QUALIFYING CLEAN COAL TECHNOLOGY FACILITY.—For purposes of applying this subsection in the case of any credit allowable by reason of section 48B, the following shall apply:



“(A) GENERAL RULE.—In lieu of the amount of the increase in tax under paragraph (1), the increase in tax shall be an amount equal to the investment tax credit allowed under section 38 for all prior taxable years with respect to a qualifying clean coal technology facility (as defined by section 48B(b)) multiplied by a fraction whose numerator is the number of years remaining to fully depreciate under this title the qualifying clean coal technology facility disposed of, and whose denominator is the total number of years over which such facility would otherwise have been subject to depreciation. For purposes of the preceding sentence, the year of disposition of the qualifying clean coal technology facility property shall be treated as a year of remaining depreciation.

“(B) PROPERTY CEASES TO QUALIFY FOR PROGRESS EXPENDITURES.—Rules similar to the rules of paragraph (2) shall apply in the case of qualified progress expenditures for a qualifying clean coal technology facility under section 48B, except that the amount of the increase in tax under subparagraph (A) of this paragraph shall be substituted in lieu of the amount described in such paragraph (2).

“(C) APPLICATION OF PARAGRAPH.—This paragraph shall be applied separately with respect to the credit allowed under section 38 regarding a qualifying clean coal technology facility.”

(d) TRANSITIONAL RULE.—Section 39(d) of the Internal Revenue Code of 1986 (relating to transitional rules), as amended by section 101(c)(2), is amended by adding at the end the following:

“(10) NO CARRYBACK OF SECTION 48B CREDIT BEFORE EFFECTIVE DATE.—No portion of the unused business credit for any taxable year which is attributable to the qualifying clean coal technology facility credit determined under section 48B may be carried back to a taxable year ending before the date of the enactment of section 48B.”

(e) CREDIT ALLOWED AGAINST MINIMUM TAX.—

(1) IN GENERAL.—Section 38(c) of the Internal Revenue Code of 1986 (relating to limitation based on amount of tax), as amended by section 101(b)(1), is amended by redesignating paragraph (4) as paragraph (5) and by inserting after paragraph (3) the following:

“(4) SPECIAL RULES FOR CLEAN COAL TECHNOLOGY CREDIT.—

“(A) IN GENERAL.—In the case of the qualifying clean coal technology facility credit—

“(i) this section and section 39 shall be applied separately with respect to the credit, and

“(ii) in applying paragraph (1) to the credit—

“(I) subparagraph (A) shall not apply, and

“(II) the limitation under paragraph (1) (as modified by subclause (I)) shall be reduced by the credit allowed under subsection (a) for the taxable year (other than the credits described in this paragraph and paragraphs (2) and (3)).

“(B) QUALIFYING CLEAN COAL TECHNOLOGY FACILITY CREDIT.—For purposes of this paragraph, the term ‘qualifying clean coal technology facility credit’ means the portion of the credit under subsection (a) which is attributable to the credit determined under section 48B.”

(2) CONFORMING AMENDMENT.—Section 38(c)(2)(A)(ii)(II) of such Code, as amended by section 101(b)(2), is amended by striking “(other than the credits described in this paragraph and paragraph (3))” and inserting “(other than the credits described in this paragraph and paragraphs (3) and (4))”.

(f) TECHNICAL AMENDMENTS.—

(1) Section 49(a)(1)(C) is amended by striking “and” at the end of clause (ii), by striking the period at the end of clause (iii) and

inserting “, and”, and by adding at the end the following:

“(iv) the portion of the basis of any qualifying clean coal technology facility attributable to any qualified investment (as defined by section 48B(c)).”

(2) Section 50(a)(4) is amended by striking “and (2)” and inserting “, (2), and (6)”.

(3) The table of sections for subpart E of part IV of subchapter A of chapter 1, as amended by section 101(e), is amended by inserting after the item relating to section 48A the following:

“Sec. 48B. Qualifying clean coal technology facility credit.”

(g) EFFECTIVE DATE.—The amendments made by this section shall apply to periods after December 31, 1999, and before January 1, 2013, under rules similar to the rules of section 48(m) of the Internal Revenue Code of 1986 (as in effect on the day before the date of the enactment of the Revenue Reconciliation Act of 1990).

#### SEC. 502. CREDIT FOR PRODUCTION FROM QUALIFYING CLEAN COAL TECHNOLOGY.

(a) CREDIT FOR PRODUCTION FROM QUALIFYING CLEAN COAL TECHNOLOGY.—Subpart D of part IV of subchapter A of chapter 1 (relating to business related credits) is amended by adding at the end the following:

#### “SEC. 45D. CREDIT FOR PRODUCTION FROM QUALIFYING CLEAN COAL TECHNOLOGY.

“(a) GENERAL RULE.—For purposes of section 38, the qualifying clean coal technology production credit of any taxpayer for any taxable year is equal to the applicable amount for each kilowatt hour—

“(1) produced by the taxpayer at a qualifying clean coal technology facility during the 10-year period beginning on the date the facility was originally placed in service, and

“(2) sold by the taxpayer to an unrelated person during such taxable year.

“(b) APPLICABLE AMOUNT.—For purposes of this section, the applicable amount with respect to production from a qualifying clean coal technology facility shall be determined as follows:

“(1) In the case of a facility originally placed in service before 2006, if—

“The facility design average net heat rate, Btu/kWh (HHV) is equal to:	The applicable amount is:	
	For 1st 5 years of such service	For 2d 5 years of such service
Not more than 8400 .....	\$0.130	\$0.110
More than 8400 but not more than 8550.	\$0.100	\$0.085
More than 8550 but not more than 8750.	\$0.090	\$0.070.

“(2) In the case of a facility originally placed in service after 2005 and before 2010, if—

“The facility design average net heat rate, Btu/kWh (HHV) is equal to:	The applicable amount is:	
	For 1st 5 years of such service	For 2d 5 years of such service
Not more than 7770 .....	\$0.100	\$0.080
More than 7770 but not more than 8125.	\$0.080	\$0.065
More than 8125 but not more than 8350.	\$0.070	\$0.055.

“(3) In the case of a facility originally placed in service after 2009 and before 2014, if—

“The facility design average net heat rate, Btu/kWh (HHV) is equal to:	The applicable amount is:	
	For 1st 5 years of such service	For 2d 5 years of such service
Not more than 7720 .....	\$0.085	\$0.070

“The facility design average net heat rate, Btu/kWh (HHV) is equal to:	The applicable amount is:	
	For 1st 5 years of such service	For 2d 5 years of such service
More than 7720 but not more than 7380.	\$0.070	\$0.045.

“(c) INFLATION ADJUSTMENT FACTOR.—Each amount in paragraphs (1), (2), and (3) shall each be adjusted by multiplying such amount by the inflation adjustment factor for the calendar year in which the amount is applied. If any amount as increased under the preceding sentence is not a multiple of 0.01 cent, such amount shall be rounded to the nearest multiple of 0.01 cent.

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

“(1) any term used in this section which is also used in section 48B shall have the meaning given such term in section 48B,

“(2) the rules of paragraphs (3), (4), and (5) of section 45 shall apply,

“(3) the term ‘inflation adjustment factor’ means, with respect to a calendar year, a fraction the numerator of which is the GDP implicit price deflator for the preceding calendar year and the denominator of which is the GDP implicit price deflator for the calendar year 1998, and

“(4) the term ‘GDP implicit price deflator’ means the most recent revision of the implicit price deflator for the gross domestic product as computed by the Department of Commerce before March 15 of the calendar year.”

(b) CREDIT TREATED AS BUSINESS CREDIT.—Section 38(b) is amended by striking “plus” at the end of paragraph (11), by striking the period at the end of paragraph (12) and inserting “, plus”, and by adding at the end the following:

“(13) the qualifying clean coal technology production credit determined under section 45D(a).”

(c) TRANSITIONAL RULE.—Section 39(d) (relating to transitional rules), as amended by section 501(d), is amended by adding at the end the following:

“(11) NO CARRYBACK OF CERTAIN CREDITS BEFORE EFFECTIVE DATE.—No portion of the unused business credit for any taxable year which is attributable to the credits allowable under any section added to this subpart by the amendments made by the Energy Security Tax Act of 1999 may be carried back to a taxable year ending before the date of the enactment of such Act.”

(d) CREDIT ALLOWED AGAINST MINIMUM TAX.—

(1) IN GENERAL.—Section 38(c) (relating to limitation based on amount of tax), as amended by section 501(e)(1), is amended by redesignating paragraph (5) as paragraph (6) and by inserting after paragraph (4) the following:

“(5) SPECIAL RULES FOR CLEAN COAL PRODUCTION CREDIT.—

“(A) IN GENERAL.—In the case of the qualifying clean coal technology production credit—

“(i) this section and section 39 shall be applied separately with respect to the credit, and

“(ii) in applying paragraph (1) to the credit—

“(I) subparagraph (A) shall not apply, and

“(II) the limitation under paragraph (1) (as modified by subclause (I)) shall be reduced by the credit allowed under subsection (a) for the taxable year (other than the credits described in this paragraph and paragraphs (2), (3), and (4)).

“(B) QUALIFYING CLEAN COAL TECHNOLOGY PRODUCTION CREDIT.—For purposes of this paragraph, the term ‘qualifying clean coal technology production credit’ means the portion of the credit under subsection (a) which



is attributable to the credit determined under section 45D."

(2) CONFORMING AMENDMENT.—Section 38(c)(2)(A)(ii)(II), as amended by section 501(e)(2), is amended by striking "(other than the credits described in this paragraph and paragraphs (3) and (4))" and inserting "(other than the credits described in this paragraph and paragraphs (3), (4), and (5))".

(e) CLERICAL AMENDMENT.—The table of sections for subpart D of part IV of subchapter A of chapter 1 is amended by adding at the end the following:

"Sec. 45D. Credit for production from qualifying clean coal technology."

(f) EFFECTIVE DATE.—The amendments made by this section shall apply to production after the date of the enactment of this Act.

#### SEC. 503. RISK POOL FOR QUALIFYING CLEAN COAL TECHNOLOGY.

(a) ESTABLISHMENT.—The Secretary of the Treasury shall establish a financial risk pool which shall be available to any United States owner of qualifying clean coal technology (as defined in section 48B(b)(3) of the Internal Revenue Code of 1986) to offset for the first 3 three years of the operation of such technology the costs (not to exceed 5 percent of the total cost of installation) for modifications resulting from the technology's failure to achieve its design performance.

(b) AUTHORIZATION OF APPROPRIATIONS.—There is authorized to be appropriated such sums as are necessary to carry out the purposes of this section.

#### TITLE VI—METHANE RECOVERY

##### SEC. 601. EXPANSION OF SECTION 29 TAX CREDIT.

(a) 10-YEAR EXTENSION.—Section 29(f) (relating to application of section) is amended—

(1) by inserting "and after December 31, 1999, and before January 1, 2009," after "1993," in paragraphs (1)(A) and (1)(B), and

(2) by striking "2003" in paragraph (2) and inserting "2013".

(b) EXPANSION OF DEFINITION OF BIOMASS.—(1) IN GENERAL.—Section 29(c)(3) is amended to read as follows:

"(3) BIOMASS.—The term 'biomass' means—

"(A) any organic material other than—

"(i) oil and natural gas (or any product thereof), and

"(ii) coal (including lignite) or any product thereof, and

"(B) any solid, nonhazardous, cellulosic waste material, which is segregated from other waste materials, and which is derived from—

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

"(ii) 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

"(iii) agriculture sources, including orchard tree crops, vineyard, grain, legumes, poultry litter, animal manure, sugar, and other crop by-products or residues."

(2) EFFECTIVE DATE.—The amendment made by this subsection shall apply to production after the date of the enactment of this Act.

##### SEC. 602. CREDIT FOR CAPTURE OF COALBED METHANE GAS.

(a) CREDIT FOR CAPTURE OF COALBED METHANE GAS.—Subpart D of part IV of subchapter A of chapter 1 (relating to business related credits), as amended by section 502(a), is amended by adding at the end the following:

##### "SEC. 45E. CREDIT FOR CAPTURE OF COALBED METHANE GAS.

"For purposes of section 38, the coalbed methane gas capture credit of any taxpayer for any taxable year is \$10 for each ton of carbon-equivalent coalbed methane gas captured by the taxpayer during such taxable year."

(b) CREDIT TREATED AS BUSINESS CREDIT.—Section 38(b), as amended by section 502(b), is amended by striking "plus" at the end of paragraph (12), by striking the period at the end of paragraph (13) and inserting ", plus", and by adding at the end the following:

"(14) the coalbed methane gas capture credit determined under section 45E(a)."

(c) CLERICAL AMENDMENT.—The table of sections for subpart D of part IV of subchapter A of chapter 1, as amended by section 502(e), is amended by adding at the end the following:

"Sec. 45E. Credit for capture of coalbed methane gas."

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to production after the date of the enactment of this Act.

#### TITLE VII—OIL AND GAS PRODUCTION

##### SEC. 701. CREDIT FOR PRODUCTION OF RE-REFINED LUBRICATING OIL.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 (relating to business related credits), as amended by section 602(a), is amended by adding at the end the following:

##### "SEC. 45F. CREDIT FOR PRODUCING RE-REFINED LUBRICATING OIL.

"(a) GENERAL RULE.—For purposes of section 38, the re-refined lubricating oil production credit of any taxpayer for any taxable year is equal to \$4.05 per barrel of qualified re-refined lubricating oil production which is attributable to the taxpayer (within the meaning of section 29(d)(3)).

"(b) QUALIFIED RE-REFINED LUBRICATING OIL PRODUCTION.—For purposes of this section—

"(1) IN GENERAL.—The term 'qualified re-refined lubricating oil production' means a base oil manufactured from at least 95 percent used oil and not more than 2 percent of previously unused oil by a re-refining process which effectively removes physical and chemical impurities and spent and unspent additives to the extent that such base oil meets industry standards for engine oil as defined by the American Petroleum Institute document API 1509 as in effect on the date of the enactment of this section.

"(2) LIMITATION ON AMOUNT OF PRODUCTION WHICH MAY QUALIFY.—Re-refined lubricating oil produced during any taxable year shall not be treated as qualified re-refined lubricating oil production but only to the extent average daily production during the taxable year exceeds 7,000 barrels.

"(3) BARREL.—The term 'barrel' has the meaning given such term by section 613A(e)(4).

"(c) INFLATION ADJUSTMENT.—In the case of any taxable year beginning in a calendar year after 1999, the dollar amount contained in subsection (a) shall be increased to an amount equal to such dollar amount multiplied by the inflation adjustment factor for such calendar year (determined under section 29(d)(2)(B) by substituting '1998' for '1979')."

(b) CREDIT TREATED AS BUSINESS CREDIT.—Section 38(b) (relating to current year business credit), as amended by section 602(b), is amended by striking "plus" at the end of paragraph (13), by striking the period at the end of paragraph (14) and inserting ", plus", and by adding at the end the following:

"(15) the re-refined lubricating oil production credit determined under section 45F(a)."

(c) CLERICAL AMENDMENT.—The table of sections for subpart D of part IV of subchapter A of chapter 1, as amended by section 602(c), is amended by adding at the end the following:

"Sec. 45F. Credit for producing re-refined lubricating oil."

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to production after the date of the enactment of this Act.

##### SEC. 702. REPEAL CERTAIN ADJUSTMENTS BASED ON ADJUSTED CURRENT EARNINGS RELATING TO OIL AND GAS ASSETS.

(a) INTANGIBLE DRILLING COSTS.—Clause (i) of section 56(g)(4)(D) (relating to certain other earnings and profits adjustments) is amended by striking the second sentence and inserting the following: "In the case of any oil or gas well, this clause shall not apply to amounts paid or incurred in taxable years beginning after December 31, 1999."

(b) DEPLETION.—Clause (ii) of section 56(g)(4)(F) (relating to depletion) is amended to read as follows:

"(ii) EXCEPTION FOR OIL AND GAS WELLS.—In the case of any taxable year beginning after December 31, 1999, clause (i) (and subparagraph (C)(i)) shall not apply to any deduction for depletion computed in accordance with section 613A."

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

##### SEC. 202. 10-YEAR CARRYBACK FOR PERCENTAGE DEPLETION FOR OIL AND GAS PROPERTY.

(a) IN GENERAL.—Subsection (d)(1) of section 613A (relating to limitations on percentage depletion in case of oil and gas wells) is amended to read as follows:

"(1) LIMITATION BASED ON TAXABLE INCOME.—

"(A) IN GENERAL.—The deduction for the taxable year attributable to the application of subsection (c) shall not exceed so much of the taxpayer's taxable income for the year as the taxpayer elects under subparagraph (B)(iii) computed without regard to—

"(i) any depletion on production from an oil or gas property which is subject to the provisions of subsection (c),

"(ii) any net operating loss carryback to the taxable year under section 172,

"(iii) any capital loss carryback to the taxable year under section 1212, and

"(iv) in the case of a trust, any distributions to its beneficiary, except in the case of any trust where any beneficiary of such trust is a member of the family (as defined in section 267(c)(4)) of a settlor who created inter vivos and testamentary trusts for members of the family and such settlor died within the last six days of the fifth month in 1970, and the law in the jurisdiction in which such trust was created requires all or a portion of the gross or net proceeds of any royalty or other interest in oil, gas, or other mineral representing any percentage depletion allowance to be allocated to the principal of the trust.

"(B) CARRYBACKS AND CARRYFORWARDS.—

"(i) IN GENERAL.—If any amount is disallowed as a deduction for the taxable year (in this subparagraph referred to as the 'unused depletion year') by reason of the application of subparagraph (A), the disallowed amount shall be treated as an amount allowable as a deduction under subsection (c) for—

"(I) each of the 10 taxable years preceding the unused depletion year, and

"(II) the taxable year following the unused depletion year, subject to the application of subparagraph (A) to such taxable year.

"(ii) APPLICABLE RULES.—Rules similar to the rules of section 39 shall apply for purposes of this subparagraph.

"(iii) ELECTION TO WAIVE CARRYBACK.—Any taxpayer entitled to a carryback period under this subparagraph may elect to waive such carryback for any of the taxable years to which such carryback would apply. Such election made in any taxable year may be revised in the next succeeding taxable year in such manner as the Secretary may prescribe.

"(C) ALLOCATION OF DISALLOWED AMOUNTS.—For purposes of basis adjustments and determining whether cost depletion exceeds percentage depletion with respect to the production from a property, any amount disallowed as a deduction on the application of this paragraph shall be allocated to the respective properties from which the oil or gas was produced in proportion to the percentage depletion otherwise allowable to such properties under subsection (c)."

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years beginning after December 31, 1999, and to any taxable year beginning on or before such date to the extent necessary to apply section 613A(d)(1)(B) of the Internal Revenue Code of 1986 (as added by subsection (a)).

#### TITLE VIII—RENEWABLE POWER GENERATION

##### SEC. 801. CREDIT FOR INVESTMENT IN PHOTOVOLTAIC AND WIND PROPERTY MANUFACTURING FACILITIES.

(a) ALLOWANCE OF PHOTOVOLTAIC OR WIND PROPERTY MANUFACTURING FACILITY CREDIT.—Section 46 (relating to amount of credit), as amended by section 501(a), is amended by striking "and" at the end of paragraph (3), by striking the period at the end of paragraph (4) and inserting ", and", and by adding at the end the following:

"(5) the photovoltaic or wind property manufacturing facility credit."

(b) AMOUNT OF CREDIT.—Subpart E of part IV of subchapter A of chapter 1 (relating to rules for computing investment credit), as amended by section 501(b), is amended by inserting after section 48B the following:

##### "SEC. 48C. PHOTOVOLTAIC OR WIND PROPERTY MANUFACTURING FACILITY CREDIT.

"(a) IN GENERAL.—For purposes of section 46, the photovoltaic or wind property manufacturing facility credit for any taxable year is an amount equal to 10 percent of the qualified investment in a photovoltaic or wind property manufacturing facility for such taxable year.

"(b) PHOTOVOLTAIC OR WIND PROPERTY MANUFACTURING FACILITY.—

"(1) IN GENERAL.—For purposes of subsection (a), the term 'photovoltaic or wind property manufacturing facility' means a facility of the taxpayer—

"(A)(i) the original use of which commences with the taxpayer or the reconstruction of which is completed by the taxpayer (but only with respect to that portion of the basis which is properly attributable to such reconstruction), or

"(ii) that is acquired through purchase (as defined by section 179(d)(2)),

"(B) that is depreciable under section 167,

"(C) that has a useful life of not less than 4 years, and

"(D) that is used to manufacture photovoltaic or wind property.

"(2) SPECIAL RULE FOR SALE-LEASEBACKS.—For purposes of subparagraph (A) of paragraph (1), in the case of a facility that—

"(A) is originally placed in service by a person, and

"(B) is sold and leased back by such person, or is leased to such person, within 3 months after the date such facility was originally placed in service, for a period of not less than 12 years,

such facility shall be treated as originally placed in service not earlier than the date on which such property is used under the lease-back (or lease) referred to in subparagraph (B). The preceding sentence shall not apply to any property if the lessee and lessor of such property make an election under this sentence. Such an election, once made, may be revoked only with the consent of the Secretary.

"(3) PHOTOVOLTAIC OR WIND PROPERTY.—For purposes of paragraph (1)(D)—

"(A) PHOTOVOLTAIC PROPERTY.—The term 'photovoltaic property' has the meaning given to such term by section 48A(d)(1)(D).

"(B) WIND PROPERTY.—The term 'wind property' has the meaning given to the term 'qualified wind energy systems equipment property' by section 48A(d)(8).

"(c) QUALIFIED INVESTMENT.—For purposes of subsection (a), the term 'qualified investment' means, with respect to any taxable year, the basis of a photovoltaic or wind property manufacturing facility placed in service by the taxpayer during such taxable year in an aggregate amount of not less than \$5,000,000.

"(d) QUALIFIED PROGRESS EXPENDITURES.—

"(1) INCREASE IN QUALIFIED INVESTMENT.—In the case of a taxpayer who has made an election under paragraph (5), the amount of the qualified investment of such taxpayer for the taxable year (determined under subsection (c) without regard to this section) shall be increased by an amount equal to the aggregate of each qualified progress expenditure for the taxable year with respect to progress expenditure property.

"(2) PROGRESS EXPENDITURE PROPERTY DEFINED.—For purposes of this subsection, the term 'progress expenditure property' means any property being constructed by or for the taxpayer and which—

"(A) cannot reasonably be expected to be completed in less than 18 months, and

"(B) it is reasonable to believe will qualify as a photovoltaic or wind property manufacturing facility which is being constructed by or for the taxpayer when it is placed in service.

"(3) QUALIFIED PROGRESS EXPENDITURES DEFINED.—For purposes of this subsection—

"(A) SELF-CONSTRUCTED PROPERTY.—In the case of any self-constructed property, the term 'qualified progress expenditures' means the amount which, for purposes of this subpart, is properly chargeable (during such taxable year) to capital account with respect to such property.

"(B) NON-SELF-CONSTRUCTED PROPERTY.—In the case of non-self-constructed property, the term 'qualified progress expenditures' means the amount paid during the taxable year to another person for the construction of such property.

"(4) OTHER DEFINITIONS.—For purposes of this subsection—

"(A) SELF-CONSTRUCTED PROPERTY.—The term 'self-constructed property' means property for which it is reasonable to believe that more than half of the construction expenditures will be made directly by the taxpayer.

"(B) NON-SELF-CONSTRUCTED PROPERTY.—The term 'non-self-constructed property' means property which is not self-constructed property.

"(C) CONSTRUCTION, ETC.—The term 'construction' includes reconstruction and erection, and the term 'constructed' includes reconstructed and erected.

"(D) ONLY CONSTRUCTION OF PHOTOVOLTAIC OR WIND PROPERTY MANUFACTURING FACILITY TO BE TAKEN INTO ACCOUNT.—Construction shall be taken into account only if, for purposes of this subpart, expenditures therefor are properly chargeable to capital account with respect to the property.

"(5) ELECTION.—An election under this subsection may be made at such time and in such manner as the Secretary may by regulations prescribe. Such an election shall apply to the taxable year for which made and to all subsequent taxable years. Such an election, once made, may not be revoked except with the consent of the Secretary.

"(e) COORDINATION WITH OTHER CREDITS.—This section shall not apply to any property with respect to which the energy credit under section 48A or the rehabilitation credit under section 47 is allowed unless the taxpayer elects to waive the application of such credits to such property."

(c) RECAPTURE.—Section 50(a) (relating to other special rules), as amended by section 501(c), is amended by adding at the end the following:

"(7) SPECIAL RULES RELATING TO PHOTOVOLTAIC OR WIND PROPERTY MANUFACTURING FACILITY.—For purposes of applying this subsection in the case of any credit allowable by reason of section 48C, the following shall apply:

"(A) GENERAL RULE.—In lieu of the amount of the increase in tax under paragraph (1), the increase in tax shall be an amount equal to the investment tax credit allowed under section 38 for all prior taxable years with respect to a photovoltaic or wind property manufacturing facility (as defined by section 48C(b)) multiplied by a fraction whose numerator is the number of years remaining to fully depreciate under this title the photovoltaic or wind property manufacturing facility disposed of, and whose denominator is the total number of years over which such facility would otherwise have been subject to depreciation. For purposes of the preceding sentence, the year of disposition of the photovoltaic or wind property manufacturing facility shall be treated as a year of remaining depreciation.

"(B) PROPERTY CEASES TO QUALIFY FOR PROGRESS EXPENDITURES.—Rules similar to the rules of paragraph (2) shall apply in the case of qualified progress expenditures for a photovoltaic or wind property manufacturing facility under section 48C, except that the amount of the increase in tax under subparagraph (A) of this paragraph shall be substituted in lieu of the amount described in such paragraph (2).

"(C) APPLICATION OF PARAGRAPH.—This paragraph shall be applied separately with respect to the credit allowed under section 38 regarding a photovoltaic or wind property manufacturing facility."

(d) TECHNICAL AMENDMENTS.—

(1) Section 49(a)(1)(C), as amended by section 501(f), is amended by striking "and" at the end of clause (iii), by striking the period at the end of clause (iv) and inserting ", and", and by adding at the end the following:

"(v) the portion of the basis of any photovoltaic or wind property manufacturing facility attributable to any qualified investment (as defined by section 48C(c))."

(2) Section 50(a)(4), as amended by section 504(f), is amended by striking "and (6)" and inserting ", (6), and (7)".

(3) The table of sections for subpart E of part IV of subchapter A of chapter 1, as amended by section 501(f), is amended by inserting after the item relating to section 48B the following:

"Sec. 48C. Photovoltaic or wind property manufacturing facility credit."

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to periods after December 31, 1999, under rules similar to the rules of section 48(m) of the Internal Revenue Code of 1986 (as in effect on the day before the date of the enactment of the Revenue Reconciliation Act of 1990).

**SEC. 802. MODIFICATIONS TO CREDIT FOR ELECTRICITY PRODUCED FROM RENEWABLE RESOURCES.**

(a) QUALIFIED FACILITIES INCLUDE ALL BIOMASS FACILITIES.—

(1) IN GENERAL.—Subparagraph (B) of section 45(c)(1) (relating to credit for electricity produced from certain renewable resources) is amended to read as follows:

“(B) biomass.”

(2) BIOMASS DEFINED.—Paragraph (2) of section 45(c) is amended to read as follows:

“(2) BIOMASS.—The term ‘biomass’ means—

“(A) any organic material from a plant which is planted exclusively for purposes of being used at a qualified facility to produce electricity, and

“(B) any solid, nonhazardous, cellulosic waste material which is segregated from other waste materials and which is derived from—

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

“(ii) 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),

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

“(iv) poultry waste.”

(b) 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 FACILITIES.—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 July 1, 2004.

“(B) BIOMASS FACILITIES.—

“(i) IN GENERAL.—In the case of a facility using biomass to produce electricity, the term ‘qualified facility’ means any facility owned by the taxpayer which is originally placed in service before July 1, 2004.

“(ii) COMBINED PRODUCTION FACILITIES INCLUDED.—For purposes of clause (i), the term ‘qualified facility’ shall include a facility using biomass to produce electricity and ethanol.

“(iii) SPECIAL RULES.—In the case of a qualified facility described in this subparagraph—

“(I) the 10-year period referred to in subsection (a) shall be treated as beginning no earlier than the date of the enactment of this paragraph, and

“(II) subsection (b)(3) shall not apply to any such facility originally placed in service before January 1, 1997.”

(c) COORDINATION WITH OTHER CREDITS.—Section 45(d) (relating to definitions and special rules) is amended by adding at the end the following:

“(6) COORDINATION WITH OTHER CREDITS.—This section shall not apply to any production with respect to which the clean coal technology production credit under section 45B is allowed unless the taxpayer elects to waive the application of such credit to such production.”

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to electricity produced after the date of the enactment of this Act.

**SEC. 803. PROPORTIONAL CREDIT FOR PRODUCING ELECTRICITY THROUGH CO-FIRING.**

(a) IN GENERAL.—Section 45(b) (relating to limitations and adjustments) is amended by adding at the end the following:

“(4) PROPORTIONAL CREDIT FOR CO-FIRING.—In the case of a qualified facility as defined in subsection (c)(3)(B) 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.”

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

**SEC. 804. CREDIT FOR CAPITAL COSTS OF QUALIFIED BIOMASS-BASED GENERATING SYSTEM.**

(a) ALLOWANCE OF QUALIFIED BIOMASS-BASED GENERATING SYSTEM FACILITY CREDIT.—Section 46 (relating to amount of credit), as amended by section 801(a), is amended by striking “and” at the end of paragraph (5), by striking the period at the end of paragraph (5) and inserting “, and”, and by adding at the end the following:

“(6) the qualified biomass-based generating system facility credit.”

(b) AMOUNT OF CREDIT.—Subpart E of part IV of subchapter A of chapter 1 (relating to rules for computing investment credit), as amended by section 801(b), is amended by inserting after section 48C the following:

**“SEC. 48D. QUALIFIED BIOMASS-BASED GENERATING SYSTEM FACILITY CREDIT.**

“(a) IN GENERAL.—For purposes of section 46, the qualified biomass-based generating system facility credit for any taxable year is an amount equal to 20 percent of the qualified investment in a qualified biomass-based generating system facility for such taxable year.

“(b) QUALIFIED BIOMASS-BASED GENERATING SYSTEM FACILITY.—

“(1) IN GENERAL.—For purposes of subsection (a), the term ‘qualified biomass-based generating system facility’ means a facility of the taxpayer—

“(A)(i) the original use of which commences with the taxpayer or the reconstruction of which is completed by the taxpayer (but only with respect to that portion of the basis which is properly attributable to such reconstruction), or

“(ii) that is acquired through purchase (as defined by section 179(d)(2)),

“(B) that is depreciable under section 167,

“(C) that has a useful life of not less than 4 years, and

“(D) that uses a qualified biomass-based generating system.

“(2) SPECIAL RULE FOR SALE-LEASEBACKS.—For purposes of subparagraph (A) of paragraph (1), in the case of a facility that—

“(A) is originally placed in service by a person, and

“(B) is sold and leased back by such person, or is leased to such person, within 3 months after the date such facility was originally placed in service, for a period of not less than 12 years,

such facility shall be treated as originally placed in service not earlier than the date on which such property is used under the leaseback (or lease) referred to in subparagraph (B). The preceding sentence shall not apply to any property if the lessee and lessor of such property make an election under this sentence. Such an election, once made, may be revoked only with the consent of the Secretary.

“(3) QUALIFIED BIOMASS-BASED GENERATING SYSTEM.—For purposes of paragraph (1)(D), the term ‘qualified biomass-based generating system’ means a biomass-based integrated gasification combined cycle (IGCC) generating system which has an electricity-only generation efficiency greater than 40 percent.

“(c) QUALIFIED INVESTMENT.—For purposes of subsection (a), the term ‘qualified invest-

ment’ means, with respect to any taxable year, the basis of a qualified biomass-based generating system facility placed in service by the taxpayer during such taxable year.

“(d) QUALIFIED PROGRESS EXPENDITURES.—

“(1) INCREASE IN QUALIFIED INVESTMENT.—In the case of a taxpayer who has made an election under paragraph (5), the amount of the qualified investment of such taxpayer for the taxable year (determined under subsection (c) without regard to this section) shall be increased by an amount equal to the aggregate of each qualified progress expenditure for the taxable year with respect to progress expenditure property.

“(2) PROGRESS EXPENDITURE PROPERTY DEFINED.—For purposes of this subsection, the term ‘progress expenditure property’ means any property being constructed by or for the taxpayer and which—

“(A) cannot reasonably be expected to be completed in less than 18 months, and

“(B) it is reasonable to believe will qualify as a qualified biomass-based generating system facility which is being constructed by or for the taxpayer when it is placed in service.

“(3) QUALIFIED PROGRESS EXPENDITURES DEFINED.—For purposes of this subsection—

“(A) SELF-CONSTRUCTED PROPERTY.—In the case of any self-constructed property, the term ‘qualified progress expenditures’ means the amount which, for purposes of this subpart, is properly chargeable (during such taxable year) to capital account with respect to such property.

“(B) NON-SELF-CONSTRUCTED PROPERTY.—In the case of non-self-constructed property, the term ‘qualified progress expenditures’ means the amount paid during the taxable year to another person for the construction of such property.

“(4) OTHER DEFINITIONS.—For purposes of this subsection—

“(A) SELF-CONSTRUCTED PROPERTY.—The term ‘self-constructed property’ means property for which it is reasonable to believe that more than half of the construction expenditures will be made directly by the taxpayer.

“(B) NON-SELF-CONSTRUCTED PROPERTY.—The term ‘non-self-constructed property’ means property which is not self-constructed property.

“(C) CONSTRUCTION, ETC.—The term ‘construction’ includes reconstruction and erection, and the term ‘constructed’ includes reconstructed and erected.

“(D) ONLY CONSTRUCTION OF QUALIFIED BIOMASS-BASED GENERATING SYSTEM FACILITY TO BE TAKEN INTO ACCOUNT.—Construction shall be taken into account only if, for purposes of this subpart, expenditures therefor are properly chargeable to capital account with respect to the property.

“(5) ELECTION.—An election under this subsection may be made at such time and in such manner as the Secretary may by regulations prescribe. Such an election shall apply to the taxable year for which made and to all subsequent taxable years. Such an election, once made, may not be revoked except with the consent of the Secretary.

“(e) COORDINATION WITH OTHER CREDITS.—This section shall not apply to any property with respect to which the energy credit under section 48A or the rehabilitation credit under section 47 is allowed unless the taxpayer elects to waive the application of such credits to such property.”

(c) RECAPTURE.—Section 50(a) (relating to other special rules), as amended by section 801(c), is amended by adding at the end the following:

“(8) SPECIAL RULES RELATING TO QUALIFIED BIOMASS-BASED GENERATING SYSTEM FACILITY.—For purposes of applying this subsection in the case of any credit allowable by

reason of section 48D, the following shall apply:

“(A) GENERAL RULE.—In lieu of the amount of the increase in tax under paragraph (1), the increase in tax shall be an amount equal to the investment tax credit allowed under section 38 for all prior taxable years with respect to a qualified biomass-based generating system facility (as defined by section 48D(b)) multiplied by a fraction whose numerator is the number of years remaining to fully depreciate under this title the qualified biomass-based generating system facility disposed of, and whose denominator is the total number of years over which such facility would otherwise have been subject to depreciation. For purposes of the preceding sentence, the year of disposition of the qualified biomass-based generating system facility shall be treated as a year of remaining depreciation.

“(B) PROPERTY CEASES TO QUALIFY FOR PROGRESS EXPENDITURES.—Rules similar to the rules of paragraph (2) shall apply in the case of qualified progress expenditures for a qualified biomass-based generating system facility under section 48D, except that the amount of the increase in tax under subparagraph (A) of this paragraph shall be substituted in lieu of the amount described in such paragraph (2).

“(C) APPLICATION OF PARAGRAPH.—This paragraph shall be applied separately with respect to the credit allowed under section 38 regarding a qualified biomass-based generating system facility.”

(d) TECHNICAL AMENDMENTS.—

(1) Section 49(a)(1)(C), as amended by section 801(d), is amended by striking “and” at the end of clause (iv), by striking the period at the end of clause (v) and inserting “, and”, and by adding at the end the following:

“(vi) the portion of the basis of any qualified biomass-based generating system facility attributable to any qualified investment (as defined by section 48D(c)).”

(2) Section 50(a)(4), as amended by section 801(d), is amended by striking “and (7)” and inserting “, (7), and (8)”.

(3) The table of sections for subpart E of part IV of subchapter A of chapter 1, as amended by section 801(d), is amended by inserting after the item relating to section 48C the following:

“Sec. 48D. Qualified biomass-based generating system facility credit.”

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to periods after December 31, 1999, under rules similar to the rules of section 48(m) of the Internal Revenue Code of 1986 (as in effect on the day before the date of the enactment of the Revenue Reconciliation Act of 1990).

#### SEC. 805. PASS-THROUGH OF RENEWABLE ENERGY PRODUCTION INCENTIVE PAYMENTS TO END-USERS.

(a) IN GENERAL.—Subpart A of part IV of subchapter A of chapter 1 (relating to non-refundable personal credits), as amended by section 201(a), is amended by inserting after section 25B the following new section:

#### “SEC. 25C. PURCHASE OF RENEWABLE ENERGY PUBLIC POWER PRODUCTION.

“(a) ALLOWANCE OF CREDIT.—In the case of an eligible individual, there shall be allowed as a credit against the tax imposed by this chapter for the 1st taxable year beginning after the 10-year period described in subsection (b) an amount equal to—

“(1) the renewable energy production percentage for such year, times

“(2) the taxpayer's renewable energy public power production amount.

“(b) ELIGIBLE INDIVIDUAL.—For purposes of this section, the term ‘eligible individual’ means an individual who, pursuant to a written agreement, has purchased electricity

from a renewable energy public power facility under a separate rate schedule for a single 10-year period.

“(c) RENEWABLE ENERGY PUBLIC POWER FACILITY.—For purposes of this section, the term ‘renewable energy public power facility’ means, with respect to any taxable year, a facility which would have been eligible for a credit under section 45 for electricity produced during such year if such facility had been privately owned.

“(d) RENEWABLE ENERGY PRODUCTION PERCENTAGE.—For purposes of this section, the renewable energy production percentage for any taxable year is equal to —

“(e) RENEWABLE ENERGY PUBLIC POWER PRODUCTION AMOUNT.—For purposes of this section, the renewable energy public power production amount for any taxpayer is equal to the amount of kilowatt hours of electricity purchased during the 10-year period described in subsection (b) and reported to the taxpayer by the renewable energy public power facility under the agreement described in such subsection.

“(f) CARRYFORWARD OF UNUSED CREDIT.—If the credit allowable under subsection (a) exceeds the limitation imposed by section 26(a) for such taxable year reduced by the sum of the credits allowable under subpart A of part IV of subchapter A (other than this section), such excess shall be carried to each succeeding taxable year.”

(b) CONFORMING AMENDMENTS.—

(1) Subsection (c) of section 23 is amended by inserting “, section 25C, and section 1400C” after “other than this section”.

(2) Subparagraph (C) of section 25(e)(1) is amended by striking “section 23” and inserting “sections 23, 25C, and 1400C”.

(3) Subsection (d) of section 1400C is amended by inserting “and section 25C” after “other than this section”.

(4) The table of sections for subpart A of part IV of subchapter A of chapter 1, as amended by section 201(b), is amended by inserting after the item relating to section 25B the following new item:

“Sec. 25C. Purchase of renewable energy public power production.”

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to agreements entered into after December 31, 1999.

### TITLE IX—STEELMAKING

#### SEC. 901. CREDIT FOR ENERGY-EFFICIENT STEELMAKING CAPACITY.

(a) ALLOWANCE OF ENERGY-EFFICIENT STEELMAKING CAPACITY CREDIT.—Subpart D of part IV of subchapter A of chapter 1 (relating to business related credits), as amended by section 701(a), is amended by adding at the end the following:

#### “SEC. 45G. ENERGY-EFFICIENT STEELMAKING CAPACITY CREDIT.

“(a) IN GENERAL.—For purposes of section 38, the energy-efficient steelmaking capacity credit for any taxable year is an amount equal to the product of—

“(1) \$50, multiplied by

“(2) the metric tons of steel produced during such taxable year from a qualified steelmaking system placed in service by the taxpayer or that is acquired through purchase (as defined by section 179(d)(2)) by such taxpayer.

“(b) QUALIFIED STEELMAKING SYSTEM.—For purposes of this section, the term ‘qualified steelmaking system’ means a system which produces steel at a maximum net specific energy consumption of 17 GJ per metric ton.”

(b) CREDIT TREATED AS BUSINESS CREDIT.—Section 38(b), as amended by section 701(b), is amended by striking “plus” at the end of paragraph (14), by striking the period at the end of paragraph (15) and inserting “, plus”, and by adding at the end the following:

“(16) the energy-efficient steelmaking capacity credit determined under section 45G(a).”

(c) CREDIT ALLOWED AGAINST MINIMUM TAX.—

(1) IN GENERAL.—Section 38(c) (relating to limitation based on amount of tax), as amended by section 502(c)(1), is amended by redesignating paragraph (6) as paragraph (7) and by inserting after paragraph (5) the following:

“(6) SPECIAL RULES FOR ENERGY-EFFICIENT STEELMAKING CAPACITY CREDIT.—

“(A) IN GENERAL.—In the case of the energy-efficient steelmaking capacity credit—

“(i) this section and section 39 shall be applied separately with respect to such credits, and

“(ii) in applying paragraph (1) to such credits—

“(I) subparagraph (A) shall not apply, and

“(II) the limitation under paragraph (1) (as modified by subclause (I)) shall be reduced by the credit allowed under subsection (a) for the taxable year (other than the credits described in this paragraph and paragraphs (2), (3), (4), and (5)).

“(B) ENERGY-EFFICIENT STEELMAKING CAPACITY CREDIT.—For purposes of this paragraph, the term ‘energy-efficient steelmaking capacity credit’ means the portion of the credit under subsection (a) which is attributable to the credit determined under section 45G(a).”

(2) CONFORMING AMENDMENT.—Section 38(c)(2)(A)(ii)(II), as amended by section 502(c)(2), is amended by striking “(other than the credits described in this paragraph and paragraphs (3), (4), and (5))” and inserting “(other than the credits described in this paragraph and paragraphs (3), (4), (5), and (6))”.

(d) CLERICAL AMENDMENT.—The table of sections for subpart D of part IV of subchapter A of chapter 1, as amended by section 701(c), is amended by adding at the end the following:

“Sec. 45G. Energy-efficient steelmaking capacity credit.”

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to production after the date of the enactment of this Act.

#### SEC. 902. EXTENSION OF CREDIT FOR ELECTRICITY TO PRODUCTION FROM STEEL COGENERATION.

(a) EXTENSION OF CREDIT FOR COKE PRODUCTION AND STEEL MANUFACTURING FACILITIES.—Section 45(c)(1) (defining qualified energy resources), as amended by section 802(a)(1), 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:

“(C) steel cogeneration.”

(b) STEEL COGENERATION.—Section 45(c) is amended by adding at the end the following:

“(4) STEEL COGENERATION.—The term ‘steel cogeneration’ means the production of steam or other form of thermal energy of at least 20 percent of total production and the production of electricity or mechanical energy (or both) of at least 20 percent of total production which meet regulatory energy-efficiency standards established by the Secretary, to the extent that such energy is produced from—

“(A) gases or heat generated during the production of coke,

“(B) blast furnace gases or heat generated during the production of iron, or

“(C) waste gases or heat generated from the manufacture of steel that uses at least 20 percent recycled material.”

(c) MODIFICATION OF PLACED IN SERVICE RULES FOR STEEL COGENERATION FACILITIES.—Section 45(c)(3) (defining qualified facility), as amended by section 802(b), is amended by adding at the end the following:

“(C) STEEL COGENERATION FACILITIES.—In the case of a facility using steel cogeneration to produce electricity, the term ‘qualified facility’ means any facility meeting the environmental requirements of the Clean Air Act Amendments of 1990 which is owned by the taxpayer and originally placed in service after December 31, 1999, and before January 1, 2005. Such a facility may be treated as originally placed in service when such facility was last upgraded to increase efficiency or generation capability.”

(d) CONFORMING AMENDMENTS.—

(1) The heading for section 45 is amended by inserting “and waste energy” after “renewable”.

(2) The item relating to section 45 in the table of sections subpart D of part IV of subchapter A of chapter 1 is amended by inserting “and waste energy” after “renewable”.

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to electricity produced in taxable years beginning after December 31, 2001, and before January 1, 2005.

## TITLE X—AGRICULTURE

### SEC. 1001. AGRICULTURAL CONSERVATION TAX CREDIT.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 (relating to business related credits), as amended by section 901(a), is amended by adding at the end the following:

#### “SEC. 45H. AGRICULTURAL CONSERVATION CREDIT.

“(a) IN GENERAL.—For purposes of section 38, in the case of an eligible person, the agricultural conservation credit determined under this section for the taxable year is an amount equal to—

“(1) 25 percent of the eligible conservation tillage equipment expenses, and

“(2) 25 percent of the eligible irrigation equipment expenses, paid or incurred by such person in connection with the active conduct of the trade or business of farming for the taxable year.

“(b) ELIGIBLE PERSON.—For purposes of this section, the term ‘eligible person’ means, with respect to any taxable year, any person if the average annual gross receipts of such person for the 3 preceding taxable years do not exceed \$1,000,000. For purposes of the preceding sentence, rules similar to the rules of section 448(c)(3) shall apply.

“(c) LIMITATION.—The amount of the credit allowed under subsection (a) for any taxable year shall not exceed \$2,500 for each credit determined under paragraph (1) or (2) of such subsection.

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

“(1) ELIGIBLE CONSERVATION TILLAGE EQUIPMENT EXPENSES.—

“(A) IN GENERAL.—The term ‘eligible conservation tillage equipment expenses’ means amounts paid or incurred by a taxpayer to purchase and install conservation tillage equipment for use in the trade or business of the taxpayer.

“(B) CONSERVATION TILLAGE EQUIPMENT.—The term ‘conservation tillage equipment’ means a no-till planter or drill designed to minimize the disturbance of the soil in planting crops, including such planters or drills which may be attached to equipment already owned by the taxpayer.

“(2) ELIGIBLE IRRIGATION EQUIPMENT EXPENSES.—The term ‘eligible irrigation equipment expenses’ means amounts paid or incurred by a taxpayer—

“(A) to purchase and install on currently irrigated lands new or upgraded equipment

which will improve the efficiency of existing irrigation systems used in the trade or business of the taxpayer, including—

“(i) spray jets or nozzles which improve water distribution efficiency,

“(ii) irrigation well meters,

“(iii) surge valves and surge irrigation systems, and

“(iv) conversion of equipment from gravity irrigation to sprinkler or drip irrigation, including center pivot systems, and

“(B) for service required to schedule the use of such irrigation equipment as necessary to manage water application to the crop requirement based on local evaporation and transpiration rates or soil moisture.

“(e) SPECIAL RULES.—

“(1) REDUCTION IN BASIS.—For purposes of this subtitle, if a credit is determined under this section with respect to any property, the basis of such property shall be reduced by the amount of the credit so determined.

“(2) PASS-THRU IN THE CASE OF ESTATES AND TRUSTS.—For purposes of this section, under regulations prescribed by the Secretary, rules similar to the rules of subsection (d) of section 52 shall apply.

“(3) ALLOCATION IN THE CASE OF PARTNERSHIPS.—For purposes of this section, in the case of partnerships, the credit shall be allocated among partners under regulations prescribed by the Secretary.

“(4) DENIAL OF DOUBLE BENEFIT.—No other deduction or credit shall be allowed to the taxpayer under this chapter for any amount taken into account in determining the credit under this section.”

(b) CONFORMING AMENDMENTS.—

(1) Section 38(b), as amended by section 901(b), is amended by striking “plus” at the end of paragraph (15), by striking the period at the end of paragraph (16), and inserting “; plus”, and by adding at the end the following:

“(17) the agricultural conservation credit determined under section 45H.”

(2) The table of sections for subpart D of part IV of subchapter A of chapter 1, as amended by section 901(d), is amended by adding at the end the following:

“Sec. 45H. Agricultural conservation credit.”

(3) Section 1016(a), as amended by section 201(b)(1), is amended by striking “and” at the end of paragraph (27), striking the period at the end of paragraph (28) and inserting “; and”, and adding at the end the following:

“(29) in the case of property with respect to which a credit was allowed under section 45H, to the extent provided in section 45H(d)(1).”

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

### BUNNING AMENDMENT NO. 1377

(Ordered to lie on the table.)

Mr. BUNNING submitted an amendment to be proposed by him to the bill, S. 1429, supra; as follows:

On page 268, between lines 3 and 4, insert the following:

#### SEC. — CERTAIN COSTS OF PRIVATE FOUNDATION IN REMOVING HAZARDOUS SUBSTANCES TREATED AS QUALIFYING DISTRIBUTION.

(a) IN GENERAL.—In the case of any taxable year beginning after December 31, 1999, the distributable amount of a private foundation for such taxable year for purposes of section 4942 of the Internal Revenue Code of 1986 shall be reduced (but not below zero) by any amount paid or incurred (or set aside) by such private foundation for the investigatory costs and direct costs of removal or taking remedial action with respect to a hazardous substance released at a facility which was

owned or operated by such private foundation.

(b) LIMITATIONS.—Subsection (a) shall only apply to costs—

(1) incurred with respect to hazardous substances disposed of at a facility owned or operated by the private foundation but only if—

(A) such facility was transferred to such foundation by bequest before December 11, 1980, and

(B) the active operation of such facility by such foundation was terminated before December 12, 1980, and

(2) which were not incurred pursuant to a pending order issued to the private foundation unilaterally by the President or the President's assignee under section 106 of the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (42 U.S.C. 9606), or pursuant to a nonconsensual judgment against the private foundation issued in a governmental cost recovery action under section 107 of such Act (42 U.S.C. 9607).

(c) HAZARDOUS SUBSTANCE.—For purposes of this section, the term “hazardous substance” has the meaning given such term by section 101(14) of the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (42 U.S.C. 9601(14)).

### ALLARD (AND ROBB) AMENDMENT NO. 1378

(Ordered to lie on the table.)

Mr. ALLARD (for himself and Mr. ROBB) submitted an amendment to be proposed by them to the bill, S. 1429, supra; as follows:

At the end, add the following:

#### TITLE — SMALL BUSINESS AND FINANCIAL INSTITUTIONS TAX RELIEF

### SEC. 0. SHORT TITLE.

This title may be cited as the “Small Business and Financial Institutions Tax Relief Act of 1999”.

#### Subtitle A—Tax Relief

### SEC. 1. EXPANSION OF S CORPORATION ELIGIBLE SHAREHOLDERS TO INCLUDE IRAS.

(a) IN GENERAL.—Section 1361(c)(2)(A) (relating to certain trusts permitted as shareholders) is amended by inserting after clause (v) the following:

“(vi) A trust which constitutes an individual retirement account under section 408(a), including one designated as a Roth IRA under section 408A.”

(b) TREATMENT AS SHAREHOLDER.—Section 1361(c)(2)(B) (relating to treatment as shareholders) is amended by adding at the end the following:

“(vi) In the case of a trust described in clause (vi) of subparagraph (A), the individual for whose benefit the trust was created shall be treated as a shareholder.”

(c) SALE OF STOCK IN IRA RELATING TO S CORPORATION ELECTION EXEMPT FROM PROHIBITED TRANSACTION RULES.—Section 4975(d) (relating to exemptions) is amended by striking “or” at the end of paragraph (14), by striking the period at the end of paragraph (15) and inserting “; or”, and by adding at the end the following:

“(16) a sale of stock held by a trust which constitutes an individual retirement account under section 408(a) to the individual for whose benefit such account is established if such sale is pursuant to an election under section 1362(a).”

(d) CONFORMING AMENDMENT.—Section 512(e)(1) is amended by inserting “1361(c)(2)(A)(vi) or” before “1361(c)(6)”.

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to trusts

which constitute individual retirement accounts on the date of the enactment of this Act in taxable years beginning after December 31, 2000.

**SEC. 2. EXCLUSION OF INVESTMENT SECURITIES INCOME FROM PASSIVE INCOME TEST FOR BANK S CORPORATIONS.**

(a) IN GENERAL.—Section 1362(d)(3)(C) (defining passive investment income) is amended by adding at the end the following:

“(v) EXCEPTION FOR BANKS; ETC.—In the case of a bank (as defined in section 581), a bank holding company (as defined in section 246A(c)(3)(B)(ii)), or a qualified subchapter S subsidiary bank, the term ‘passive investment income’ shall not include—

“(I) interest income earned by such bank, bank holding company, or qualified subchapter S subsidiary bank, or

“(II) dividends on assets required to be held by such bank, bank holding company, or qualified subchapter S subsidiary bank to conduct a banking business, including stock in the Federal Reserve Bank, the Federal Home Loan Bank, or the Federal Agricultural Mortgage Bank or participation certificates issued by a Federal Intermediate Credit Bank.”

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

**SEC. 3. TREATMENT OF QUALIFYING DIRECTOR SHARES.**

(a) IN GENERAL.—Section 1361 is amended by adding at the end the following:

“(f) TREATMENT OF QUALIFYING DIRECTOR SHARES.—

“(I) IN GENERAL.—For purposes of this subchapter—

“(A) qualifying director shares shall not be treated as a second class of stock, and

“(B) no person shall be treated as a shareholder of the corporation by reason of holding qualifying director shares.

(2) QUALIFYING DIRECTOR SHARES DEFINED.—For purposes of this subsection, the term ‘qualifying director shares’ means any shares of stock in a bank (as defined in section 581) or in a bank holding company registered as such with the Federal Reserve System—

“(i) which are held by an individual solely by reason of status as a director of such bank or company or its controlled subsidiary; and

“(ii) which are subject to an agreement pursuant to which the holder is required to dispose of the shares of stock upon termination of the holder’s status as a director at the same price as the individual acquired such shares of stock.

“(3) DISTRIBUTIONS.—A distribution (not in part or full payment in exchange for stock) made by the corporation with respect to qualifying director shares shall be includible as ordinary income of the holder and deductible to the corporation as an expense in computing taxable income under section 1363(b) in the year such distribution is received.”

(b) CONFORMING AMENDMENTS.—

(1) Section 1361(b)(1) is amended by inserting “, except as provided in subsection (f),” before “which does not”.

(2) Section 1366(a) is amended by adding at the end the following:

“(3) ALLOCATION WITH RESPECT TO QUALIFYING DIRECTOR SHARES.—The holders of qualifying director shares (as defined in section 1361(f)) shall not, with respect to such shares of stock, be allocated any of the items described in paragraph (1).”

(3) Section 1373(a) is amended by striking “and” at the end of paragraph (1), by striking the period at the end of paragraph (2) and inserting “, and”, and adding at the end the following:

“(3) no amount of an expense deductible under this subchapter by reason of section

1361(f)(3) shall be apportioned or allocated to such income.”

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

**SEC. 4. ISSUANCE OF PREFERRED STOCK PERMITTED.**

(a) IN GENERAL.—Section 1361, as amended by section 6(a), is amended by adding at the end the following:

“(g) TREATMENT OF QUALIFIED PREFERRED STOCK.—

“(I) IN GENERAL.—For purposes of this subchapter—

“(A) qualified preferred stock shall not be treated as a second class of stock, and

“(B) no person shall be treated as a shareholder of the corporation by reason of holding qualified preferred stock.

(2) QUALIFIED PREFERRED STOCK DEFINED.—For purposes of this subsection, the term ‘qualified preferred stock’ means stock which meets the requirements of subparagraphs (A), (B), and (C) of section 1504(a)(4). Stock shall not fail to be treated as qualified preferred stock solely because it is convertible into other stock.

“(3) DISTRIBUTIONS.—A distribution (not in part or full payment in exchange for stock) made by the corporation with respect to qualified preferred stock shall be includible as ordinary income of the holder and deductible to the corporation as an expense in computing taxable income under section 1363(b) in the year such distribution is received.”

(b) CONFORMING AMENDMENTS.—

(1) Section 1361(b)(1), as amended by section 6(b)(1), is amended by striking “subsection (f)” and inserting “subsections (f) and (g)”.

(2) Section 1366(a), as amended by section 6(b)(2), is amended by adding at the end the following:

“(4) ALLOCATION WITH RESPECT TO QUALIFIED PREFERRED STOCK.—The holders of qualified preferred stock (as defined in section 1361(g)) shall not, with respect to such stock, be allocated any of the items described in paragraph (1).”

(3) Section 1373(a)(3), as added by section 6(b)(3), is amended by inserting “or 1361(g)(3)” after “section 1361(f)(3)”.

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

**Subtitle B—Revenue Offsets**

**SEC. 11. PREVENTION OF MISMATCHING OF DEDUCTIONS AND INCOME IN TRANSACTIONS WITH RELATED FOREIGN PERSONS.**

(a) IN GENERAL.—Paragraph (3) of section 267(a) (relating to losses, expenses, and interest with respect to transactions between related taxpayers) is amended to read as follows:

“(3) PAYMENTS TO FOREIGN PERSONS.—

“(A) IN GENERAL.—If—

“(i) a payment is to be made by a taxpayer using an accrual method of accounting to a foreign person,

“(ii) such payment is not, as of the date accrued by the taxpayer, currently subject to tax under this chapter, and

“(iii) at the close of the taxable year of the taxpayer for which (but for this paragraph) the amount would be deductible under this chapter, both the taxpayer and the person to whom the payment is to be made are persons specified in any of the paragraphs of subsection (b),

then any deduction allowable under this chapter in respect of such amount shall be allowable as of the day as of which such amount is paid (or, if earlier, the day on which includible in the gross income of any United States person).

“(B) CURRENTLY SUBJECT TO TAX.—For purposes of subparagraph (A)(ii), a payment is

currently subject to tax under this chapter as of the date accrued by the taxpayer if such payment—

“(i) is includible in the gross income of the foreign person as of such date, and

“(ii)(I) is effectively connected with the conduct by the foreign person of a trade or business within the United States, or

“(II) is includible in the gross income of any citizen or resident of the United States or any domestic corporation for the taxable year of such citizen, resident, or corporation in which the taxable year of the foreign person ends.

The preceding sentence shall not apply if the payment is exempt from taxation (or is subject to a reduced rate of tax) pursuant to a treaty obligation of the United States.

“(C) EXCEPTION FOR PAYMENTS IN ORDINARY COURSE OF BUSINESS.—Subparagraph (A) shall not apply to any payment made in the ordinary course of the trade or business in which the payor is predominantly engaged if such payment is made within a reasonable period after the day on which such payment would be allowable as a deduction but for this paragraph.

“(D) OTHER EXCEPTIONS.—The Secretary may by regulation provide exceptions (consistent with the purposes of this paragraph) to the application of subparagraph (A).”

(b) CONFORMING AMENDMENTS.—

(1) Subsection (e) of section 163 is amended by striking paragraph (3) and by redesignating paragraphs (4), (5), and (6) as paragraphs (3), (4), and (5), respectively.

(2) Paragraph (5) of section 163(e) (as redesignated by paragraph (1)) is amended by adding at the end the following:

“**For treatment of original issue discount on obligations held by related foreign persons, see section 267(a)(3).**”

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

**MCCONNELL AMENDMENT NO. 1379**

(Ordered to lie on the table.)

Mr. MCCONNELL submitted an amendment intended to be proposed by him to the bill, S. 1429, supra; as follows:

On page 268, between lines 3 and 4, insert the following:

**SEC. . HOLDING PERIOD REDUCED TO 12 MONTHS FOR PURPOSES OF DETERMINING WHETHER HORSES ARE SECTION 1231 ASSETS.**

(a) IN GENERAL.—Subparagraph (A) of section 1231(b)(3) (relating to definition of property used in the trade or business) is amended by striking “and horses”.

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

On page 286, line 6, strike “1999” and inserting “2000”.

**ABRAHAM AMENDMENT NO. 1380**

(Ordered to lie on the table.)

Mr. ABRAHAM submitted an amendment intended to be proposed by him to the bill, S. 1429, supra; as follows:

At the appropriate place in title XI, insert the following:

**SECTION 11 . THE CADDIE RELIEF ACT.**

(a) SHORT TITLE.—This section may be cited as the “Caddie Relief Act of 1999”.

(b) TREATMENT OF GOLF CADDIES.

(1) IN GENERAL.—Subsection (a) of section 3508 of the Internal Revenue Code of 1986 (relating to treatment of real estate agents and direct sellers) is amended by striking “qualified real estate agent or as a direct seller”

and insert "qualified real estate agent, direct seller, or golf caddie".

(2) DEFINITION.—Subsection (b) of section 3508 of such Code is amended by redesignating paragraph (3) as paragraph (4) and by inserting after paragraph (2) the following new paragraph:

"(3) GOLF CADDIE.—The term 'golf caddie' means an individual who performs the service of carrying golf clubs for, or otherwise assisting, a non-professional golfer and, with respect to whom, substantially all the remuneration (whether or not paid in cash) for the performance of such service is—

"(A) directly related to performing such services rather than to the number of hours worked, and

"(B) paid to such individual directly by the golfer or by a third party as an agent of the golfer where the third party incurs no obligation itself to pay such remuneration.".

(3) CLERICAL AMENDMENTS.—

(A) The heading of section 3508 of such Code is amended to read as follows:

**"SEC. 3508. TREATMENT OF REAL ESTATE AGENTS, DIRECT SELLERS, AND GOLF CADDIES."**

(B) The item relating to section 3508 in the table of sections for chapter 25 of such Code is amended to read as follows:

"Sec. 3508. Treatment of real estate agents, direct sellers, and golf caddies."

(4) EFFECTIVE DATE.—The amendments made by this section shall apply to remuneration paid for services performed in taxable years ending after the date of the enactment of this Act.

#### HELMS AMENDMENTS NOS. 1381-1382

(Ordered to lie on the table.)

Mr. HELMS submitted an amendment intended to be proposed by him to the bill, S. 1429, supra; as follows:

##### AMENDMENT NO. 1381

On page 371, between lines 16 and 17, insert the following:

**SEC. \_\_\_\_ TAX TREATMENT OF STATE ACQUISITION OF RAILROAD REAL ESTATE INVESTMENT TRUST.**

(a) IN GENERAL.—If a State acquires all of the outstanding stock of a real estate investment trust which is a non-operating class III railroad and substantially all of the activities of which consist of the ownership, leasing, and operation by such trust of facilities, equipment, and other property used by the trust or other persons in railroad transportation, then, for purposes of section 115 of the Internal Revenue Code of 1986—

(1) such activities shall be treated as the exercise of an essential governmental function, and

(2) income derived from such activities shall be treated as accruing to the State.

(b) GAIN OR LOSS NOT RECOGNIZED ON CONVERSION.—Notwithstanding section 337(d) of the Internal Revenue Code of 1986, no gain or loss shall be recognized under section 336 or 337 of such Code because of the change of status of the real estate investment trust to a tax-exempt entity by reason of the application of subsection (a).

(c) TAX-EXEMPT FINANCING.—Any obligation issued by the entity described in subsection (a) shall be treated as an obligation of the State for purposes of applying section 103 and part IV of subchapter B of chapter 1 of the Internal Revenue Code of 1986.

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

(1) REAL ESTATE INVESTMENT TRUST.—The term "real estate investment trust" has the meaning given such term by section 856(a) of the Internal Revenue Code of 1986.

(2) NON-OPERATING CLASS III RAILROAD.—The term "non-operating class III railroad" has the meaning given such term by part A of subtitle IV of title 49, United States Code (49 U.S.C. 10101 et seq.) and the regulations thereunder.

(3) STATE.—The term "State" includes—

(A) the District of Columbia and any possession of the United States, and

(B) any authority, agency, or public corporation of a State.

(e) APPLICABILITY.—This section shall apply on and after the date of any acquisition described in subsection (a).

##### AMENDMENT NO. 1382

At the end of title XI, insert:

**SEC. \_\_\_\_ CREDIT FOR DRY CLEANING EQUIPMENT USING REDUCED AMOUNTS OF HAZARDOUS SUBSTANCES; REVENUE OFFSET.**

(a) CREDIT.—

(1) IN GENERAL.—Section 46 (relating to amount of investment credit) is amended by striking "and" at the end of paragraph (2), by striking the period at the end of paragraph (3) and inserting ", and", and by adding at the end thereof the following paragraph:

"(4) the dry cleaning equipment credit."

(2) DRY CLEANING EQUIPMENT CREDIT.—Section 48 is amended by adding at the end the following new subsection:

"(c) DRY CLEANING EQUIPMENT USING REDUCED AMOUNTS OF HAZARDOUS SUBSTANCES.—

"(1) IN GENERAL.—For purposes of section 46, the dry cleaning equipment credit for any taxable year is 20 percent of the basis of each qualified dry cleaning property placed in service during the taxable year.

"(2) LIMITATION.—The credit under this subsection for the taxable year shall apply to only one qualified dry cleaning property placed in service during such year at each business premise of the taxpayer.

"(3) QUALIFIED DRY CLEANING PROPERTY.—For purposes of this subsection, the term 'qualified dry cleaning property' means equipment designed primarily to dry clean clothing and other fabric if—

"(A) such equipment does not use any hazardous solvent as the primary process solvent,

"(B) the original use of such property commences with the taxpayer, and

"(C) with respect to which depreciation (or amortization in lieu of depreciation) is allowable.

"(4) HAZARDOUS SOLVENT.—For purposes of paragraph (3)—

"(A) IN GENERAL.—The term 'hazardous solvent' means any solvent any portion of which consists of a chlorinated solvent, a petroleum-based solvent, or any other hazardous or regulated substance.

"(B) EXCEPTION.—Such term shall not include any solvent—

"(i) not more than 10 percent of which consists of petroleum or petroleum derivatives, and

"(ii) which does not contain any substance determined by the Administrator of the Environmental Protection Agency, the Director of the National Institute for Occupational Safety and Health, the Director of the International Agency for Research on Cancer, the Director of the National Institute of Environmental Health Sciences' National Toxicology Program, or the director of any other appropriate Federal agency to possess—

"(I) carcinogenic potential in humans, or

"(II) bioaccumulative properties."

(3) CLERICAL AMENDMENTS.—

(A) The section heading for section 48 is amended to read as follows:

**"SEC. 48. ENERGY CREDIT; REFORESTATION CREDIT; DRY CLEANING EQUIPMENT CREDIT."**

(B) The item relating to section 48 in the table of sections for subpart E of part IV of subchapter A of chapter 1 is amended to read as follows:

"Sec. 48. Energy credit; reforestation credit; dry cleaning equipment credit."

(4) EFFECTIVE DATE.—The amendments made by this section shall apply to property placed in service on or after January 1, 1999.

(b) CLARIFICATION OF COORDINATION OF EXPENSE ALLOCATION REGULATIONS AND TREATIES OF THE UNITED STATES.—

(1) IN GENERAL.—In the case of any non-resident alien individual or foreign corporation having a permanent establishment in the United States, the allocation of items with respect to the permanent establishment in accordance with Treasury Regulation §1.861-8 or §1.882-5 shall not be treated as inconsistent with any treaty of the United States.

(2) EFFECTIVE DATE.—

(A) IN GENERAL.—This subsection shall apply to taxable years beginning before, on, or after the date of the enactment of this Act.

(B) EXCEPTION.—This subsection shall not apply to any taxpayer for any taxable year beginning on or before such date of enactment if—

(i) there has been a decision by a Federal court on or before such date reaching a result inconsistent with the provisions of this subsection, and

(ii) such decision is not overturned on appeal.

##### KENNEDY AMENDMENT NO. 1383

(Ordered to lie on the table.)

Mr. KENNEDY submitted an amendment intended to be proposed by him to the bill, S. 1429, supra; as follows:

On page 371, between lines 16 and 17, insert the following:

**SEC. \_\_\_\_ FAIR MINIMUM WAGE.**

(a) SHORT TITLE.—This section may be cited as the "Fair Minimum Wage Act of 1999".

(b) MINIMUM WAGE INCREASE.—

(1) WAGE.—Paragraph (1) of section 6(a) of the Fair Labor Standards Act of 1938 (29 U.S.C. 206(a)(1)) is amended to read as follows:

"(1) except as otherwise provided in this section, not less than—

"(A) \$5.65 an hour during the year beginning on September 1, 1999; and

"(B) \$6.15 an hour beginning on September 1, 2000;"

(2) EFFECTIVE DATE.—The amendment made by paragraph (1) takes effect on September 1, 1999.

(c) APPLICABILITY OF MINIMUM WAGE TO THE COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS.—The provisions of section 6 of the Fair Labor Standards Act of 1938 (29 U.S.C. 206) shall apply to the Commonwealth of the Northern Mariana Islands.

##### MOYNIHAN (AND OTHERS)

##### AMENDMENT NO. 1384

Mr. MOYNIHAN (for himself, Mr. BAUCUS, Mr. ROCKEFELLER, Mr. BREAUX, Mr. CONRAD, Mr. GRAHAM, Mr. BRYAN, Mr. KERREY, and Mr. ROBB) proposed an amendment to the bill, S. 1429, supra; as follows:

Strike all after the first word and insert:

##### 1. SHORT TITLE; ETC.

(a) SHORT TITLE.—This Act may be cited as the "Tax and Public Debt Reduction Act of 1999".



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

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

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

Sec. 1. Short title; etc.

#### TITLE I—TAX RELIEF FOR WORKING FAMILIES

Sec. 101. Increase in standard deduction.

Sec. 102. Deduction for two-earner married couples.

#### TITLE II—HEALTH CARE AFFORDABILITY AND ACCESSIBILITY

Sec. 201. Deduction for 100 percent of health insurance costs of self-employed individuals.

Sec. 202. Refundable credit for health insurance costs of employees.

Sec. 203. Deduction for premiums for long-term care insurance.

Sec. 204. Long-term care tax credit.

Sec. 205. Credit for clinical testing research expenses attributable to certain qualified academic institutions including teaching hospitals.

Sec. 206. Treatment of certain hospital support organizations as qualified organizations for purposes of determining acquisition indebtedness.

Sec. 207. Technical amendments related to Vaccine Injury Compensation Trust Fund.

#### TITLE III—ESTATE TAX PROVISIONS

Sec. 301. Increase in unified estate and gift tax credit.

Sec. 302. Increase in estate tax deduction for family-owned business interest.

#### TITLE IV—ALTERNATIVE MINIMUM TAX REFORMS

Sec. 401. Allowance of nonrefundable personal credits fully against regular tax liability.

Sec. 402. Repeal of foreign tax credit limitation under alternative minimum tax.

Sec. 403. Income averaging for farmers not to increase alternative minimum tax liability.

Sec. 404. Long-term unused credits allowed against minimum tax.

#### TITLE V—EXTENSION OF EXPIRING INCENTIVES

Sec. 501. Work opportunity credit and welfare-to-work credit.

Sec. 502. Electricity produced from certain nonrenewable resources credit.

Sec. 503. Subpart F exemption for active financing income.

Sec. 504. Extension of expensing of environmental remediation costs.

Sec. 505. Virgin Islands and Puerto Rico rum cover over.

Sec. 506. Modifications of Puerto Rican economic activity credit.

#### TITLE VI—QUALITY EDUCATION INITIATIVES

Sec. 601. Expansion of incentives for public schools.

Sec. 602. Modifications to qualified tuition programs.

Sec. 603. Elimination of 60-month limit on student loan interest deduction.

Sec. 604. Additional increase in arbitrage rebate exception for governmental bonds used to finance educational facilities.

Sec. 605. Treatment of qualified public educational facility bonds as exempt facility bonds.

Sec. 606. Permanent extension of exclusion for employer-provided educational assistance.

Sec. 607. Expansion of deduction for computer donations to schools.

Sec. 608. Credit for information technology training program expenses.

Sec. 609. Charitable contributions to certain low income schools may be made in next taxable year.

Sec. 610. Exclusion of National Service Educational Awards.

#### TITLE VII—ENVIRONMENTAL CONSERVATION AND PROTECTION

##### Subtitle A—Better America Bonds

Sec. 701. Credit for holders of Better America bonds.

Sec. 702. Better America Bonds Board.

##### Subtitle B—Conservation Incentives

Sec. 711. Tax exclusion for cost-sharing payments under Partners for Wildlife Program.

Sec. 712. Enhanced deduction for the donation of a conservation easement.

Sec. 713. National wildlife refuge conservation easements.

Sec. 714. Exclusion of 50 percent of gain on sales of land or interests in land or water to eligible entities for conservation purposes.

##### Subtitle C—Alternative Fuels Incentives

Sec. 721. Extension and expansion of credit for purchase of electric vehicles.

Sec. 722. Additional deduction for cost of installation of alternative fueling stations.

Sec. 723. Credit for retail sale of clean burning fuels as motor vehicle fuel.

##### Subtitle C—Other Provisions

Sec. 731. Expansion of section 29 tax credit.

Sec. 732. Uniform dollar limitation for all types of transportation fringe benefits.

#### TITLE VIII—SAVINGS AND PENSION PROVISIONS

##### Subtitle A—Expanding Coverage for Small Business

Sec. 801. Plan loans for subchapter S owners, partners, and sole proprietors.

Sec. 802. Contributions to IRAs through payroll deductions.

Sec. 803. Modification of top-heavy rules.

Sec. 804. Credit for small employer pension plan contributions and start-up costs.

Sec. 805. Increasing limits for deferrals to simple plans.

Sec. 806. Elective deferrals not taken into account for purposes of limits.

##### Subtitle B—Increasing Pension Access and Fairness for Women

Sec. 811. Equitable treatment for contributions of employees to defined contribution plans.

Sec. 812. Faster vesting of certain employer matching contributions.

Sec. 813. Deferred annuities for surviving spouses of Federal employees.

Sec. 814. Clarification of tax treatment of division of section 457 plan benefits upon divorce.

Sec. 815. Spouses' right to know proposal.

##### Subtitle C—Increasing Portability of Pension Plans

Sec. 821. Rollovers allowed among various types of plans.

Sec. 822. Rollovers of IRAs into workplace retirement plans.

Sec. 823. Rollovers of after-tax contributions.

Sec. 824. Hardship exception to 60-day rule.

Sec. 825. Treatment of forms of distribution.

Sec. 826. Rationalization of restrictions on distributions.

Sec. 827. Purchase of service credit in governmental defined benefit plans.

Sec. 828. Employers may disregard rollovers for purposes of cash-out amounts.

#### Subtitle D—Strengthening Pension Security and Enforcement

Sec. 831. Treatment of multiemployer plans under section 415.

Sec. 832. Extension of missing participants program to multiemployer plans.

Sec. 833. Civil penalties for breach of fiduciary responsibility.

Sec. 834. Failure to provide notice by defined benefit plans significantly reducing future benefit accruals.

#### Subtitle E—Encouraging Retirement Education

Sec. 841. Periodic pension benefits Statements.

Sec. 842. Clarification of treatment of employer-provided retirement advice.

#### Subtitle F—Reducing Red Tape

Sec. 851. ESOP dividends may be reinvested without loss of dividend deduction.

Sec. 852. Reduced PBGC premium for new plans of small employers.

Sec. 853. Reduction of additional PBGC premium for new plans.

Sec. 854. Elimination of user fee for requests to IRS regarding new pension plans.

Sec. 855. Distributional analysis of pension tax benefits.

#### Subtitle G—Other Provisions

Sec. 303. Tax credit for matching contributions to Individual Development Accounts.

Sec. 862. Federal employee retirement contributions.

Sec. 863. Exclusion from income of severance payment amounts

#### Subtitle H—Plan Amendments

Sec. 871. Provisions relating to plan amendments.

#### TITLE IX—FARM RELIEF AND ECONOMIC DEVELOPMENT

Sec. 901. Farm and ranch risk management accounts.

Sec. 902. Lease agreement relating to exclusion of certain farm rental income from net earnings from self-employment.

Sec. 903. Exclusion of gain from sale of certain farmland.

Sec. 904. Exemption of small issue agriculture bonds from State volume cap.

Sec. 905. Capital gain realized from transfer of farm property in complete or partial satisfaction of qualified farm indebtedness excluded from gross income.

Sec. 906. Exclusion of discharge of qualified farm indebtedness from gross income increased for certain solvent farmers.

Sec. 907. Net operating loss of farmers.

Sec. 908. Certain cash rentals of farmland not to cause recapture of special estate tax valuation.

Sec. 909. Declaratory judgment remedy relating to status and classification of farmers' cooperatives.

#### TITLE X—TECHNOLOGY AND ECONOMIC DEVELOPMENT

Sec. 1001. Permanent extension and modification of research credit.

Sec. 1002. New markets tax credit.  
 Sec. 1003. Increase in State ceiling on low-income housing credit.  
 Sec. 1004. Increase in volume cap on private activity bonds.  
 Sec. 1005. Spaceports treated like airports under exempt facility bond rules.  
 Sec. 1006. Increase in expense treatment for small businesses.

# **TITLE XI—MISCELLANEOUS INCENTIVES** **Subtitle A—Miscellaneous Provisions**

Sec. 1101. Oil and gas incentives.  
 Sec. 1102. Treatment of certain revenues of electric cooperatives.  
 Sec. 1103. Tax-exempt bond financing of certain electric facilities.  
 Sec. 1104. Modifications to special rules for nuclear decommissioning costs.  
 Sec. 1105. Modification of dependent care credit.  
 Sec. 1106. Allowance of credit for employer expenses for child care assistance.  
 Sec. 1107. Recovery period for depreciation of certain leasehold improvements.  
 Sec. 1108. Exemption from income tax for State-created organizations providing property and casualty insurance for property for which such coverage is otherwise unavailable.  
 Sec. 1109. Disclosure of tax information to facilitate combined employment tax reporting.  
 Sec. 1110. Increase in limit on certain charitable contributions as percentage of AGI.  
 Sec. 1111. Low-income second mortgage tax credit.  
 Sec. 1112. Coordination of child tax credit and earned income credit with certain means-tested programs.  
 Sec. 1113. No Federal income tax on amounts received by Holocaust victims or their heirs.  
 Sec. 1114. Tax treatment of special pay for members of the Armed Forces.

## **Subtitle B—Provisions Relating to Real Estate Investment Trusts**

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

Sec. 1121. Modifications to asset diversification test.  
 Sec. 1122. Treatment of income and services provided by taxable REIT subsidiaries.  
 Sec. 1123. Taxable REIT subsidiary.  
 Sec. 1124. Limitation on earnings stripping.  
 Sec. 1125. 100 percent tax on improperly allocated amounts.  
 Sec. 1126. Effective date.

### **PART II—HEALTH CARE REITS**

Sec. 1131. Health care REITs.

### **PART III—CONFORMITY WITH REGULATED INVESTMENT COMPANY RULES**

Sec. 1141. Conformity with regulated investment company rules.

### **PART IV—CLARIFICATION OF EXCEPTION FROM IMPERMISSIBLE TENANT SERVICE INCOME**

Sec. 1151. Clarification of exception for independent operators.

### **PART V—MODIFICATION OF EARNINGS AND PROFITS RULES**

Sec. 1161. Modification of earnings and profits rules.

## **TITLE XII—REVENUE OFFSETS**

### **Subtitle A—General Provisions**

Sec. 1201. Modification to foreign tax credit carryback and carryover periods.  
 Sec. 1202. Limitation on use of non-accrual experience method of accounting.

Sec. 1203. Returns relating to cancellations of indebtedness by organizations lending money.  
 Sec. 1204. Extension of Internal Revenue Service user fees.  
 Sec. 1205. Charitable split-dollar life insurance, annuity, and endowment contracts.  
 Sec. 1206. Transfer of excess defined benefit plan assets for retiree health benefits.  
 Sec. 1207. Limitations on welfare benefit funds of 10 or more employer plans.  
 Sec. 1208. Modification of installment method and repeal of installment method for accrual method taxpayers.  
 Sec. 1209. Inclusion of certain vaccines against streptococcus pneumoniae to list of taxable vaccines.  
 Sec. 1210. Restoration of phase-out of unified credit.  
 Sec. 1211. Repeal of lower-of-cost-or-market method of accounting for inventories.  
 Sec. 1212. Consistent amortization periods for intangibles.  
 Sec. 1213. Extension of hazardous substance Superfund taxes.  
 Sec. 1214. Controlled entities ineligible for REIT status.  
 Sec. 1215. Increase in elective withholding rate for nonperiodic distributions from deferred compensation plans.  
 Sec. 1216. Treatment of gain from constructive ownership transactions.  
 Sec. 1217. Restriction on use of real estate investment trusts to avoid estimated tax payment requirements.  
 Sec. 1218. Prohibited allocations of S corporation stock held by an ESOP.  
 Sec. 1219. Modification of anti-abuse rules related to assumption of liability.  
 Sec. 1220. Allocation of basis on transfers of intangibles in certain non-recognition transactions.  
 Sec. 1221. Distributions to a corporate partner of stock in another corporation.

## **TITLE I—TAX RELIEF FOR WORKING FAMILIES**

### **SEC. 101. INCREASE IN STANDARD DEDUCTION.**

Subsection (c) of section 63 (relating to standard deduction) is amended by adding at the end the following new paragraph:

“(7) INCREASE IN AMOUNT.—

“(A) IN GENERAL.—In the case of taxable years beginning in any calendar year beginning after 2000, the dollar amounts determined under paragraph (2) (after any increase under paragraph (4)) shall be increased by the applicable dollar amount for such calendar year.

“(B) APPLICABLE DOLLAR AMOUNT.—

“(i) AMOUNT.—The applicable dollar amount for any calendar year shall be determined as follows:

“(I) JOINT RETURNS AND SURVIVING SPOUSES.—In the case of the \$5,000 amount under paragraph (2)(A)—

“Calendar year:	Applicable dollar amount:
2001 or 2002 .....	\$1,000
2003 or 2004 .....	\$2,000
2005 or 2006 .....	\$3,000
2007 and thereafter .....	\$4,350.

“(II) HEAD OF HOUSEHOLD.—In the case of the \$4,400 amount under paragraph (2)(B)—

“Calendar year:	Applicable dollar amount:
2001 or 2002 .....	\$500

“Calendar year:	Applicable dollar amount:
2003 or 2004 .....	\$1,000
2005 or 2006 .....	\$1,500
2007 and thereafter .....	\$2,150.

“(III) INDIVIDUAL.—In the case of the \$3,000 amount under paragraph (2)(C)—

“Calendar year:	Applicable dollar amount:
2001 or 2002 .....	\$300
2003 or 2004 .....	\$600
2005 or 2006 .....	\$900
2007 and thereafter .....	\$1,300.

“(IV) MARRIED FILING SEPARATELY.—In the case of the \$2,500 amount under paragraph (2)(D)—

“Calendar year:	Applicable dollar amount:
2001 or 2002 .....	\$500
2003 or 2004 .....	\$1,000
2005 or 2006 .....	\$1,500
2007 and thereafter .....	\$2,175.

“(ii) COST-OF-LIVING ADJUSTMENT.—In the case of any taxable year beginning in a calendar year after 2007, the applicable dollar amount under clause (i) shall be increased by an amount equal to such dollar amount multiplied by the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, except that subparagraph (B) thereof shall be applied by substituting ‘calendar year 2006’ for ‘calendar year 1992’. If any amount as adjusted under this subparagraph is not a multiple of \$50, such amount shall be rounded to the next lowest multiple of \$50.”

### **SEC. 102. DEDUCTION FOR TWO-EARNER MARRIED COUPLES.**

(a) IN GENERAL.—Part VII of subchapter B of chapter 1 (relating to additional itemized deductions for individuals) is amended by redesignating section 222 as section 223 and by inserting after section 221 the following:

### **“SEC. 222. DEDUCTION FOR MARRIED COUPLES TO ELIMINATE THE MARRIAGE PENALTY.**

“(a) IN GENERAL.—In the case of a joint return under section 6013 for the taxable year, there shall be allowed as a deduction an amount equal to the lesser of—

“(1) the applicable dollar amount, or

“(2) the applicable percentage of the qualified earned income of the spouse with the lower qualified earned income for the taxable year.

“(b) APPLICABLE PERCENTAGE.—For purposes of this section—

“(1) IN GENERAL.—The term ‘applicable percentage’ means 20 percent, reduced (but not below zero) by 1 percentage point for each \$1,000 (or fraction thereof) by which the taxpayer’s modified adjusted gross income for the taxable year exceeds \$75,000.

“(2) MODIFIED ADJUSTED GROSS INCOME.—For purposes of this subsection, the term ‘modified adjusted gross income’ means adjusted gross income determined—

“(A) after application of sections 86, 219, and 469, and

“(B) without regard to sections 135, 137, 221, and 911 or the deduction allowable under this section.

“(c) APPLICABLE DOLLAR AMOUNT.—For purposes of this section—

“(1) IN GENERAL.—The applicable dollar amount shall be determined in accordance with the following table:

“Taxable year beginning in calendar year:	Applicable dollar amount:
2001 or 2002 .....	\$1,000
2003 or 2004 .....	\$2,000
2005 or 2006 .....	\$3,000
2007 and thereafter .....	\$4,350.

“(2) COST-OF-LIVING ADJUSTMENT.—In the case of any taxable year beginning in a calendar year after 2007, the applicable dollar

amount under paragraph (1) shall be increased by an amount equal to such dollar amount multiplied by the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, except that subparagraph (B) thereof shall be applied by substituting 'calendar year 2006' for 'calendar year 1992'. If any amount as adjusted under this paragraph is not a multiple of \$50, such amount shall be rounded to the next lowest multiple of \$50.

“(d) QUALIFIED EARNED INCOME DEFINED.—

“(1) IN GENERAL.—For purposes of this section, the term ‘qualified earned income’ means an amount equal to the excess of—

“(A) the earned income of the spouse for the taxable year, over

“(B) an amount equal to the sum of the deductions described in paragraphs (1), (2), (7), and (15) of section 62(a) to the extent such deductions are properly allocable to or chargeable against earned income described in subparagraph (A).

The amount of qualified earned income shall be determined without regard to any community property laws.

“(2) EARNED INCOME.—For purposes of paragraph (1), the term ‘earned income’ means income which is earned income within the meaning of section 911(d)(2) or 401(c)(2)(C), except that—

“(A) such term shall not include any amount—

“(i) not includible in gross income,

“(ii) received as a pension or annuity,

“(iii) paid or distributed out of an individual retirement plan (within the meaning of section 7701(a)(37)),

“(iv) received as deferred compensation, or

“(v) received for services performed by an individual in the employ of his spouse (within the meaning of section 3121(b)(3)(A)), and

“(B) section 911(d)(2)(B) shall be applied without regard to the phrase ‘not in excess of 30 percent of his share of net profits of such trade or business’.”

(b) DEDUCTION TO BE ABOVE-THE-LINE.—Section 62(a) (defining adjusted gross income) is amended by adding after paragraph (17) the following:

“(18) DEDUCTION FOR TWO-EARNER MARRIED COUPLES.—The deduction allowed by section 222.”

(c) EARNED INCOME CREDIT PHASEOUT TO REFLECT DEDUCTION.—Section 32(c)(2) (defining earned income) is amended by adding at the end the following:

“(C) MARRIAGE PENALTY REDUCTION.—Solely for purposes of applying subsection (a)(2)(B), earned income for any taxable year shall be reduced by an amount equal to the amount of the deduction allowed to the taxpayer for such taxable year under section 222.”

(d) CLERICAL AMENDMENT.—The table of sections for part VII of subchapter B of chapter 1 is amended by striking the item relating to section 222 and inserting the following:

“Sec. 222. Deduction for married couples to eliminate the marriage penalty.

“Sec. 223. Cross reference.”

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

## TITLE II—HEALTH CARE AFFORDABILITY AND ACCESSIBILITY

### SEC. 201. DEDUCTION FOR 100 PERCENT OF HEALTH INSURANCE COSTS OF SELF-EMPLOYED INDIVIDUALS.

(a) IN GENERAL.—Paragraph (1) of section 162(l) is amended to read as follows:

“(1) ALLOWANCE OF DEDUCTION.—In the case of an individual who is an employee within the meaning of section 401(c)(1), there shall be allowed as a deduction under this section

an amount equal to 100 percent of the amount paid during the taxable year for insurance which constitutes medical care for the taxpayer and the taxpayer's spouse and dependents.”

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

### SEC. 202. REFUNDABLE CREDIT FOR HEALTH INSURANCE COSTS OF EMPLOYEES.

(a) IN GENERAL.—Subpart C of part IV of subchapter A of chapter 1 (relating to refundable personal credits) is amended by redesignating section 35 as section 36 and by inserting after section 34 the following new section:

#### “SEC. 35. HEALTH INSURANCE COSTS OF EMPLOYEES.

“(a) IN GENERAL.—In the case of an individual, there shall be allowed as a credit against the tax imposed by this subtitle an amount equal to 30 percent of the amount paid during the taxable year for qualified health insurance.

“(b) QUALIFIED HEALTH INSURANCE.—

“(1) IN GENERAL.—For purposes of this section, the term ‘qualified health insurance’ means health insurance which constitutes medical care for the taxpayer, his spouse, and dependents, and which meet the requirements of paragraphs (2), (3), and (4).

“(2) BENEFITS PACKAGE.—Health insurance meets the requirement of this paragraph if such insurance provides coverage equivalent to the standard Blue Cross/Blue Shield preferred provider option service benefit plan, described in and offered under section 8903(1) of title 5, United States Code.

“(3) HIPAA STANDARDS.—Health insurance meets the requirement of this paragraph if such insurance meets standards similar to the standards under chapter 100.

“(4) PREMIUM STANDARDS.—Health insurance meets the requirement of this paragraph if the premium rate for such insurance for any calendar year does not exceed by more than 100 percent the average base premium rate for the same or similar health insurance offered by the 5 insurers with the highest premium volume during the preceding calendar year.

“(c) LIMITATIONS.—

“(1) POLICY LIMITATIONS.—The amount which may be taken into account under subsection (a) shall not exceed—

“(A) in the case of self-only coverage, \$1,000, and

“(B) in the case of family coverage, \$2,000.

“(2) LIMITATION BASED ON EMPLOYEE COMPENSATION.—The payments taken into account under subsection (a) for any taxable year shall not exceed the taxpayer's wages, salaries, tips, and other employee compensation includible in gross income for such taxable year.

“(3) LIMITATION BASED ON OTHER COVERAGE.—Subsection (a) shall not apply to—

“(A) any taxpayer for any calendar month for which the taxpayer is eligible to participate in any subsidized health plan maintained by any employer of the taxpayer or of the spouse of the taxpayer, or

“(B) amounts paid for coverage under any medical care program described in—

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

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

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

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

“(v) the Indian Health Care Improvement Act.

Subparagraph (B)(iv) shall not apply to coverage which is comparable to continuation coverage under section 4980B.

“(d) LIMITATION BASED ON ADJUSTED GROSS INCOME.—

“(1) IN GENERAL.—No credit shall be allowed under subsection (a) for any taxable year for which the taxpayer's adjusted gross income exceeds the applicable dollar amount.

“(2) APPLICABLE DOLLAR AMOUNT.—The term ‘applicable dollar amount’ means—

“(A) in the case of a taxpayer filing a joint return, \$40,000,

“(B) in the case of any other taxpayer, \$20,000.

“(3) COST-OF-LIVING ADJUSTMENT.—

“(A) IN GENERAL.—In the case of a taxable year beginning after 2003, each dollar amount under paragraph (2) shall be increased by an amount equal to—

“(i) such dollar amount, multiplied by

“(ii) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting ‘calendar year 2002’ for ‘calendar year 1992’ in subparagraph (B) thereof.

“(B) ROUNDING RULES.—If any amount after adjustment under subparagraph (A) is not a multiple of \$50, such amount shall be rounded to the next lower multiple of \$50.

“(4) SPECIAL RULE FOR MARRIED INDIVIDUALS FILING SEPARATELY AND LIVING APART.—A husband and wife who—

“(A) file separate returns for any taxable year, and

“(B) live apart at all times during such taxable year, shall not be treated as married individuals for purposes of this paragraph.

“(e) LIMITATION BASED ON AMOUNT OF TAX.—

“(1) IN GENERAL.—The credit allowed by subsection (a) for the taxable year (determined after the application of subsections (c) and (d)) shall not exceed the sum of—

“(A) the tax imposed by this chapter for the taxable year (reduced by the credits allowable against such tax other than the credits allowable under this subpart), and

“(B) the taxpayer's social security taxes for such taxable year.

“(2) SOCIAL SECURITY TAXES.—For purposes of paragraph (1)—

“(A) IN GENERAL.—The term ‘social security taxes’ means, with respect to any taxpayer for any taxable year—

“(i) the amount of the taxes imposed by sections 3101, 3111, 3201(a), and 3221(a) on amounts received by the taxpayer during the calendar year in which the taxable year begins,

“(ii) the taxes imposed by section 1401 on the self-employment income of the taxpayer for the taxable year, and

“(iii) the taxes imposed by section 3211(a)(1) on amounts received by the taxpayer during the calendar year in which the taxable year begins.

“(B) COORDINATION WITH SPECIAL REFUND OF SOCIAL SECURITY TAXES.—The term ‘social security taxes’ shall not include any taxes to the extent the taxpayer is entitled to a special refund of such taxes under section 6413(c).

“(C) SPECIAL RULE.—Any amounts paid pursuant to an agreement under section 3121(l) (relating to agreements entered into by American employers with respect to foreign affiliates) which are equivalent to the taxes referred to in subparagraph (A)(i) shall be treated as taxes referred to in such subparagraph.

“(f) COORDINATION WITH OTHER PROVISIONS.—

“(1) DEDUCTION FOR MEDICAL EXPENSES.—The amount taken into account in computing the credit under subsection (a) shall not be taken into account in computing the

amount allowable to the taxpayer as a deduction under section 213(a).

"(2) DEDUCTION FOR HEALTH INSURANCE COSTS OF SELF-EMPLOYED INDIVIDUALS.—No amount taken into account under section 162(l) may be taken into account under this section.

"(g) EXPENSES MUST BE SUBSTANTIATED.—A payment for insurance to which subsection (a) applies may be taken into account under this section only if the taxpayer substantiates such payment in such form as the Secretary may prescribe.

"(h) SECTION NOT TO APPLY TO LONG-TERM CARE INSURANCE.—This section shall not apply to insurance which constitutes medical care by reason of section 213(d)(1)(C)."

(b) CLERICAL AMENDMENT.—The table of sections for subpart C of part IV of subchapter A of chapter 1 is amended by striking the last item and inserting the following new items:

"Sec. 35. Health insurance costs of employees.

"Sec. 36. Overpayments of tax."

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2002.

#### SEC. 203. DEDUCTION FOR PREMIUMS FOR LONG-TERM CARE INSURANCE.

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

#### "SEC. 222. PREMIUMS FOR LONG-TERM CARE INSURANCE.

"(a) IN GENERAL.—In the case of an individual, there shall be allowed as a deduction an amount equal to the applicable percentage of the amount paid during the taxable year for any qualified long-term care insurance contract (as defined in section 7702B(b)) which constitutes medical care for the taxpayer, his spouse, and dependents.

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

<b>"For taxable years beginning in calendar year—</b>	<b>The applicable percentage is—</b>
2001 and 2002 .....	10
2003 and 2004 .....	25
2005 and 2006 .....	35
2007 and thereafter .....	50.

"(c) LIMITATION BASED ON COVERAGE UNDER CERTAIN SUBSIDIZED EMPLOYER PLANS.—

"(1) IN GENERAL.—Subsection (a) shall not apply to any taxpayer for any calendar month for which the taxpayer participates in any plan which includes coverage for qualified long-term care services (as so defined) or is a qualified long-term care insurance contract (as so defined) maintained by any employer of the taxpayer or of the spouse of the taxpayer if 50 percent or more of the cost of coverage under such plan (determined under section 4980B) is paid or incurred by the employer.

"(2) EMPLOYER CONTRIBUTIONS TO CAFETERIA PLANS OR FLEXIBLE SPENDING ARRANGEMENTS.—Employer contributions to a cafeteria plan or a flexible spending or similar arrangement which are excluded from gross income under section 106 shall be treated for purposes of paragraph (1) as paid by the employer.

"(3) AGGREGATION OF PLANS OF EMPLOYER.—A plan which is not otherwise described in paragraph (1) shall be treated as described in such paragraph if such plan would be so described if all such plans of persons treated as a single employer under subsections (b), (c), (m), or (o) of section 414 were treated as one plan.

"(d) DEDUCTION LIMITED TO QUALIFIED LONG-TERM CARE INSURANCE CONTRACTS.—In

the case of a qualified long-term care insurance contract (as so defined), only eligible long-term care premiums (as defined in section 213(d)(10)) may be taken into account under subsection (a).

"(e) SPECIAL RULES.—For purposes of this section—

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

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

"(f) REGULATIONS.—The Secretary shall prescribe such regulations as may be appropriate to carry out this section, including regulations requiring employers to report to their employees and the Secretary such information as the Secretary determines to be appropriate."

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

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

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

"Sec. 222. Long-term care insurance costs.

"Sec. 223. Cross reference."

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

#### SEC. 204. LONG-TERM CARE TAX CREDIT.

(a) ALLOWANCE OF CREDIT.—

(1) IN GENERAL.—Section 24(a) (relating to allowance of child tax credit) is amended to read as follows:

"(a) ALLOWANCE OF CREDIT.—

"(1) IN GENERAL.—There shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to the sum of—

"(A) \$500 multiplied by the number of qualifying children of the taxpayer, plus

"(B) the applicable dollar amount multiplied by the number of applicable individuals with respect to whom the taxpayer is an eligible caregiver for the taxable year."

"(2) APPLICABLE DOLLAR AMOUNT.—For purposes of paragraph (1)(B), the applicable dollar amount for taxable years beginning in any calendar year shall be determined in accordance with the following table:

<b>"Calendar year:</b>	<b>Applicable dollar amount:</b>
2003, 2004, or 2005 .....	\$250
2006 or 2007 .....	\$500
2008 and thereafter .....	\$1,000."

(2) ADDITIONAL CREDIT FOR TAXPAYER WITH 3 OR MORE SEPARATE CREDIT AMOUNTS.—So much of section 24(d) as precedes paragraph (1)(A) thereof is amended to read as follows:

"(d) ADDITIONAL CREDIT FOR TAXPAYERS WITH 3 OR MORE SEPARATE CREDIT AMOUNTS.—

"(1) IN GENERAL.—If the sum of the number of qualifying children of the taxpayer and the number of applicable individuals with respect to which the taxpayer is an eligible caregiver is 3 or more for any taxable year, the aggregate credits allowed under subpart C shall be increased by the lesser of—

(3) CONFORMING AMENDMENTS.—

(A) The heading for section 32(n) is amended by striking "CHILD" and inserting "FAMILY CARE".

(B) The heading for section 24 is amended to read as follows:

#### "SEC. 24. FAMILY CARE CREDIT."

(C) The table of sections for subpart A of part IV of subchapter A of chapter 1 is amended by striking the item relating to section 24 and inserting the following new item:

"Sec. 24. Family care credit."

(b) DEFINITIONS.—Section 24(c) (defining qualifying child) is amended to read as follows:

"(c) DEFINITIONS.—For purposes of this section—

"(1) QUALIFYING CHILD.—

"(A) IN GENERAL.—The term 'qualifying child' means any individual if—

"(i) the taxpayer is allowed a deduction under section 151 with respect to such individual for the taxable year,

"(ii) such individual has not attained the age of 17 as of the close of the calendar year in which the taxable year of the taxpayer begins, and

"(iii) such individual bears a relationship to the taxpayer described in section 32(c)(3)(B).

"(B) EXCEPTION FOR CERTAIN NONCITIZENS.—The term 'qualifying child' shall not include any individual who would not be a dependent if the first sentence of section 152(b)(3) were applied without regard to all that follows 'resident of the United States'.

"(2) APPLICABLE INDIVIDUAL.—

"(A) IN GENERAL.—The term 'applicable individual' means, with respect to any taxable year, any individual who has been certified, before the due date for filing the return of tax for the taxable year (without extensions), by a physician (as defined in section 1861(r)(1) of the Social Security Act) as being an individual with long-term care needs described in subparagraph (B) for a period—

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

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

Such term shall not include any individual otherwise meeting the requirements of the preceding sentence unless within the 39-½ month period ending on such due date (or such other period as the Secretary prescribes) a physician (as so defined) has certified that such individual meets such requirements.

"(B) INDIVIDUALS WITH LONG-TERM CARE NEEDS.—An individual is described in this subparagraph if the individual meets any of the following requirements:

"(i) The individual is at least 6 years of age and—

"(I) is unable to perform (without substantial assistance from another individual) at least 3 activities of daily living (as defined in section 7702B(c)(2)(B)) due to a loss of functional capacity, or

"(II) requires substantial supervision to protect such individual from threats to health and safety due to severe cognitive impairment and is unable to perform at least 1 activity of daily living (as so defined) or to the extent provided in regulations prescribed by the Secretary (in consultation with the Secretary of Health and Human Services), is unable to engage in age appropriate activities.

"(ii) The individual is at least 2 but not 6 years of age and is unable due to a loss of functional capacity to perform (without substantial assistance from another individual) at least 2 of the following activities: eating, transferring, or mobility.

"(iii) The individual is under 2 years of age and requires specific durable medical equipment by reason of a severe health condition or requires a skilled practitioner trained to address the individual's condition to be available if the individual's parents or guardians are absent.

“(3) ELIGIBLE CAREGIVER.—

“(A) IN GENERAL.—A taxpayer shall be treated as an eligible caregiver for any taxable year with respect to the following individuals:

“(i) The taxpayer.

“(ii) The taxpayer's spouse.

“(iii) An individual with respect to whom the taxpayer is allowed a deduction under section 151 for the taxable year.

“(iv) An individual who would be described in clause (iii) for the taxable year if section 151(c)(1)(A) were applied by substituting for the exemption amount an amount equal to the sum of the exemption amount, the standard deduction under section 63(c)(2)(C), and any additional standard deduction under section 63(c)(3) which would be applicable to the individual if clause (iii) applied.

“(v) An individual who would be described in clause (iii) for the taxable year if—

“(I) the requirements of clause (iv) are met with respect to the individual, and

“(II) the requirements of subparagraph (B) are met with respect to the individual in lieu of the support test of section 152(a).

“(B) RESIDENCY TEST.—The requirements of this subparagraph are met if an individual has as his principal place of abode the home of the taxpayer and—

“(i) in the case of an individual who is an ancestor or descendant of the taxpayer or the taxpayer's spouse, is a member of the taxpayer's household for over half the taxable year, or

“(ii) in the case of any other individual, is a member of the taxpayer's household for the entire taxable year.

“(C) SPECIAL RULES WHERE MORE THAN 1 ELIGIBLE CAREGIVER.—

“(i) IN GENERAL.—If more than 1 individual is an eligible caregiver with respect to the same applicable individual for taxable years ending with or within the same calendar year, a taxpayer shall be treated as the eligible caregiver if each such individual (other than the taxpayer) files a written declaration (in such form and manner as the Secretary may prescribe) that such individual will not claim such applicable individual for the credit under this section.

“(ii) NO AGREEMENT.—If each individual required under clause (i) to file a written declaration under clause (i) does not do so, the individual with the highest modified adjusted gross income (as defined in section 32(c)(5)) shall be treated as the eligible caregiver.

“(iii) MARRIED INDIVIDUALS FILING SEPARATELY.—In the case of married individuals filing separately, the determination under this subparagraph as to whether the husband or wife is the eligible caregiver shall be made under the rules of clause (ii) (whether or not one of them has filed a written declaration under clause (i)).”

(c) IDENTIFICATION REQUIREMENTS.—

(1) IN GENERAL.—Section 24(e) is amended by adding at the end the following new sentence: “No credit shall be allowed under this section to a taxpayer with respect to any applicable individual unless the taxpayer includes the name and taxpayer identification number of such individual, and the identification number of the physician certifying such individual, on the return of tax for the taxable year.”

(2) ASSESSMENT.—Section 6213(g)(2)(I) is amended—

(A) by inserting “or physician identification” after “correct TIN”, and

(B) by striking “child” and inserting “family care”.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2002.

#### SEC. 205. CREDIT FOR CLINICAL TESTING RESEARCH EXPENSES ATTRIBUTABLE TO CERTAIN QUALIFIED ACADEMIC INSTITUTIONS INCLUDING TEACHING HOSPITALS.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 (relating to business related credits) is amended by inserting after section 41 the following:

#### “SEC. 41A. CREDIT FOR MEDICAL INNOVATION EXPENSES.

“(a) GENERAL RULE.—For purposes of section 38, the medical innovation credit determined under this section for the taxable year shall be an amount equal to 40 percent of the excess (if any) of—

“(1) the qualified medical innovation expenses for the taxable year, over

“(2) the medical innovation base period amount.

“(b) QUALIFIED MEDICAL INNOVATION EXPENSES.—For purposes of this section—

“(1) IN GENERAL.—The term ‘qualified medical innovation expenses’ means the amounts which are paid or incurred by the taxpayer during the taxable year directly or indirectly to any qualified academic institution for clinical testing research activities.

“(2) CLINICAL TESTING RESEARCH ACTIVITIES.—

“(A) IN GENERAL.—The term ‘clinical testing research activities’ means human clinical testing conducted at any qualified academic institution in the development of any product, which occurs before—

“(i) the date on which an application with respect to such product is approved under section 505(b), 506, or 507 of the Federal Food, Drug, and Cosmetic Act,

“(ii) the date on which a license for such product is issued under section 351 of the Public Health Service Act, or

“(iii) the date classification or approval of such product which is a device intended for human use is given under section 513, 514, or 515 of the Federal Food, Drug, and Cosmetic Act.

“(B) PRODUCT.—The term ‘product’ means any drug, biologic, or medical device.

“(3) QUALIFIED ACADEMIC INSTITUTION.—The term ‘qualified academic institution’ means any of the following institutions:

“(A) EDUCATIONAL INSTITUTION.—A qualified organization described in section 170(b)(1)(A)(iii) which is owned or affiliated with an institution of higher education as described in section 3304(f).

“(B) TEACHING HOSPITAL.—A teaching hospital which—

“(i) is publicly supported or owned by an organization described in section 501(c)(3), and

“(ii) is affiliated with an organization meeting the requirements of subparagraph (A).

“(C) FOUNDATION.—A medical research organization described in section 501(c)(3) (other than a private foundation) which is affiliated with, or owned by—

“(i) an organization meeting the requirements of subparagraph (A), or

“(ii) a teaching hospital meeting the requirements of subparagraph (B).

“(D) CHARITABLE RESEARCH HOSPITAL.—A hospital that is designated as a cancer center by the National Cancer Institute.

“(4) EXCLUSION FOR AMOUNTS FUNDED BY GRANTS, ETC.—The term ‘qualified medical innovation expenses’ shall not include any amount to the extent such amount is funded by any grant, contract, or otherwise by another person (or any governmental entity).

“(c) MEDICAL INNOVATION BASE PERIOD AMOUNT.—For purposes of this section, the term ‘medical innovation base period amount’ means the average annual qualified medical innovation expenses paid by the taxpayer during the 3-taxable year period end-

ing with the taxable year immediately preceding the first taxable year of the taxpayer beginning after December 31, 2000.

“(d) SPECIAL RULES.—

“(1) LIMITATION ON FOREIGN TESTING.—No credit shall be allowed under this section with respect to any clinical testing research activities conducted outside the United States.

“(2) CERTAIN RULES MADE APPLICABLE.—Rules similar to the rules of subsections (f) and (g) of section 41 shall apply for purposes of this section.

“(3) ELECTION.—This section shall apply to any taxpayer for any taxable year only if such taxpayer elects to have this section apply for such taxable year.

“(4) COORDINATION WITH CREDIT FOR INCREASING RESEARCH EXPENDITURES AND WITH CREDIT FOR CLINICAL TESTING EXPENSES FOR CERTAIN DRUGS FOR RARE DISEASES.—Any qualified medical innovation expense for a taxable year to which an election under this section applies shall not be taken into account for purposes of determining the credit allowable under section 41 or 45C for such taxable year.

“(e) TERMINATION.—This section shall not apply to any expense paid or incurred after the date specified in section 41(h)(1)(B).”

(b) CREDIT TO BE PART OF GENERAL BUSINESS CREDIT.—

(1) IN GENERAL.—Section 38(b) (relating to current year business credits) is amended by striking “plus” at the end of paragraph (11), by striking the period at the end of paragraph (12) and inserting “, plus”, and by adding at the end the following:

“(13) the medical innovation expenses credit determined under section 41A(a).”

(2) TRANSITION RULE.—Section 39(d) is amended by adding at the end the following new paragraph:

“(9) NO CARRYBACK OF SECTION 41A CREDIT BEFORE ENACTMENT.—No portion of the unused business credit for any taxable year which is attributable to the medical innovation credit determined under section 41A may be carried back to a taxable year beginning before January 1, 1999.”

(c) DENIAL OF DOUBLE BENEFIT.—Section 280C is amended by adding at the end the following new subsection:

“(d) CREDIT FOR INCREASING MEDICAL INNOVATION EXPENSES.—

“(1) IN GENERAL.—No deduction shall be allowed for that portion of the qualified medical innovation expenses (as defined in section 41A(b)) otherwise allowable as a deduction for the taxable year which is equal to the amount of the credit determined for such taxable year under section 41A(a).

“(2) CERTAIN RULES TO APPLY.—Rules similar to the rules of paragraphs (2), (3), and (4) of subsection (c) shall apply for purposes of this subsection.”

(d) DEDUCTION FOR UNUSED PORTION OF CREDIT.—Section 196(c) (defining qualified business credits) is amended by redesignating paragraphs (5) through (8) as paragraphs (6) through (9), respectively, and by inserting after paragraph (4) the following new paragraph:

“(5) the medical innovation expenses credit determined under section 41A(a) (other than such credit determined under the rules of section 280C(d)(2)).”

(e) CLERICAL AMENDMENT.—The table of sections for subpart D of part IV of subchapter A of chapter 1 is amended by adding after the item relating to section 41 the following:

“Sec. 41A. Credit for medical innovation expenses.”

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

**SEC. 206. TREATMENT OF CERTAIN HOSPITAL SUPPORT ORGANIZATIONS AS QUALIFIED ORGANIZATIONS FOR PURPOSES OF DETERMINING ACQUISITION INDEBTEDNESS.**

(a) IN GENERAL.—Subparagraph (C) of section 514(c)(9) is amended by striking “or” at the end of clause (ii), by striking the period at the end of clause (iii) and inserting “; or”, and by adding at the end the following new clause:

“(iv) a qualified hospital support organization (as defined in subparagraph (I)).”

(b) QUALIFIED HOSPITAL SUPPORT ORGANIZATIONS.—Paragraph (9) of section 514(c) is amended by adding at the end the following new subparagraph:

“(I) QUALIFIED HOSPITAL SUPPORT ORGANIZATIONS.—For purposes of subparagraph (C)(iv), the term ‘qualified hospital support organization’ means, with respect to any indebtedness, a support organization (as defined in section 509(a)(3)) which supports a hospital described in section 170(b)(1)(A)(iii) and with respect to which—

“(i) more than half of its assets (by value) at any time since its organization—

“(I) were acquired, directly or indirectly, by gift or devise, and

“(II) consisted of real property,

“(ii) the fair market value of the organization’s unimproved real estate acquired, directly or indirectly, by gift or devise, exceeded 10 percent of the fair market value of all investment assets held by the organization immediately prior to the time that the indebtedness was incurred, and

“(iii) no member of the organization’s governing body was a disqualified person (as defined in section 4946 but not including any foundation manager) at any time during the taxable year in which the indebtedness was incurred.

In the case of any refinancing not in excess of the indebtedness being refinanced, the determinations under clauses (ii) and (iii) shall be made by reference to the earliest date indebtedness meeting the requirements of this subparagraph (and involved in the chain of indebtedness being refinanced) was incurred.”

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

**SECTION 207. TECHNICAL AMENDMENTS RELATED TO VACCINE INJURY COMPENSATION TRUST FUND.**

(a) REPEAL OF MUTUALLY CONFLICTING AMENDMENTS.—

(1) IN GENERAL.—Section 1504 of Division C of the Omnibus Consolidated and Emergency Supplemental Appropriations Act, 1999 (relating to Vaccine Injury Compensation Trust Fund) is repealed.

(2) EFFECT OF REPEAL.—The Internal Revenue Code of 1986 shall be applied and administered as if the section repealed by paragraph (1) had never been enacted.

(b) CONFORMING AMENDMENTS.—Section 9510(c)(1) (relating to expenditures from Trust Fund) is amended—

(1) by striking “August 5, 1997” in subparagraph (A) and inserting “October 21, 1998”, and

(2) by striking “\$9,500,000” in subparagraph (B) and inserting “\$10,000,000”.

(c) EFFECTIVE DATE.—The amendments made by subsection (b) shall take effect as if included in the Omnibus Consolidated and Emergency Supplemental Appropriations Act, 1999.

**TITLE III—ESTATE TAX PROVISIONS**

**SEC. 301. INCREASE IN UNIFIED ESTATE AND GIFT TAX CREDIT.**

(a) IN GENERAL.—The table in section 2010(c) of the Internal Revenue Code (relating to applicable credit amount) is amended to read as follows:

<b>In the case of estates of decedents dying, and gifts made, during:</b>	<b>The applicable exclusion amount is:</b>
2000 and 2001 .....	\$675,000
2002 .....	\$700,000
2003 .....	\$740,000
2004 and thereafter ...	\$1,000,000.”

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to the estates of decedents dying, and gifts made, after December 31, 1999.

**SEC. 302. INCREASE IN ESTATE TAX DEDUCTION FOR FAMILY-OWNED BUSINESS INTEREST.**

(a) IN GENERAL.—Section 2057(a)(2) (relating to maximum deduction) is amended by striking “\$675,000” and inserting “\$1,125,000”.

(b) CONFORMING AMENDMENTS.—Section 2057(a)(3)(B) (relating to coordination with unified credit) is amended by striking “\$675,000” each place it appears in the text and heading and inserting “\$1,125,000”.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to estates of decedents dying after December 31, 2002.

**TITLE IV—ALTERNATIVE MINIMUM TAX REFORMS**

**SEC. 401. ALLOWANCE OF NONREFUNDABLE PERSONAL CREDITS FULLY AGAINST REGULAR TAX LIABILITY.**

The second sentence of section 26(a) (relating to limitations based on amount of tax) is amended by striking “1998” and inserting “calendar years 1998 through 2003”.

**SEC. 402. REPEAL OF FOREIGN TAX CREDIT LIMITATION UNDER ALTERNATIVE MINIMUM TAX.**

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

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

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

**SEC. 403. INCOME AVERAGING FOR FARMERS NOT TO INCREASE ALTERNATIVE MINIMUM TAX LIABILITY.**

(a) IN GENERAL.—Section 55(c) of the Internal Revenue Code of 1986 (defining regular tax) is amended by redesignating paragraph (2) as paragraph (3) and by inserting after paragraph (1) the following:

“(2) COORDINATION WITH INCOME AVERAGING FOR FARMERS.—Solely for purposes of this section, section 1301 (relating to averaging of farm income) shall not apply in computing the regular tax.”

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

**SEC. 404. LONG-TERM UNUSED CREDITS ALLOWED AGAINST MINIMUM TAX.**

(a) IN GENERAL.—Subsection (c) of section 53 (relating to limitation) is amended by adding at the end the following:

“(2) SPECIAL RULE FOR CORPORATIONS WITH LONG-TERM UNUSED CREDITS.—

“(A) IN GENERAL.—If—

“(i) a corporation to which section 56(g) applies has a long-term unused minimum tax credit for a taxable year, and

“(ii) no credit would be allowable under this section for the taxable year by reason of paragraph (1),

then there shall be allowed a credit under subsection (a) for the taxable year in the amount determined under subparagraph (B).

“(B) AMOUNT OF CREDIT.—For purposes of subparagraph (A), the amount of the credit shall be equal to the least of the following for the taxable year:

“(i) The long-term unused minimum tax credit.

“(ii) 20 percent of the taxpayer’s tentative minimum tax.

“(iii) The excess (if any) of the amount under paragraph (1)(B) over the amount under paragraph (1)(A).

“(C) LONG-TERM UNUSED MINIMUM TAX CREDIT.—For purposes of this paragraph—

“(i) IN GENERAL.—The long-term unused minimum tax credit for any taxable year is the portion of the minimum tax credit determined under subsection (b) attributable to the adjusted net minimum tax for taxable years beginning after 1986 and before 2000 and which ended before the 5th taxable year immediately preceding the taxable year for which the determination is being made.

“(ii) FIRST-IN, FIRST-OUT ORDERING RULE.—For purposes of clause (i), credits shall be treated as allowed under subsection (a) on a first-in, first-out basis.”

(b) CONFORMING AMENDMENTS.—Section 53(c) (as in effect before the amendment made by subsection (a)) is amended—

(1) by striking “The” and inserting the following:

“(1) IN GENERAL.—The”; and

(2) by redesignating paragraphs (1) and (2) as subparagraphs (A) and (B), respectively.

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

**TITLE V—EXTENSION OF EXPIRING INCENTIVES**

**SEC. 501. WORK OPPORTUNITY CREDIT AND WELFARE-TO-WORK CREDIT.**

(a) TEMPORARY EXTENSION.—Sections 51(c)(4)(B) and 51A(f) (relating to termination) are each amended by striking “June 30, 1999” and inserting “June 30, 2001”.

(b) CLARIFICATION OF FIRST YEAR OF EMPLOYMENT.—Paragraph (2) of section 51(i) is amended by striking “during which he was not a member of a targeted group”.

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

**SEC. 502. ELECTRICITY PRODUCED FROM CERTAIN NONRENEWABLE RESOURCES CREDIT.**

(a) TEMPORARY EXTENSION.—Section 45(c)(3) (relating to qualified facility) is amended by striking “1999” and inserting “2001”.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to facilities placed in service after June 30, 1999.

**SEC. 503. SUPPORT F EXEMPTION FOR ACTIVE FINANCING INCOME.**

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

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

(2) by striking “January 1, 2000” and inserting “January 1, 2002”.

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

**SEC. 504. EXTENSION OF EXPENSING OF ENVIRONMENTAL REMEDIATION COSTS.**

Section 198(h) (relating to termination) is amended by striking “December 31, 2000” and inserting “June 30, 2001”.

**SEC. 505. VIRGIN ISLANDS AND PUERTO RICO RUM COVER OVER.**

(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 July 1, 2001), or”.

(b) EFFECTIVE DATE.—The amendment made by this section shall take effect on July 1, 1999.

**SEC. 506. MODIFICATIONS OF PUERTO RICAN ECONOMIC ACTIVITY CREDIT.**

(a) TAXPAYERS OTHER THAN EXISTING CLAIMANTS ELIGIBLE FOR CREDIT.—Section

30A(a)(2) (defining qualified domestic corporation) is amended to read as follows:

"(2) QUALIFIED DOMESTIC CORPORATION.—For purposes of paragraph (1), the term 'qualified domestic corporation' means a domestic corporation with respect to which section 936(a)(4)(B) does not apply for the taxable year."

(b) REPEAL OF BASE PERIOD CAP.—Section 30A(a)(1) is amended by striking the last sentence.

(c) CONFORMING AMENDMENTS.—

(1) Section 30A(a)(3) is amended to read as follows:

"(3) SEPARATE APPLICATION.—For purposes of determining the amount of the credit allowed under this section, this section (and so much of section 936 as relates to this section) shall be applied separately with respect to Puerto Rico."

(2) Section 30A(e)(1) is amended by inserting "but not including subsection (j) thereof" after "thereunder".

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 1999, and before January 1, 2003.

#### TITLE VI—QUALITY EDUCATION INITIATIVES

##### SEC. 601. EXPANSION OF INCENTIVES FOR PUBLIC SCHOOLS.

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

##### "Subchapter X—Public School Modernization Provisions

"Part I. Credit to holders of qualified public school modernization bonds.

"Part II. Qualified school construction bonds.

"Part III. Incentives for education zones.

##### "PART I—CREDIT TO HOLDERS OF QUALIFIED PUBLIC SCHOOL MODERNIZATION BONDS

"Sec. 1400F. Credit to holders of qualified public school modernization bonds.

##### "SEC. 1400F. CREDIT TO HOLDERS OF QUALIFIED PUBLIC SCHOOL MODERNIZATION BONDS.

"(a) ALLOWANCE OF CREDIT.—In the case of a taxpayer who holds a qualified public school modernization bond on a credit allowance date of such bond which occurs during the taxable year, there shall be allowed as a credit against the tax imposed by this chapter for such taxable year an amount equal to the sum of the credits determined under subsection (b) with respect to credit allowance dates during such year on which the taxpayer holds such bond.

"(b) AMOUNT OF CREDIT.—

"(1) IN GENERAL.—The amount of the credit determined under this subsection with respect to any credit allowance date for a qualified public school modernization bond is 25 percent of the annual credit determined with respect to such bond.

"(2) ANNUAL CREDIT.—The annual credit determined with respect to any qualified public school modernization bond is the product of—

"(A) the applicable credit rate, multiplied by

"(B) the outstanding face amount of the bond.

"(3) APPLICABLE CREDIT RATE.—For purposes of paragraph (1), the applicable credit rate with respect to an issue is the rate equal to an average market yield (as of the day before the date of issuance of the issue) on outstanding long-term corporate debt obligations (determined under regulations prescribed by the Secretary).

"(4) SPECIAL RULE FOR ISSUANCE AND REDEMPTION.—In the case of a bond which is

issued during the 3-month period ending on a credit allowance date, the amount of the credit determined under this subsection with respect to such credit allowance date shall be a ratable portion of the credit otherwise determined based on the portion of the 3-month period during which the bond is outstanding. A similar rule shall apply when the bond is redeemed.

"(c) LIMITATION BASED ON AMOUNT OF TAX.—

"(1) IN GENERAL.—The credit allowed under subsection (a) for any taxable year shall not exceed the excess of—

"(A) the sum of the regular tax liability (as defined in section 26(b)) plus the tax imposed by section 55, over

"(B) the sum of the credits allowable under part IV of subchapter A (other than subpart C thereof, relating to refundable credits).

"(2) CARRYOVER OF UNUSED CREDIT.—If the credit allowable under subsection (a) exceeds the limitation imposed by paragraph (1) for such taxable year, such excess shall be carried to the succeeding taxable year and added to the credit allowable under subsection (a) for such taxable year.

"(d) QUALIFIED PUBLIC SCHOOL MODERNIZATION BOND; CREDIT ALLOWANCE DATE.—For purposes of this section—

"(1) QUALIFIED PUBLIC SCHOOL MODERNIZATION BOND.—The term 'qualified public school modernization bond' means—

"(A) a qualified school construction bond, and

"(B) a qualified zone academy bond.

"(2) CREDIT ALLOWANCE DATE.—The term 'credit allowance date' means—

"(A) March 15,

"(B) June 15,

"(C) September 15, and

"(D) December 15.

Such term includes the last day on which the bond is outstanding.

"(e) OTHER DEFINITIONS.—For purposes of this subchapter—

"(1) LOCAL EDUCATIONAL AGENCY.—The term 'local educational agency' has the meaning given to such term by section 14101 of the Elementary and Secondary Education Act of 1965. Such term includes the local educational agency that serves the District of Columbia but does not include any other State agency.

"(2) BOND.—The term 'bond' includes any obligation.

"(3) STATE.—The term 'State' includes the District of Columbia and any possession of the United States.

"(4) PUBLIC SCHOOL FACILITY.—The term 'public school facility' shall not include any facility which is not owned by a State or local government or any agency or instrumentality of a State or local government.

"(f) CREDIT INCLUDED IN GROSS INCOME.—Gross income includes the amount of the credit allowed to the taxpayer under this section (determined without regard to subsection (c)) and the amount so included shall be treated as interest income.

"(g) BONDS HELD BY REGULATED INVESTMENT COMPANIES.—If any qualified public school modernization bond is held by a regulated investment company, the credit determined under subsection (a) shall be allowed to shareholders of such company under procedures prescribed by the Secretary.

"(h) CREDITS MAY BE STRIPPED.—Under regulations prescribed by the Secretary—

"(1) IN GENERAL.—There may be a separation (including at issuance) of the ownership of a qualified public school modernization bond and the entitlement to the credit under this section with respect to such bond. In case of any such separation, the credit under this section shall be allowed to the person who on the credit allowance date holds the instrument evidencing the entitlement to the credit and not to the holder of the bond.

"(2) CERTAIN RULES TO APPLY.—In the case of a separation described in paragraph (1), the rules of section 1286 shall apply to the qualified public school modernization bond as if it were a stripped bond and to the credit under this section as if it were a stripped coupon.

"(i) TREATMENT FOR ESTIMATED TAX PURPOSES.—Solely for purposes of sections 6654 and 6655, the credit allowed by this section to a taxpayer by reason of holding a qualified public school modernization bonds on a credit allowance date shall be treated as if it were a payment of estimated tax made by the taxpayer on such date.

"(j) CREDIT MAY BE TRANSFERRED.—Nothing in any law or rule of law shall be construed to limit the transferability of the credit allowed by this section through sale and repurchase agreements.

"(k) REPORTING.—Issuers of qualified public school modernization bonds shall submit reports similar to the reports required under section 149(e).

#### "PART II—QUALIFIED SCHOOL CONSTRUCTION BONDS

"Sec. 1400G. Qualified school construction bonds.

##### "SEC. 1400G. QUALIFIED SCHOOL CONSTRUCTION BONDS.

"(a) QUALIFIED SCHOOL CONSTRUCTION BOND.—For purposes of this subchapter, the term 'qualified school construction bond' means any bond issued as part of an issue if—

"(1) 95 percent or more of the proceeds of such issue are to be used for the construction, rehabilitation, or repair of a public school facility or for the acquisition of land on which such a facility is to be constructed with part of the proceeds of such issue,

"(2) the bond is issued by a State or local government within the jurisdiction of which such school is located,

"(3) the issuer designates such bond for purposes of this section, and

"(4) the term of each bond which is part of such issue does not exceed 15 years.

"(b) LIMITATION ON AMOUNT OF BONDS DESIGNATED.—The maximum aggregate face amount of bonds issued during any calendar year which may be designated under subsection (a) by any issuer shall not exceed the sum of—

"(1) the limitation amount allocated under subsection (d) for such calendar year to such issuer, and

"(2) if such issuer is a large local educational agency (as defined in subsection (e)(4)) or is issuing on behalf of such an agency, the limitation amount allocated under subsection (e) for such calendar year to such agency.

"(c) NATIONAL LIMITATION ON AMOUNT OF BONDS DESIGNATED.—There is a national qualified school construction bond limitation for each calendar year. Such limitation is—

"(1) \$11,800,000,000 for 2001,

"(2) \$11,800,000,000 for 2005, and

"(3) except as provided in subsection (f), zero after 2001 and before 2005, and after 2005.

"(d) SIXTY-FIVE PERCENT OF LIMITATION ALLOCATED AMONG STATES.—

"(1) IN GENERAL.—Sixty-five percent of the limitation applicable under subsection (c) for any calendar year shall be allocated among the States under paragraph (2) by the Secretary. The limitation amount allocated to a State under the preceding sentence shall be allocated by the State to issuers within such State and such allocations may be made only if there is an approved State application.

"(2) ALLOCATION FORMULA.—The amount to be allocated under paragraph (1) for any calendar year shall be allocated among the States in proportion to the respective



amounts each such State received for Basic Grants under subpart 2 of part A of title I of the Elementary and Secondary Education Act of 1965 (20 U.S.C. 6331 et seq.) for the most recent fiscal year ending before such calendar year. For purposes of the preceding sentence, Basic Grants attributable to large local educational agencies (as defined in subsection (e)) shall be disregarded.

“(3) MINIMUM ALLOCATIONS TO STATES.—

“(A) IN GENERAL.—The Secretary shall adjust the allocations under this subsection for any calendar year for each State to the extent necessary to ensure that the sum of—

“(i) the amount allocated to such State under this subsection for such year, and

“(ii) the aggregate amounts allocated under subsection (e) to large local educational agencies in such State for such year,

is not less than an amount equal to such State's minimum percentage of the amount to be allocated under paragraph (1) for the calendar year.

“(B) MINIMUM PERCENTAGE.—A State's minimum percentage for any calendar year is the minimum percentage described in section 1124(d) of the Elementary and Secondary Education Act of 1965 (20 U.S.C. 6334(d)) for such State for the most recent fiscal year ending before such calendar year.

“(4) ALLOCATIONS TO CERTAIN POSSESSIONS.—The amount to be allocated under paragraph (1) to any possession of the United States other than Puerto Rico shall be the amount which would have been allocated if all allocations under paragraph (1) were made on the basis of respective populations of individuals below the poverty line (as defined by the Office of Management and Budget). In making other allocations, the amount to be allocated under paragraph (1) shall be reduced by the aggregate amount allocated under this paragraph to possessions of the United States.

“(5) ALLOCATIONS FOR INDIAN SCHOOLS.—In addition to the amounts otherwise allocated under this subsection, \$200,000,000 for calendar year 2001, and \$200,000,000 for calendar year 2005, shall be allocated by the Secretary of the Interior for purposes of the construction, rehabilitation, and repair of schools funded by the Bureau of Indian Affairs. In the case of amounts allocated under the preceding sentence, Indian tribal governments (as defined in section 7871) shall be treated as qualified issuers for purposes of this subchapter.

“(6) APPROVED STATE APPLICATION.—For purposes of paragraph (1), the term ‘approved State application’ means an application which is approved by the Secretary of Education and which includes—

“(A) the results of a recent publicly-available survey (undertaken by the State with the involvement of local education officials, members of the public, and experts in school construction and management) of such State's needs for public school facilities, including descriptions of—

“(i) health and safety problems at such facilities,

“(ii) the capacity of public schools in the State to house projected enrollments, and

“(iii) the extent to which the public schools in the State offer the physical infrastructure needed to provide a high-quality education to all students, and

“(B) a description of how the State will allocate to local educational agencies, or otherwise use, its allocation under this subsection to address the needs identified under subparagraph (A), including a description of how it will—

“(i) give highest priority to localities with the greatest needs, as demonstrated by inadequate school facilities coupled with a low level of resources to meet those needs,

“(ii) use its allocation under this subsection to assist localities that lack the fiscal capacity to issue bonds on their own, and

“(iii) ensure that its allocation under this subsection is used only to supplement, and not supplant, the amount of school construction, rehabilitation, and repair in the State that would have occurred in the absence of such allocation.

Any allocation under paragraph (1) by a State shall be binding if such State reasonably determined that the allocation was in accordance with the plan approved under this paragraph.

“(e) THIRTY-FIVE PERCENT OF LIMITATION ALLOCATED AMONG LARGEST SCHOOL DISTRICTS.—

“(1) IN GENERAL.—Thirty-five percent of the limitation applicable under subsection (c) for any calendar year shall be allocated under paragraph (2) by the Secretary among local educational agencies which are large local educational agencies for such year. No qualified school construction bond may be issued by reason of an allocation to a large local educational agency under the preceding sentence unless such agency has an approved local application.

“(2) ALLOCATION FORMULA.—The amount to be allocated under paragraph (1) for any calendar year shall be allocated among large local educational agencies in proportion to the respective amounts each such agency received for Basic Grants under subpart 2 of part A of title I of the Elementary and Secondary Education Act of 1965 (20 U.S.C. 6331 et seq.) for the most recent fiscal year ending before such calendar year.

“(3) ALLOCATION OF UNUSED LIMITATION TO STATE.—The amount allocated under this subsection to a large local educational agency for any calendar year may be reallocated by such agency to the State in which such agency is located for such calendar year. Any amount reallocated to a State under the preceding sentence may be allocated as provided in subsection (d)(1).

“(4) LARGE LOCAL EDUCATIONAL AGENCY.—For purposes of this section, the term ‘large local educational agency’ means, with respect to a calendar year, any local educational agency if such agency is—

“(A) among the 100 local educational agencies with the largest numbers of children aged 5 through 17 from families living below the poverty level, as determined by the Secretary using the most recent data available from the Department of Commerce that are satisfactory to the Secretary, or

“(B) 1 of not more than 25 local educational agencies (other than those described in subparagraph (A)) that the Secretary of Education determines (based on the most recent data available satisfactory to the Secretary) are in particular need of assistance, based on a low level of resources for school construction, a high level of enrollment growth, or such other factors as the Secretary deems appropriate.

“(5) APPROVED LOCAL APPLICATION.—For purposes of paragraph (1), the term ‘approved local application’ means an application which is approved by the Secretary of Education and which includes—

“(A) the results of a recent publicly-available survey (undertaken by the local educational agency or the State with the involvement of school officials, members of the public, and experts in school construction and management) of such agency's needs for public school facilities, including descriptions of—

“(i) the overall condition of the local educational agency's school facilities, including health and safety problems,

“(ii) the overcrowded conditions of the agency's schools and the capacity of such schools to house projected enrollments, and

“(iii) the extent to which the agency's schools offer the physical infrastructure needed to provide a high-quality education to all students,

“(B) a description of how the local educational agency will use its allocation under this subsection to address the needs identified under subparagraph (A), including a description of how the agency will—

“(i) give high priority to localities with the greatest needs, as demonstrated by inadequate school facilities coupled with a low level of resources to meet those needs,

“(ii) use its allocation under this subsection to assist localities that lack the fiscal capacity to issue bonds on their own,

“(iii) ensure that its allocation under this subsection is used only to supplement, and not supplant, the amount of school construction, rehabilitation, and repair in the State that would have occurred in the absence of such allocation, and

“(iv) ensure that the needs of both rural and urban areas are recognized, and

“(C) a description of how the local educational agency will ensure that its allocation under this subsection is used only to supplement, and not supplant, the amount of school construction, rehabilitation, or repair in the locality that would have occurred in the absence of such allocation.

A rule similar to the rule of the last sentence of subsection (d)(6) shall apply for purposes of this paragraph.

“(f) CARRYOVER OF UNUSED LIMITATION.—If for any calendar year—

“(1) the amount allocated under subsection (d) to any State, exceeds

“(2) the amount of bonds issued during such year which are designated under subsection (a) pursuant to such allocation, the limitation amount under such subsection for such State for the following calendar year shall be increased by the amount of such excess. A similar rule shall apply to the amounts allocated under subsection (d)(5) or (e).

“(g) SPECIAL RULES RELATING TO ARBITRATION.—

“(1) IN GENERAL.—A bond shall not be treated as failing to meet the requirement of subsection (a)(1) solely by reason of the fact that the proceeds of the issue of which such bond is a part are invested for a temporary period (but not more than 36 months) until such proceeds are needed for the purpose for which such issue was issued.

“(2) BINDING COMMITMENT REQUIREMENT.—Paragraph (1) shall apply to an issue only if, as of the date of issuance, there is a reasonable expectation that—

“(A) at least 10 percent of the proceeds of the issue will be spent within the 6-month period beginning on such date for the purpose for which such issue was issued, and

“(B) the remaining proceeds of the issue will be spent with due diligence for such purpose.

“(3) EARNINGS ON PROCEEDS.—Any earnings on proceeds during the temporary period shall be treated as proceeds of the issue for purposes of applying subsection (a)(1) and paragraph (1) of this subsection.

“PART III—INCENTIVES FOR EDUCATION ZONES

“Sec. 1400H. Qualified zone academy bonds.

“SEC. 1400H. QUALIFIED ZONE ACADEMY BONDS.

“(a) QUALIFIED ZONE ACADEMY BOND.—For purposes of this subchapter—

“(1) IN GENERAL.—The term ‘qualified zone academy bond’ means any bond issued as part of an issue if—

“(A) 95 percent or more of the proceeds of such issue are to be used for a qualified purpose with respect to a qualified zone academy established by a local educational agency,

"(B) the bond is issued by a State or local government within the jurisdiction of which such academy is located,

"(C) the issuer—

"(i) designates such bond for purposes of this section,

"(ii) certifies that it has written assurances that the private business contribution requirement of paragraph (2) will be met with respect to such academy, and

"(iii) certifies that it has the written approval of the local educational agency for such bond issuance, and

"(D) the term of each bond which is part of such issue does not exceed 15 years.

Rules similar to the rules of section 1400G(g) shall apply for purposes of paragraph (1).

"(2) PRIVATE BUSINESS CONTRIBUTION REQUIREMENT.—

"(A) IN GENERAL.—For purposes of paragraph (1), the private business contribution requirement of this paragraph is met with respect to any issue if the local educational agency that established the qualified zone academy has written commitments from private entities to make qualified contributions having a present value (as of the date of issuance of the issue) of not less than 10 percent of the proceeds of the issue.

"(B) QUALIFIED CONTRIBUTIONS.—For purposes of subparagraph (A), the term 'qualified contribution' means any contribution (of a type and quality acceptable to the local educational agency) of—

"(i) equipment for use in the qualified zone academy (including state-of-the-art technology and vocational equipment),

"(ii) technical assistance in developing curriculum or in training teachers in order to promote appropriate market driven technology in the classroom,

"(iii) services of employees as volunteer mentors,

"(iv) internships, field trips, or other educational opportunities outside the academy for students, or

"(v) any other property or service specified by the local educational agency.

"(3) QUALIFIED ZONE ACADEMY.—The term 'qualified zone academy' means any public school (or academic program within a public school) which is established by and operated under the supervision of a local educational agency to provide education or training below the postsecondary level if—

"(A) such public school or program (as the case may be) is designed in cooperation with business to enhance the academic curriculum, increase graduation and employment rates, and better prepare students for the rigors of college and the increasingly complex workforce,

"(B) students in such public school or program (as the case may be) will be subject to the same academic standards and assessments as other students educated by the local educational agency,

"(C) the comprehensive education plan of such public school or program is approved by the local educational agency, and

"(D)(i) such public school is located in an empowerment zone or enterprise community (including any such zone or community designated after the date of the enactment of this section), or

"(ii) there is a reasonable expectation (as of the date of issuance of the bonds) that at least 35 percent of the students attending such school or participating in such program (as the case may be) will be eligible for free or reduced-cost lunches under the school lunch program established under the National School Lunch Act.

"(4) QUALIFIED PURPOSE.—The term 'qualified purpose' means, with respect to any qualified zone academy—

"(A) constructing, rehabilitating, or repairing the public school facility in which the academy is established,

"(B) acquiring the land on which such facility is to be constructed with part of the proceeds of such issue,

"(C) providing equipment for use at such academy,

"(D) developing course materials for education to be provided at such academy, and

"(E) training teachers and other school personnel in such academy.

"(b) LIMITATIONS ON AMOUNT OF BONDS DESIGNATED.—

"(1) IN GENERAL.—There is a national zone academy bond limitation for each calendar year. Such limitation is—

"(A) \$400,000,000 for 1998,

"(B) \$400,000,000 for 1999,

"(C) \$400,000,000 for 2001,

"(D) \$400,000,000 for 2005, and

"(E) except as provided in paragraph (3), zero after 1999 and before 2001, zero after 2001 and before 2005, and zero after 2005.

"(2) ALLOCATION OF LIMITATION.—

"(A) ALLOCATION AMONG STATES.—

"(i) 1998 and 1999 LIMITATIONS.—The national zone academy bond limitations for calendar years 1998 and 1999 shall be allocated by the Secretary among the States on the basis of their respective populations of individuals below the poverty line (as defined by the Office of Management and Budget).

"(ii) LIMITATION AFTER 1999.—The national zone academy bond limitation for any calendar year after 1999 shall be allocated by the Secretary among the States in the manner prescribed by section 1400G(d); except that in making the allocation under this clause, the Secretary shall take into account—

"(I) Basic Grants attributable to large local educational agencies (as defined in section 1400G(e)(4)).

"(II) the national zone academy bond limitation.

"(B) ALLOCATION TO LOCAL EDUCATIONAL AGENCIES.—The limitation amount allocated to a State under subparagraph (A) shall be allocated by the State education agency to qualified zone academies within such State.

"(C) DESIGNATION SUBJECT TO LIMITATION AMOUNT.—The maximum aggregate face amount of bonds issued during any calendar year which may be designated under subsection (a) with respect to any qualified zone academy shall not exceed the limitation amount allocated to such academy under subparagraph (B) for such calendar year.

"(3) CARRYOVER OF UNUSED LIMITATION.—If for any calendar year—

"(A) the limitation amount under this subsection for any State, exceeds

"(B) the amount of bonds issued during such year which are designated under subsection (a) (or the corresponding provisions of prior law) with respect to qualified zone academies within such State,

the limitation amount under this subsection for such State for the following calendar year shall be increased by the amount of such excess."

(b) REPORTING.—Subsection (d) of section 6049 of the Internal Revenue Code of 1986 (relating to returns regarding payments of interest) is amended by adding at the end the following new paragraph:

"(8) REPORTING OF CREDIT ON QUALIFIED PUBLIC SCHOOL MODERNIZATION BONDS.—

"(A) IN GENERAL.—For purposes of subsection (a), the term 'interest' includes amounts includible in gross income under section 1400F(f) and such amounts shall be treated as paid on the credit allowance date (as defined in section 1400F(d)(2)).

"(B) REPORTING TO CORPORATIONS, ETC.—Except as otherwise provided in regulations,

in the case of any interest described in subparagraph (A) of this paragraph, subsection (b)(4) of this section shall be applied without regard to subparagraphs (A), (H), (I), (J), (K), and (L)(i).

"(C) REGULATORY AUTHORITY.—The Secretary may prescribe such regulations as are necessary or appropriate to carry out the purposes of this paragraph, including regulations which require more frequent or more detailed reporting."

(c) CONFORMING AMENDMENTS.—

(1) Subchapter U of chapter 1 of the Internal Revenue Code of 1986 is amended by striking part IV, by redesignating part V as part IV, and by redesignating section 1397F as section 1397E.

(2) The table of subchapters for chapter 1 of such Code is amended by adding at the end the following new item:

"Subchapter X. Public school modernization provisions."

(3) The table of parts of subchapter U of chapter 1 of such Code is amended by striking the last 2 items and inserting the following item:

"Part IV. Regulations."

(d) USE OF NET PROCEEDS.—Notwithstanding any other provision of law—

(1) section 439(a) of the General Education Provisions Act shall apply with respect to the construction, reconstruction, rehabilitation, or repair of any school facility to the extent funded by net proceeds obtained through any provision enacted or amended by this Act, and

(2) such net proceeds may not be used to fund the construction, reconstruction, rehabilitation, or repair of any stadium or other facility primarily used for athletic or non-academic events.

(e) EFFECTIVE DATE.—

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

(2) REPEAL OF RESTRICTION ON ZONE ACADEMY BOND HOLDERS.—In the case of bonds to which section 1397E of the Internal Revenue Code of 1986 (as in effect before the date of the enactment of this Act) applies, the limitation of such section to eligible taxpayers (as defined in subsection (d)(6) of such section) shall not apply after the date of the enactment of this Act.

#### SEC. 602. MODIFICATIONS TO QUALIFIED TUITION PROGRAMS.

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

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

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

(3) CONFORMING AMENDMENTS.—

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

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

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

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

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

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

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

"(B) DISTRIBUTIONS FOR QUALIFIED HIGHER EDUCATION EXPENSES.—For purposes of this paragraph—

"(i) IN-KIND DISTRIBUTIONS.—No amount shall be includible in gross income under subparagraph (A) by reason of a distribution which consists of providing a benefit to the distributee which, if paid for by the distributee, would constitute payment of a qualified higher education expense.

"(ii) CASH DISTRIBUTIONS.—In the case of distributions not described in clause (i), if—

"(I) such distributions do not exceed the qualified higher education expenses (reduced by expenses described in clause (i)), no amount shall be includible in gross income, and

"(II) in any other case, the amount otherwise includible in gross income shall be reduced by an amount which bears the same ratio to such amount as such expenses bear to such distributions.

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

"(iv) TREATMENT AS DISTRIBUTIONS.—Any benefit furnished to a designated beneficiary under a qualified tuition program shall be treated as a distribution to the beneficiary for purposes of this paragraph.

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

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

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

"(vi) COORDINATION WITH EDUCATION INDIVIDUAL RETIREMENT ACCOUNTS.—If, with respect to an individual for any taxable year—

"(I) the aggregate distributions to which clauses (i) and (ii) and section 530(d)(2)(A) apply, exceed

"(II) the total amount of qualified higher education expenses otherwise taken into account under clauses (i) and (ii) (after the application of clause (vi)) for such year, the taxpayer shall allocate such expenses among such distributions for purposes of determining the amount of the exclusion under clauses (i) and (ii) and section 530(d)(2)(A)."

(2) CONFORMING AMENDMENTS.—

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

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

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

#### SEC. 603. ELIMINATION OF 60-MONTH LIMIT ON STUDENT LOAN INTEREST DEDUCTION.

(a) ELIMINATION OF 60-MONTH LIMIT.—Section 221 (relating to interest on education loans) is amended by striking subsection (d) and by redesignating subsections (e), (f), and

(g) as subsections (d), (e), and (f), respectively.

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

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

#### SEC. 604. ADDITIONAL INCREASE IN ARBITRAGE REBATE EXCEPTION FOR GOVERNMENTAL BONDS USED TO FINANCE EDUCATIONAL FACILITIES.

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

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to obligations issued in calendar years beginning after December 31, 2000.

#### SEC. 605. TREATMENT OF QUALIFIED PUBLIC EDUCATIONAL FACILITY BONDS AS EXEMPT FACILITY BONDS.

(a) TREATMENT AS EXEMPT FACILITY BOND.—Subsection (a) of section 142 (relating to exempt facility bond) is amended by striking "or" at the end of paragraph (11), by striking the period at the end of paragraph (12) and inserting ", or", and by adding at the end the following new paragraph:

"(13) qualified public educational facilities."

(b) QUALIFIED PUBLIC EDUCATIONAL FACILITIES.—Section 142 (relating to exempt facility bond) is amended by adding at the end the following new subsection:

"(k) QUALIFIED PUBLIC EDUCATIONAL FACILITIES.—

"(1) IN GENERAL.—For purposes of subsection (a)(13), the term 'qualified public educational facility' means any school facility which is—

"(A) part of a public elementary school or a public secondary school, and

"(B) owned by a private, for-profit corporation pursuant to a public-private partnership agreement with a State or local educational agency described in paragraph (2).

"(2) PUBLIC-PRIVATE PARTNERSHIP AGREEMENT DESCRIBED.—A public-private partnership agreement is described in this paragraph if it is an agreement—

"(A) under which the corporation agrees—

"(i) to do 1 or more of the following: construct, rehabilitate, refurbish, or equip a school facility, and

"(ii) at the end of the term of the agreement, to transfer the school facility to such agency for no additional consideration, and

"(B) the term of which does not exceed the last maturity date of any bond which is a part of the issue to be used to finance the activities described in subparagraph (A)(i).

"(3) SCHOOL FACILITY.—For purposes of this subsection, the term 'school facility' means—

"(A) school buildings,

"(B) functionally related and subordinate facilities and land with respect to such buildings, including any stadium or other facility primarily used for school events, and

"(C) any property, to which section 168 applies (or would apply but for section 179), for use in the facility.

"(4) PUBLIC SCHOOLS.—For purposes of this subsection, the terms 'elementary school' and 'secondary school' have the meanings given such terms by section 14101 of the Elementary and Secondary Education Act of 1965 (20 U.S.C. 8801), as in effect on the date of the enactment of this subsection.

"(5) ANNUAL AGGREGATE FACE AMOUNT OF TAX-EXEMPT FINANCING.—

"(A) IN GENERAL.—An issue shall not be treated as an issue described in subsection

(a)(13) if the aggregate face amount of bonds issued by the State pursuant thereto (when added to the aggregate face amount of bonds previously so issued during the calendar year) exceeds an amount equal to the greater of—

"(i) \$10 multiplied by the State population, or

"(ii) \$5,000,000.

"(B) ALLOCATION RULES.—

"(i) IN GENERAL.—Except as otherwise provided in this subparagraph, the State may allocate the amount described in subparagraph (A) for any calendar year in such manner as the State determines appropriate.

"(ii) RULES FOR CARRYFORWARD OF UNUSED LIMITATION.—A State may elect to carry forward an unused limitation for any calendar year for 3 calendar years following the calendar year in which the unused limitation arose under rules similar to the rules of section 146(f), except that the only purpose for which the carryforward may be elected is the issuance of exempt facility bonds described in subsection (a)(13)."

(c) EXEMPTION FROM GENERAL STATE VOLUME CAPS.—Paragraph (3) of section 146(g) (relating to exception for certain bonds) is amended—

(1) by striking "or (12)" and inserting "(12), or (13)", and

(2) by striking "and environmental enhancements of hydroelectric generating facilities" and inserting "environmental enhancements of hydroelectric generating facilities, and qualified public educational facilities".

(d) EXEMPTION FROM LIMITATION ON USE FOR LAND ACQUISITION.—Section 147(h) (relating to certain rules not to apply to mortgage revenue bonds, qualified student loan bonds, and qualified 501(c)(3) bonds) is amended by adding at the end the following new paragraph:

"(3) EXEMPT FACILITY BONDS FOR QUALIFIED PUBLIC-PRIVATE SCHOOLS.—Subsection (c) shall not apply to any exempt facility bond issued as part of an issue described in section 142(a)(13) (relating to qualified public educational facilities)."

(e) CONFORMING AMENDMENT.—The heading for section 147(h) is amended by striking "MORTGAGE REVENUE BONDS, QUALIFIED STUDENT LOAN BONDS, AND QUALIFIED 501(c)(3) BONDS" and inserting "CERTAIN BONDS".

(f) EFFECTIVE DATE.—The amendments made by this section shall apply to bonds issued after December 31, 2000.

#### SEC. 606. PERMANENT EXTENSION OF EXCLUSION FOR EMPLOYER-PROVIDED EDUCATIONAL ASSISTANCE.

(a) IN GENERAL.—Section 127 (relating to exclusion for educational assistance programs) is amended by striking subsection (d).

(b) REPEAL OF LIMITATION ON GRADUATE EDUCATION.—

(1) IN GENERAL.—The last sentence of section 127(c)(1) 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. 607. EXPANSION OF DEDUCTION FOR COMPUTER DONATIONS TO SCHOOLS.

(a) IN GENERAL.—Section 170(e)(6)(A) (relating to limit on reduction) is amended by inserting "(determined by substituting '90 percent' for 'one-half' in clause (i) and without regard to clause (ii) thereof)" after "paragraph (3)(B)".

(b) REACQUIRED COMPUTERS ELIGIBLE FOR DONATION.—

(1) IN GENERAL.—Section 170(e)(6)(B)(iii) (defining qualified elementary or secondary educational contribution) is amended by inserting “, the person from whom the donor reacquires the property,” after “the donor”.

(2) REACQUIRED COMPUTER EQUIVALENT TO NEW COMPUTER.—Section 170(e)(6)(B) is amended by striking “and” at the end of clause (vi), by redesignating clause (vii) as clause (viii), and by inserting after clause (vi) the following:

“(vi) the contribution of any reacquired computer technology or equipment is made only after such computer technology or equipment is refurbished to a standard equivalent to newly constructed computer technology or equipment, and”.

(3) CONFORMING AMENDMENT.—Section 170(e)(6)(B)(ii) is amended by inserting “or reacquired” after “acquired”.

(c) EXTENSION OF DEDUCTION.—Section 170(e)(6)(F) (relating to termination) is amended by striking “2000” and inserting “2001”.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to contributions made after December 31, 1999.

**SEC. 608. CREDIT FOR INFORMATION TECHNOLOGY TRAINING PROGRAM EXPENSES.**

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 (relating to business-related credits) is amended by adding at the end the following:

**“SEC. 45D. INFORMATION TECHNOLOGY TRAINING PROGRAM EXPENSES.**

“(a) GENERAL RULE.—For purposes of section 38, in the case of an employer, the information technology training program credit determined under this section is an amount equal to 20 percent of information technology training program expenses paid or incurred by the taxpayer during the taxable year.

“(b) ADDITIONAL CREDIT PERCENTAGE FOR CERTAIN PROGRAMS.—The percentage under subsection (a) shall be increased by 5 percentage points for information technology training program expenses paid or incurred—

“(1) by the taxpayer with respect to a program operated in—

“(A) an empowerment zone or enterprise community designated under part I of subchapter U,

“(B) a school district in which at least 50 percent of the students attending schools in such district are eligible for free or reduced-cost lunches under the school lunch program established under the National School Lunch Act,

“(C) an area designated as a disaster area by the Secretary of Agriculture or by the President under the Disaster Relief and Emergency Assistance Act in the taxable year or the 4 preceding taxable years,

“(D) a rural enterprise community designated under section 766 of the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 1999,

“(E) an area designated by the Secretary of Agriculture as a Rural Economic Area Partnership Zone, or

“(F) an area designated by the Secretary of Agriculture as a Champion Community, or

“(2) by a small employer.

“(c) LIMITATION.—The amount of information technology training program expenses with respect to an individual which may be taken into account under subsection (a) for the taxable year shall not exceed \$6,000.

“(d) INFORMATION TECHNOLOGY TRAINING PROGRAM EXPENSES.—For purposes of this section—

“(1) IN GENERAL.—The term ‘information technology training program expenses’

means expenses paid or incurred by reason of the participation of the employer in any information technology training program.

“(2) INFORMATION TECHNOLOGY TRAINING PROGRAM.—The term ‘information technology training program’ means a program—

“(A) for the training of—

“(i) computer programmers, systems analysts, and computer scientists or engineers (as such occupations are defined by the Bureau of Labor Statistics), and

“(ii) such other occupations as determined by the Secretary, after consultation with a working group broadly solicited by the Secretary and open to all interested information technology entities and trade and professional associations,

“(B) involving a partnership of—

“(i) employers, and

“(ii) State training programs, school districts, university systems, tribal colleges, or certified commercial information technology training providers, and

“(C) at least 50 percent of the costs of which is paid or incurred by the employers.

“(3) CERTIFIED COMMERCIAL INFORMATION TECHNOLOGY TRAINING PROVIDER.—The term ‘certified commercial information technology training providers’ means a private sector provider of educational products and services utilized for training in information technology which is certified with respect to—

“(A) the curriculum that is used for the training, or

“(B) the technical knowledge of the instructors of such provider,

by 1 or more software publishers or hardware manufacturers the products of which are a subject of the training.

“(e) SMALL EMPLOYER.—For purposes of this section, the term ‘small employer’ means, with respect to any calendar year, any employer if such employer employed 200 or fewer employees on each business day in each of 20 or more calendar weeks in such year or the preceding calendar year.

“(f) DENIAL OF DOUBLE BENEFIT.—No deduction or credit under any other provision of this chapter shall be allowed with respect to information technology training program expenses (determined without regard to the limitation under subsection (c)).

“(g) CERTAIN RULES MADE APPLICABLE.—For purposes of this section, rules similar to the rules of section 45A(e)(2) and subsections (c), (d), and (e) of section 52 shall apply.”

(b) CREDIT TO BE PART OF GENERAL BUSINESS CREDIT.—Section 38(b) (relating to current year business credit), as amended by section 205(b)(1), is amended by striking “plus” at the end of paragraph (12), by striking the period at the end of paragraph (13) and inserting “, plus”, and by adding at the end the following:

“(14) the information technology training program credit determined under section 45D.”

(c) NO CARRYBACKS.—Subsection (d) of section 39 (relating to carryback and carryforward of unused credits), as amended by section 205(c), is amended by adding at the end the following:

“(10) NO CARRYBACK OF SECTION 45D CREDIT BEFORE EFFECTIVE DATE.—No portion of the unused business credit for any taxable year which is attributable to the information technology training program credit determined under section 45D may be carried back to a taxable year ending before the date of the enactment of section 45D.”

(d) CLERICAL AMENDMENT.—The table of sections for subpart D of part IV of subchapter A of chapter 1 is amended by adding at the end the following:

“Sec. 45D. Information technology training program expenses.”

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

**SEC. 609. CHARITABLE CONTRIBUTIONS TO CERTAIN LOW INCOME SCHOOLS MAY BE MADE IN NEXT TAXABLE YEAR.**

(a) IN GENERAL.—Section 170(f) (relating to disallowance of deduction in certain cases and special rules) is amended by adding at the end the following new paragraph:

“(10) TIME WHEN CERTAIN CONTRIBUTIONS DEEMED MADE.—

“(A) IN GENERAL.—At the election of the taxpayer, a qualified low-income school contribution shall be deemed to be made on the last day of the preceding taxable year if the contribution is made on account of such taxable year and is made not later than the time prescribed by law for filing the return for such taxable year (not including extensions thereof). The election may be made at the time of the filing of the return for such taxable year, and shall be made and substantiated in such manner as the Secretary shall by regulations prescribe.

“(B) QUALIFIED LOW-INCOME SCHOOL CONTRIBUTION.—For purposes of subparagraph (A), the term ‘qualified low-income school contribution’ means a charitable contribution to an educational organization described in subsection (b)(1)(A)(ii)—

“(i) which is a public, private, or sectarian school which provides elementary or secondary education (through grade 12), as determined under State law, and

“(ii) with respect to which at least 50 percent of the students attending such school are eligible for free or reduced-cost lunches under the school lunch program established under the National School Lunch Act.”

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

**SEC. 610. EXCLUSION OF NATIONAL SERVICE EDUCATIONAL AWARDS.**

(a) IN GENERAL.—Section 117 (relating to qualified scholarships) is amended by adding at the end the following:

“(e) QUALIFIED NATIONAL SERVICE EDUCATIONAL AWARDS.—

“(1) IN GENERAL.—Gross income for any taxable year shall not include any qualified national service educational award.

“(2) QUALIFIED NATIONAL SERVICE EDUCATIONAL AWARD.—For purposes of this subsection—

“(A) IN GENERAL.—The term ‘qualified national service educational award’ means any amount received by an individual in a taxable year as a national service educational award or other amount under section 148 of the National and Community Service Act of 1990 (42 U.S.C. 12604) to the extent the individual establishes that, in accordance with the conditions of such award or other amount, such award or other amount was used for qualified tuition and related expenses (as defined in subsection (b)(2)) of the individual.

“(B) LIMITATION.—The total amount of the qualified tuition and related expenses (as so defined) which may be taken into account under subparagraph (A) with respect to an individual shall be reduced by the amount of such expenses which were taken into account in determining the credit allowed to the taxpayer or any other person under section 25A with respect to such expenses in any taxable year.”

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

**TITLE VII—ENVIRONMENTAL  
CONSERVATION AND PROTECTION**

**Subtitle A—Better America Bonds**

**SEC. 701. CREDIT FOR HOLDERS OF BETTER AMERICA BONDS.**

(a) IN GENERAL.—Part IV of subchapter A of chapter 1 of the Internal Revenue Code of 1986 (relating to credits against tax) is amended by adding at the end the following new subpart:

**“Subpart H—Nonrefundable Credit for  
Holders of Better America Bonds**

“Sec. 54. Credit to holders of Better America bonds.

**“SEC. 54. CREDIT TO HOLDERS OF BETTER AMERICA BONDS.**

“(a) ALLOWANCE OF CREDIT.—In the case of a taxpayer who holds a Better America bond on a credit allowance date which occurs during the taxable year, there shall be allowed as a credit against the tax imposed by this chapter for such taxable year an amount equal to the sum of the credits determined under subsection (b) with respect to credit allowance dates during such year on which the taxpayer holds such bonds.

“(b) AMOUNT OF CREDIT.—

“(1) IN GENERAL.—The amount of the credit determined under this subsection with respect to any credit allowance date for a Better America bond is an amount equal to the product of—

“(A) the credit rate determined by the Secretary under paragraph (2), multiplied by

“(B) the face amount of the bond held by the taxpayer on the credit allowance date.

“(2) DETERMINATION.—During each calendar month, the Secretary shall determine a credit rate which shall apply to bonds issued during the following calendar month. The credit rate for any 3-month period ending on a credit allowance date is the percentage which the Secretary estimates will on average equal the yield on corporate bonds outstanding on the day before the date of such determination.

“(3) SPECIAL RULE FOR ISSUANCE AND REDEMPTION.—In the case of a bond which is issued during the 3-month period ending on a credit allowance date, the amount of the credit determined under this subsection with respect to such credit allowance date shall be a ratable portion of the credit otherwise determined based on the portion of the 3-month period during which the bond is outstanding. A similar rule shall apply when the bond is redeemed.

“(c) LIMITATION BASED ON AMOUNT OF TAX.—

“(1) IN GENERAL.—The credit allowed under subsection (a) for any taxable year shall not exceed the excess of—

“(A) the sum of the regular tax liability (as defined in section 26(b)) plus the tax imposed by section 55, over

“(B) the sum of the credits allowable under this part (other than this subpart and subpart C).

“(2) CARRYFORWARD OF UNUSED CREDIT.—If the credit allowable under subsection (a) exceeds the limitation imposed by paragraph (1) for such taxable year, such excess shall be carried to each of the 5 taxable years following the unused credit year and added to the credit allowable under subsection (a) for each such taxable year, subject to the application of paragraph (1) to such taxable year.

“(d) BETTER AMERICA BOND.—For purposes of this section—

“(1) IN GENERAL.—The term ‘Better America bond’ means any bond issued as part of an issue if—

“(A) 95 percent or more of the proceeds of such issue are to be used for a qualified environmental infrastructure project,

“(B) the bond is issued by a State or local government,

“(C) the issuer—

“(i) designates such bond for purposes of this section,

“(ii) has a reasonable expectation that at least 10 percent of the proceeds of such issue will be spent for qualifying environmental infrastructure projects within 6 months of the date such bonds are issued,

“(iii) certifies such proceeds will be used with due diligence for qualified environmental infrastructure projects, and

“(iv) has a reasonable expectation that any property acquired or improved in connection with the proceeds of such issue, other than property improved in connection with a qualified environmental infrastructure project described in paragraph (2)(A)(v), shall continue to be dedicated to a qualified use for a period of not less than 15 years from the date of such issue.

“(D) such bond satisfies public approval requirements similar to the requirements of section 147(f)(2),

“(E) except as provided in paragraph (4)(B), the payment of the principal of such issue is secured by taxes of general applicability imposed by a general purpose governmental unit, and

“(F) the term of each bond which is part of such issue does not exceed 15 years.

“(2) QUALIFIED ENVIRONMENTAL INFRASTRUCTURE PROJECT.—

“(A) IN GENERAL.—The term ‘qualified environmental infrastructure project’ means—

“(i) acquisition of qualified property for use as open space, wetlands, public parks, or greenways, or to improve access to public lands by non-motorized means,

“(ii) construction, rehabilitation, or repair of a visitor facility in connection with qualified property, including nature centers, campgrounds, and hiking or biking trails,

“(iii) remediation of qualified property to enhance water quality by—

“(I) restoring natural hydrology or planting trees and streamside vegetation,

“(II) controlling erosion,

“(III) restoring wetlands, or

“(IV) treating conditions caused by the prior disposal of toxic or other waste,

“(iv) acquisition of a qualified easement in order to maintain the use and character of the property in connection to which such easement is granted as open space, including an easement to allow access to public land by non-motorized means, and

“(v) environmental assessment and remediation of real property and public infrastructure owned by a governmental unit and located in an area where or on which there has been a release (or threat of release) or disposal of any hazardous substance (within the meaning of section 198), not including any property described in subparagraph (D).

“(B) QUALIFIED PROPERTY.—The term ‘qualified property’ means real property—

“(i) which is, or is to be, owned by—

“(1) a governmental unit, or

“(II) an organization described in section 501(c)(3) and exempt from taxation under section 501(a) and which has as one of its purposes environmental preservation, and

“(ii) which is reasonably anticipated to be available for use by members of the general public, unless such use would change the character of the property and be contrary to the qualified use of the property.

“(C) SAFE HARBOR FOR MANAGEMENT CONTRACTS.—For purposes of subparagraph (B), property shall not be treated as qualified property if any rights or benefits of such property inure to a private person other than rights or benefits under a management contract or similar type of operating agreement to which rules similar to the rules applicable to tax-exempt bonds apply.

“(D) CERCLA PROPERTY.—Property is described in this subparagraph if any portion of

such property is included, or proposed to be included, in the national priorities list under section 105(a)(8)(B) of the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (42 U.S.C. 9605(a)(8)(B)).

“(E) LIMIT ON DISPOSITION OF PROPERTY.—Any disposition of any interest in property acquired or improved in connection with a qualified environmental project described in this paragraph (except a project described in subparagraph (A)(v)) shall contain an option (recorded pursuant to applicable State or local law) to purchase such property for an amount equal to the original acquisition price of such property for any interested organizations described in subparagraph (B)(i)(II) if such organization purchases such property subject to a restrictive covenant requiring a continued qualified use of such property.

“(3) TEMPORARY PERIOD EXCEPTION.—

“(A) IN GENERAL.—A bond shall not be treated as failing to meet the requirement of paragraph (1)(A) solely by reason of the fact that the proceeds of the issue of which such bond is a part—

“(i) are invested for a reasonable temporary period (but not more than 36 months) until such proceeds are needed for the purpose for which such issue was issued, or

“(ii) are used within 90 days of the close of such temporary period to redeem bonds which are a part of such issue.

Any earnings on such proceeds during the period under clause (i) shall be treated as proceeds of the issue for purposes of applying paragraph (1)(A).

“(B) INVESTMENT OF PROCEEDS.—For purposes of subparagraph (A), proceeds shall only be invested in—

“(i) Government securities, and

“(ii) in the case of a sinking fund established by the issuer, State and local government securities issued by the Treasury.

“(4) SPECIAL RULES FOR PROJECTS DESCRIBED IN PARAGRAPH (2)(A)(v).—

“(A) LIMIT ON USE OF PROCEEDS FOR PROJECT.—This subsection shall not apply to any bond issued as part of an issue if an amount of the proceeds from such issue are used for a qualified environmental infrastructure project described in paragraph (2)(A)(v) and involving public infrastructure in excess of an amount equal to 5 percent of the total amount of such proceeds used for all projects described in such paragraph (2)(A)(v).

“(B) PRIVATE USE AND REPAYMENT OF PROCEEDS.—In the case of proceeds of an issue which are used for a qualified environmental infrastructure project described in paragraph (2)(A)(v), the issue of which such bonds are a part shall not fail to meet the requirements of this subsection solely because the proceeds of a disposition of any interest in such property are used to redeem such bonds as long as the purchaser of such property makes an irrevocable election not to claim any deduction with respect to such project under section 198.

“(5) RECAPTURE OF CREDIT AMOUNT.—

“(A) IN GENERAL.—If, during the taxable year, any bond that is part of an issue under this section fails to meet the requirements of this subsection—

“(i) such bond shall not be treated as a Better America bond for such taxable year and any succeeding taxable year, and

“(ii) the issuer of such bond shall be liable for payment to the United States of the credit recapture amount.

Such payment shall be made at such time and in such manner as determined by the Secretary.

“(B) CREDIT RECAPTURE AMOUNT.—For purposes of subparagraph (A), the credit recapture amount is an amount equal to the sum of—

“(i) the aggregate amount of credit allowed with respect to such bond for the 3 preceding taxable years, plus

“(ii) interest (at the underpayment rate established under section 6621) on the credit amount from the date such credit was allowed to the payment date under subparagraph (A).

“(e) LIMITATIONS ON AMOUNT OF BONDS DESIGNATED.—

“(1) IN GENERAL.—There is a Better America bond limitation for each calendar year equal to—

“(A) \$1,900,000,000 for each of years 2001 through 2005, and

“(B) except as provided in paragraph (3), zero after 2005.

“(2) ALLOCATION OF LIMITATION AMONG STATES AND LOCAL GOVERNMENTS.—

“(A) IN GENERAL.—The limitation amount to be allocated under paragraph (1) for any calendar year shall be allocated among States and local governments with an approved application on a competitive basis by the Better America Bonds Board (referred to in this subsection as the ‘Board’) established under section 702 of the Tax and Public Debt Reduction Act of 1999.

“(B) APPROVED APPLICATION.—For purposes of subparagraph (A), the term ‘approved application’ means an application which is approved by the Board, and which includes such information as the Board requires.

“(3) CARRYOVER OF UNUSED LIMITATION.—If for any calendar year—

“(A) the limitation amount under paragraph (1), exceeds

“(B) the aggregate limitation amount allocated to States and local governments under this section,

the limitation amount under paragraph (1) for the following calendar year shall be increased by the amount of such excess. No limitation amount shall be carried forward under this paragraph more than 3 years.

“(f) OTHER DEFINITIONS; SPECIAL RULES.—For purposes of this subpart—

“(1) BOND.—The term ‘bond’ includes any obligation.

“(2) CREDIT ALLOWANCE DATE.—The term ‘credit allowance date’ means—

“(A) March 15,

“(B) June 15,

“(C) September 15, and

“(D) December 15.

Such term includes the last day on which the bond is outstanding.

“(3) QUALIFIED EASEMENT.—The term ‘qualified easement’ means a perpetual easement—

“(A) which would be a qualified conservation contribution under section 170(h) if such easement were a contribution under such section, and

“(B) which is to be held by an entity described in subclause (I) or (II) of subsection (d)(2)(B)(i).

“(4) QUALIFIED USE.—The term ‘qualified use’ means, with respect to property, a use which is consistent with the purpose of the qualified environmental infrastructure project related to such property.

“(5) STATE.—The term ‘State’ includes the District of Columbia, any possession of the United States, and any Indian tribe (as defined in section 45A(c)(6)).

“(6) PARTNERSHIP; S CORPORATION; AND OTHER PASS-THRU ENTITIES.—Under regulations prescribed by the Secretary, in the case of a partnership, trust, S corporation, or other pass-thru entity, rules similar to the rules of section 41(g) shall apply with respect to the credit allowable under subsection (a).

“(g) CREDIT INCLUDED IN GROSS INCOME.—Gross income includes the amount of the credit allowed to the taxpayer under this section and the amount so included shall be treated as interest income.

“(h) BONDS HELD BY REGULATED INVESTMENT COMPANIES.—If any Better America bond is held by a regulated investment company, the credit determined under subsection (a) shall be allowed to shareholders of such company under procedures prescribed by the Secretary.

“(i) CREDITS MAY BE STRIPPED.—Under regulations prescribed by the Secretary—

“(1) IN GENERAL.—There may be a separation (including at issuance) of the ownership of a Better America bond and the entitlement to the credit under this section with respect to such bond. In case of any such separation, the credit under this section shall be allowed to the person which, on the credit allowance date, holds the instrument evidencing the entitlement to the credit and not to the holder of the bond.

“(2) CERTAIN RULES TO APPLY.—In the case of a separation described in paragraph (1), the rules of section 1286 shall apply to the Better America bond as if it were a stripped bond and to the credit under this section as if it were a stripped coupon.

“(j) TREATMENT FOR ESTIMATED TAX PURPOSES.—Solely for purposes of sections 6654 and 6655, the credit allowed by this section to a taxpayer by reason of holding a Better America bond on a credit allowance date shall be treated as if it were a payment of estimated tax made by the taxpayer on such date.

“(k) CREDIT MAY BE TRANSFERRED.—Nothing in any law or rule of law shall be construed to limit the transferability of the credit allowed by this section through sale and repurchase agreements.

“(l) REPORTING.—Issuers of Better America bonds shall submit reports similar to the reports required under section 149(e).”

(b) REPORTING.—Subsection (d) of section 6049 of the Internal Revenue Code of 1986 (relating to returns regarding payments of interest) is amended by adding at the end the following:

“(8) REPORTING OF CREDIT ON BETTER AMERICA BONDS.—

“(A) IN GENERAL.—For purposes of subsection (a), the term ‘interest’ includes amounts includible in gross income under section 54(f) and such amounts shall be treated as paid on the credit allowance date (as defined in section 54(f)(2)).

“(B) REPORTING TO CORPORATIONS, ETC.—Except as otherwise provided in regulations, in the case of any interest described in subparagraph (A) of this paragraph, subsection (b)(4) of this section shall be applied without regard to subparagraphs (A), (H), (I), (J), (K), and (L)(i).

“(C) REGULATORY AUTHORITY.—The Secretary may prescribe such regulations as are necessary or appropriate to carry out the purposes of this paragraph, including regulations which require more frequent or more detailed reporting.”

(c) CLERICAL AMENDMENTS.—

(1) The table of subparts for part IV of subchapter A of chapter 1 of the Internal Revenue Code of 1986 is amended by adding at the end the following:

“Subpart H. Nonrefundable Credit for Holders of Better America Bonds.”

(2) Section 6401(b)(1) of such Code is amended by striking “and G” and inserting “G, and H”.

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

#### SEC. 702. BETTER AMERICA BONDS BOARD.

(a) ESTABLISHMENT.—There is established a board to be known as the Better America

Bonds Board (in this section referred to as the “Board”).

(b) MEMBERSHIP.—

(1) COMPOSITION.—The Board shall be composed of 12 members, as follows:

(A) 3 members shall be individuals who are not otherwise Federal officers or employees and who are appointed by the President, by and with the advice and consent of the Senate.

(B) 2 members, not be affiliated with the same political party, shall be individuals who represent Governors, or other chief executive officers, of a State, mayors, and county commissioners and who are appointed by the President, by and with the advice and consent of the Senate.

(C) 1 member shall be the Administrator of the Environmental Protection Agency or the Administrator's designee.

(D) 1 member shall be the Secretary of Agriculture or the Secretary's designee.

(E) 1 member shall be the Secretary of Housing and Urban Development or the Secretary's designee.

(F) 1 member shall be the Secretary of Interior or the Secretary's designee.

(G) 1 member shall be the Secretary of Transportation or the Secretary's designee.

(H) 1 member shall be the Secretary of the Treasury or the Secretary's designee.

(I) 1 member shall be the Director of the Federal Emergency Management Agency or the Director's designee.

(2) QUALIFICATIONS AND TERMS.—

(A) QUALIFICATIONS.—Members of the Board described in paragraph (1)(A) shall be appointed without regard to political affiliation and solely on the basis of their professional experience and expertise in 1 or more of the following areas:

(i) Tax-exempt organizations which have as a principal purpose environmental protection and land conservation.

(ii) Community planning.

(iii) Real estate investment and bond financing.

In the aggregate, the members of the Board described in paragraph (1)(A) should collectively bring to bear expertise in all of the areas described in the preceding sentence.

(B) TERMS.—Each member who is described in subparagraph (A) or (B) of paragraph (1) shall be appointed for a term of 3 years, except that of the members first appointed—

(i) 1 member shall be appointed for a term of 1 year,

(ii) 2 members shall be appointed for a term of 2 years, and

(iii) 2 members shall be appointed for a term of 3 years.

(C) REAPPOINTMENT.—An individual who is described in subparagraph (A) or (B) of paragraph (1) may be appointed to no more than one 3-year term on the Board.

(D) VACANCY.—Any vacancy on the Board shall be filled in the same manner as the original appointment. Any member appointed to fill a vacancy occurring before the expiration of the term for which the member's predecessor was appointed shall be appointed for the remainder of that term.

(3) INITIAL MEETING.—Not later than 30 days after the date on which all members of the Board have been appointed, the Board shall hold its first meeting. Subsequent meetings shall be determined by the Board by majority vote.

(4) QUORUM.—A majority of the members of the Board shall constitute a quorum, but a lesser number of members may hold hearings.

(5) CHAIRPERSON.—The member described in paragraph (1)(C) shall serve as the Chairperson of the Board and shall have the sole power to call a meeting of the Board.

(6) REMOVAL.—

(A) IN GENERAL.—Any member of the Board appointed under subparagraph (A) or (B) of paragraph (I) may be removed at the will of the President.

(B) SECRETARIES; DIRECTOR; ADMINISTRATOR.—An individual described in subparagraphs (C) through (I) of paragraph (I) shall be removed upon termination of service in the office described in each such subparagraph.

(C) DUTIES OF THE BOARD.—

(1) IN GENERAL.—The Board shall review applications for allocation of the Better America bond limitation amounts under section 54(e)(2) of the Internal Revenue Code of 1986 and approve applications in accordance with published criteria.

(2) CRITERIA FOR APPROVAL.—The Board shall consider the following criteria in approving an application under paragraph (I):

(A) A distribution pattern of the overall limitation amount available for the year which results in the financing of each category of qualified environmental infrastructure project and results in an even distribution among different regions of the country and sizes of communities.

(B) State or local government support of proposed projects.

(C) Proposed projects which meet local and regional environmental protection or planning goals and leverage or make more efficient or innovative the use of other public or private resources.

(D) Proposed projects which are intended to maintain the viability of existing central business districts, preserve the community's distinct character and values, and encourage the reuse of property already served by public infrastructure.

(E) The extent of expected improvement in environmental quality, outdoor recreation opportunities, and access to public lands.

(3) ANNUAL REPORT.—The Board shall annually report with respect to the conduct of its responsibilities under this section to the President and Congress and such report shall include—

(A) the overall progress of the Better America bond program, and

(B) the overall limitation amount allocated during the year and a description of the amount, region, and qualified environmental infrastructure project financed by each allocation.

(4) CONFLICT OF INTEREST.—The Board shall carry out its duties under this subsection in such a way to ensure that all conflicts of interest of its members are avoided.

(d) POWERS OF THE BOARD.—

(1) HEARINGS.—The Board may hold such hearings, sit and act at such times and places, take such testimony, and receive such evidence as the Board considers advisable to carry out the purposes of this section.

(2) INFORMATION FROM FEDERAL AGENCIES.—The Board may secure directly from any Federal department or agency such information as the Board considers necessary to carry out the provisions of this section, including the published and unpublished data and analytical products of the Bureau of Labor Statistics. Upon request of the Chairperson of the Board, the head of such department or agency shall furnish such information to the Board.

(3) POSTAL SERVICES.—The Board may use the United States mails in the same manner and under the same conditions as other departments and agencies of the Federal Government.

(e) BOARD PERSONNEL MATTERS.—

(1) COMPENSATION OF MEMBERS.—Each member of the Board who is not otherwise an officer or employee of the Federal Government shall be compensated at a rate equal to the daily equivalent of the annual rate of

basic pay prescribed for level III of the Executive Schedule under section 5315 of title 5, United States Code, for each day (including travel time) during which such member is engaged in the performance of the duties of the Board. All members of the Board who otherwise are officers or employees of the United States shall serve without compensation in addition to that received for their services as officers or employees of the United States.

(2) TRAVEL EXPENSES.—The members of the Board shall be allowed travel expenses, including per diem in lieu of subsistence, at rates authorized for employees of agencies under subchapter I of chapter 57 of title 5, United States Code, while away from their homes or regular places of business in the performance of services for the Board.

(3) STAFF.—

(A) IN GENERAL.—The Chairperson of the Board may, without regard to the civil service laws and regulations, appoint and terminate an executive director and such other additional personnel as may be necessary to enable the Board to perform its duties. The employment of an executive director shall be subject to confirmation by the Board.

(B) COMPENSATION.—The Chairperson of the Board may fix the compensation of the executive director and other personnel without regard to the provisions of chapter 51 and subchapter III of chapter 53 of title 5, United States Code, relating to classification of positions and General Schedule pay rates, except that the rate of pay for the executive director and other personnel may not exceed the rate payable for level IV of the Executive Schedule under section 5316 of such title.

(4) DETAIL OF GOVERNMENT EMPLOYEES.—Any Federal Government employee may be detailed to the Board without additional reimbursement (other than the employee's regular compensation), and such detail shall be without interruption or loss of civil service status or privilege.

(5) PROCUREMENT OF TEMPORARY AND INTERMITTENT SERVICES.—The Chairperson of the Board may procure temporary and intermittent services under section 3109(b) of title 5, United States Code, at rates for individuals which do not exceed the daily equivalent of the annual rate of basic pay prescribed for level V of the Executive Schedule under section 5316 of such title.

(f) DEFINITIONS.—For purposes of this section—

(1) STATE.—The term 'State' includes the District of Columbia, any possession of the United States, and any Indian tribe (as defined in section 45A(c)(6)).

(2) QUALIFIED ENVIRONMENTAL INFRASTRUCTURE PROJECT.—The term 'qualified environmental infrastructure project' has the same meaning given that term in section 54(d)(2) of the Internal Revenue Code of 1986.

(g) AUTHORIZATION OF APPROPRIATIONS.—There are authorized to be appropriated to the Board such sums as are necessary to carry out the purposes of this section.

(h) EFFECTIVE DATES.—

(1) IN GENERAL.—The amendments made by this section shall take effect on the date of the enactment of this Act.

(2) INITIAL NOMINATIONS.—The President shall submit the initial nominations under subparagraphs (A) and (B) of subsection (b)(1) to the Senate not later than 90 days after the date of the enactment of this Act.

(3) REGULATIONS.—Not later than January 1, 2001, the Board shall publish in the Federal Register the guidelines and criteria for submission and approval of applications under subsection (c).

## Subtitle B—Conservation Incentives

### SEC. 711. TAX EXCLUSION FOR COST-SHARING PAYMENTS UNDER PARTNERS FOR WILDLIFE PROGRAM.

(a) IN GENERAL.—Section 126(a) (relating to certain cost-sharing payments) is amended by redesignating paragraph (10) as paragraph (11) and by inserting after paragraph (9) the following:

“(10) The Partners for Wildlife Program authorized by the Fish and Wildlife Act of 1956 (16 U.S.C. 742a et seq.).”

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

### SEC. 712. ENHANCED DEDUCTION FOR THE DONATION OF A CONSERVATION EASEMENT.

(a) IN GENERAL.—Paragraph (1) of section 170(b) of the Internal Revenue Code of 1986 (relating to percentage limitations) is amended by adding at the end the following:

“(G) SPECIAL RULES FOR QUALIFIED CONSERVATION CONTRIBUTIONS.—In the case of a qualified conservation contribution by an individual (as defined in subsection (h)(1)), except that the phrase ‘or a certified historic structure’ in clause (iv) of subsection (h)(4)(A) shall not apply:

“(i) 50 PERCENT LIMITATION TO APPLY.—Such a contribution shall be treated for purposes of this section as described in subparagraph (A).

“(ii) 20 -YEAR CARRY FORWARD.—Subsection (d)(1) shall be applied by substituting ‘20 years’ for ‘5 years’ each place it appears and with appropriate adjustments in the application of subparagraph (A)(ii) thereof.

“(iii) UNUSED DEDUCTION CARRYOVER ALLOWED ON TAXPAYER'S LAST RETURN.—If the taxpayer dies before the close of the last taxable year for which a deduction could have been allowed under subsection (d)(1), any portion of the deduction for such contribution which has not been allowed shall be allowed as a deduction under subsection (a) (without regard to this subsection) for the taxable year in which such death occurs or such portion may be used as a deduction against the gross estate of the taxpayer.”

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

### SEC. 713. NATIONAL WILDLIFE REFUGE CONSERVATION EASEMENTS.

(a) LAND SUBJECT TO A QUALIFIED CONSERVATION EASEMENT TO INCLUDE LAND NEAR A NATIONAL WILDLIFE REFUGE.—Section 2031(c)(8)(A)(i)(II) (defining land subject to a qualified conservation easement) is amended—

(1) by inserting “, national wildlife refuge,” after “national park”, and

(2) by inserting “, refuge,” after “such a park”.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to estates of decedents dying after December 31, 2000.

### SEC. 714. EXCLUSION OF 50 PERCENT OF GAIN ON SALES OF LAND OR INTERESTS IN LAND OR WATER TO ELIGIBLE ENTITIES FOR CONSERVATION PURPOSES.

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

“SEC. 1203. 50-PERCENT EXCLUSION OF GAIN ON SALES OF LAND OR INTERESTS IN LAND OR WATER TO ELIGIBLE ENTITIES FOR CONSERVATION PURPOSES.

“(a) EXCLUSION.—Gross income shall not include 50 percent of any gain from the sale of land or an interest in land or water (determined without regard to any improvements) to an eligible entity if—

“(1) such land or interest in land or water was owned by the taxpayer or a member of



the taxpayer's family (as defined in section 2032A(e)(2)) at all times during the 3-year period ending on the date of the sale, and

"(2) such land or interest in land or water is being acquired by an eligible entity which provides the taxpayer, at the time of acquisition, a written letter of intent which shall include the following statement: 'The purchaser's intent is that this acquisition will serve 1 or more of the conservation purposes specified in clause (i), (ii), or (iii) of section 170(h)(4)(A).'

"(b) ELIGIBLE ENTITY.—For purposes of this section, the term 'eligible entity' means—

"(1) any agency of the United States or of any State or local government, or

"(2) any other organization that—

"(A) is organized and at all times operated principally for 1 or more of the conservation purposes specified in clause (i), (ii), or (iii) of section 170(h)(4)(A),

"(B) is described in section 501(c)(3) and exempt from tax under section 501(a), and

"(C)(i) meets the requirements of section 509(a)(2), or

"(ii) meets the requirements of section 509(a)(3) and is controlled by an organization described in section 509(a)(2).

"(c) STOCK IN HOLDING CORPORATIONS.—For purposes of this section, the term 'land or an interest in land or water' shall include stock in any corporation, if the fair market value of the corporation's land or interests in land or water equals or exceeds 90 percent of the fair market value of all of such corporation's assets at all times during the 3-year period ending on the date of the sale."

(b) CLERICAL AMENDMENT.—The table of sections for part I of subchapter P of chapter 1 of the Internal Revenue Code of 1986 is amended by adding at the end the following new item:

"Sec. 1203. 50-percent exclusion of gain on sales of land or interests in land or water to eligible entities for conservation purposes."

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

#### Subtitle C—Alternative Fuels Incentives

#### SEC. 721. EXTENSION AND EXPANSION OF CREDIT FOR PURCHASE OF ELECTRIC VEHICLES.

(a) MODIFIED CREDIT FOR VEHICLES WHICH MEET CERTAIN RANGE REQUIREMENTS.—Section 30(a) (relating to allowance of credit) is amended to read as follows:

"(a) ALLOWANCE OF CREDIT.—

"(1) IN GENERAL.—There shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to the sum of—

"(A) 10 percent of the cost of any qualified electric vehicle placed in service by the taxpayer during the taxable year, plus

"(B) in the case of any such vehicle also meeting the requirement described in paragraph (2), \$5,000.

"(2) RANGE REQUIREMENT.—The requirement described in this paragraph is a driving range of at least 100 miles—

"(A) on a single charge of the vehicle's rechargeable batteries, fuel cells, or other portable source of electrical current, and

"(B) measured pursuant to the urban dynamometer schedules under appendix I to part 86 of title 40, Code of Federal Regulations."

(b) CREDIT EXTENDED THROUGH 2010.—

(1) IN GENERAL.—Section 30(e) (relating to termination) is amended to read as follows:

"(e) TERMINATION.—This section shall not apply to any property placed in service after December 31, 2010."

(2) CONFORMING AMENDMENTS.—Section 30(b)(2) (relating to phaseout) is amended—

(A) by striking "2002" in subparagraph (A) and inserting "2008",

(B) by striking "2003" in subparagraph (B) and inserting "2009", and

(C) by striking "2004" in subparagraph (C) and inserting "2010".

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

#### SEC. 722. ADDITIONAL DEDUCTION FOR COST OF INSTALLATION OF ALTERNATIVE FUELING STATIONS.

(a) IN GENERAL.—Subparagraph (A) of section 179A(b)(2) (relating to qualified clean-fuel vehicle refueling property) is amended to read as follows:

"(A) IN GENERAL.—The aggregate cost which may be taken into account under subsection (a)(1)(B) with respect to qualified clean-fuel vehicle refueling property placed in service during the taxable year at a location shall not exceed the sum of—

"(i) with respect to costs not described in clause (ii), the excess (if any) of—

"(I) \$100,000, over

"(II) the aggregate amount of such costs taken into account under subsection (a)(1)(B) by the taxpayer (or any related person or predecessor) with respect to property placed in service at such location for all preceding taxable years, plus

"(ii) the lesser of—

"(I) the cost of the installation of such property, or

"(II) \$30,000."

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to property placed in service in taxable years beginning after December 31, 2000.

#### SEC. 723. CREDIT FOR RETAIL SALE OF CLEAN BURNING FUELS AS MOTOR VEHICLE FUEL.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 (relating to business related credits) is amended by inserting after section 40 the following:

#### "SEC. 40A. CREDIT FOR RETAIL SALE OF CLEAN BURNING FUELS AS MOTOR VEHICLE FUEL.

"(a) GENERAL RULE.—For purposes of section 38, the clean burning fuel retail sales credit of any taxpayer for any taxable year is 15 cents for each gasoline gallon equivalent of clean burning fuel sold at retail by the taxpayer during such year as a fuel to propel any qualified motor vehicle.

"(b) DEFINITIONS.—For purposes of this section—

"(1) CLEAN BURNING FUEL.—The term 'clean burning fuel' means natural gas, compressed natural gas, liquefied natural gas, liquefied petroleum gas, hydrogen, and any liquid at least 85 percent of which consists of methanol.

"(2) GASOLINE GALLON EQUIVALENT.—The term 'gasoline gallon equivalent' means, with respect to any clean burning fuel, the amount (determined by the Secretary) of such fuel having a Btu content of 114,000.

"(3) QUALIFIED MOTOR VEHICLE.—The term 'qualified motor vehicle' means any motor vehicle (as defined in section 179A(e)) which meets any applicable Federal or State emissions standards with respect to each fuel by which such vehicle is designed to be propelled.

"(4) SOLD AT RETAIL.—

"(A) IN GENERAL.—The term 'sold at retail' means the sale, for a purpose other than resale, after manufacture, production, or importation.

"(B) USE TREATED AS SALE.—If any person uses clean burning fuel as a fuel to propel any qualified motor vehicle (including any use after importation) before such fuel is

sold at retail, then such use shall be treated in the same manner as if such fuel were sold at retail as a fuel to propel such a vehicle by such person.

"(c) NO DOUBLE BENEFIT.—The amount of the credit determined under subsection (a) shall be reduced by the amount of any deduction or credit allowable under this chapter for fuel taken into account in computing the amount of such credit.

"(d) TERMINATION.—This section shall not apply to any fuel sold at retail after December 31, 2007."

(b) CREDIT TREATED AS BUSINESS CREDIT.—Section 38(b) (relating to current year business credit) is amended by striking "plus" at the end of paragraph (11), by striking the period at the end of paragraph (12) and inserting "plus", and by adding at the end the following:

"(13) the clean burning fuel retail sales credit determined under section 40A(a)."

(c) TRANSITIONAL RULE.—Section 39(d) (relating to transitional rules) is amended by adding at the end the following:

"(9) NO CARRYBACK OF SECTION 40A CREDIT BEFORE EFFECTIVE DATE.—No portion of the unused business credit for any taxable year which is attributable to the clean burning fuel retail sales credit determined under section 40A(a) may be carried back to a taxable year ending before January 1, 1999."

(d) CLERICAL AMENDMENT.—The table of sections for subpart D of part IV of subchapter A of chapter 1 is amended by inserting after the item relating to section 40 the following:

"Sec. 40A. Credit for retail sale of clean burning fuels as motor vehicle fuel."

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to fuel sold at retail in taxable years beginning after December 31, 2000.

#### Subtitle C—Other Provisions

#### SEC. 731. EXPANSION OF SECTION 29 TAX CREDIT.

(a) PLACED-IN-SERVICE DATE.—Section 29(g)(1)(A) is amended by striking "July 1, 1998" and inserting "the date which is 8 months after the date of the enactment of the Tax and Public Debt Reduction Act of 1999".

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

#### SEC. 732. UNIFORM DOLLAR LIMITATION FOR ALL TYPES OF TRANSPORTATION FRINGE BENEFITS.

(a) IN GENERAL.—Paragraph (2) of section 132(f) (relating to qualified transportation fringe) is amended to read as follows:

"(2) LIMITATION ON EXCLUSION.—The aggregate amount of the fringe benefits which are provided by an employer to any employee and which may be excluded from gross income under subsection (a)(5) shall not exceed \$175 per month."

(b) CONFORMING AMENDMENT TO INFLATION ADJUSTMENT.—Section 132(f)(6)(A) (relating to inflation adjustment) is amended by striking "the dollar amounts contained in subparagraphs (A) and (B) of paragraph (2)" and inserting "the dollar amount contained in paragraph (2)".

(c) ADDITIONAL CONFORMING AMENDMENT.—Section 9010 of the Transportation Equity Act for the 21st Century is amended by striking subsection (c).

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

# TITLE VIII—SAVINGS AND PENSION PROVISIONS

## Subtitle A—Expanding Coverage for Small Business

### SEC. 801. PLAN LOANS FOR SUBCHAPTER S OWNERS, PARTNERS, AND SOLE PROPRIETORS.

(a) AMENDMENT TO 1986 CODE.—Subparagraph (B) of section 4975(f)(6) (relating to exemptions not to apply to certain transactions) is amended by adding at the end the following new clause:

“(iii) LOAN EXCEPTION.—For purposes of subparagraph (A)(i), the term ‘owner-employee’ shall only include a person described in subclause (II) or (III) of clause (i).”

(b) AMENDMENT TO ERISA.—Section 408(d)(2) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1108(d)(2)) is amended by adding at the end the following new subparagraph:

“(C) For purposes of paragraph (1)(A), the term ‘owner-employee’ shall only include a person described in clause (ii) or (iii) of subparagraph (A).”

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

### SEC. 802. CONTRIBUTIONS TO IRAS THROUGH PAYROLL DEDUCTIONS.

(a) DEFINITIONS.—For purposes of this section—

(1) CONTRIBUTION CERTIFICATE.—The term “contribution certificate” means a certificate submitted by an employee to the employee’s employer which—

(A) identifies the employee by name, address, and social security number,

(B) identifies the individual retirement plan to which the employee wishes to make contributions through payroll deductions, and

(C) identifies the amount of such contributions, not to exceed the amount allowed under section 408 of the Internal Revenue Code of 1986 to an individual retirement plan for such year.

(2) EMPLOYEE.—The term “employee” does not include an employee as defined in section 401(c)(1) of such Code.

(3) INDIVIDUAL RETIREMENT PLANS.—The term “individual retirement plan” has the meaning given the term by section 7701(a)(37) of the Internal Revenue Code of 1986.

(4) SECRETARY.—The term “Secretary” means the Secretary of the Treasury.

(b) ESTABLISHMENT OF PAYROLL DEDUCTION SYSTEM.—An employer may establish a system under which employees, through employer payroll deductions, may make contributions to individual retirement plans. An employer shall not incur any liability under title I of the Employee Retirement Income Security Act of 1974 in providing for such a system.

(c) CONTRIBUTIONS TO INDIVIDUAL RETIREMENT PLANS.—

(1) IN GENERAL.—The system established under subsection (b) shall provide that contributions made to an individual retirement plan for any taxable year are—

(A) contributions through employer payroll deductions, and

(B) if the employer so elects, additional contributions by the employee which, when added to contributions under subparagraph (A), do not exceed the amount allowed under section 408 of the Internal Revenue Code of 1986 for the taxable year.

(2) EMPLOYER PAYROLL DEDUCTIONS.—

(A) IN GENERAL.—The system established under subsection (b) shall provide that an employee may establish and maintain an individual retirement plan simply by—

(i) completing a contribution certificate, and

(ii) submitting such certificate to the employee’s employer in the manner provided under subparagraph (D).

(B) CHANGE OF AMOUNTS.—An employee establishing and maintaining an individual retirement plan under subparagraph (A) may change the amount of an employer payroll deduction in the same manner as under subparagraph (A).

(C) SIMPLIFIED FORMS.—

(i) CONTRIBUTION CERTIFICATE.—The Secretary shall develop a model contribution certificate for purposes of this paragraph—

(I) which is written in a clear and easily understandable manner, and

(II) the completion of which by an employee will constitute the establishment of an individual retirement plan and the request for employer payroll deductions or changes in such deductions.

(ii) AVAILABILITY.—The Secretary shall make available to all employees and employers the forms developed under this subparagraph, and shall include with such forms easy to understand explanatory materials.

(D) USE OF CERTIFICATE.—Each employer electing to adopt a system under subsection (b) shall, upon receipt of a contribution certificate from an employee, deduct the appropriate contribution as determined by such certificate from the employee’s wages in equal amounts during the remaining payroll periods for the taxable year and shall remit such amounts for investment in the employee’s individual retirement plan not later than the close of the 30-day period following the last day of the month in which such payroll period occurs.

(E) FAILURE TO REMIT PAYROLL DEDUCTIONS.—For purposes of the Internal Revenue Code of 1986, any amount which an employer fails to remit on behalf of an employee pursuant to a contribution certificate of such employee shall not be allowed as a deduction to the employer under such Code.

(d) ADDITIONAL INFORMATION.—

(1) IN GENERAL.—The system established under subsection (b) shall provide for the furnishing of information to employees of the opportunity of establishing individual retirement plans and of transferring amounts to such plans.

(2) INVESTMENT INFORMATION.—The employer shall also make available to employees information on how to make informed investment decisions and how to achieve retirement objectives.

(3) INFORMATION NOT INVESTMENT ADVICE.—Information provided under this subsection shall not be treated as investment advice for purposes of any Federal or State law.

### SEC. 803. MODIFICATION OF TOP-HEAVY RULES.

(a) DISTRIBUTIONS DURING LAST YEAR BEFORE DETERMINATION DATE TAKEN INTO ACCOUNT.—Section 416(g) is amended—

(1) in paragraph (3)—

(A) by striking “LAST 5 YEARS” in the heading and inserting “LAST YEAR BEFORE DETERMINATION DATE”, and

(B) in the matter following subparagraph (B), by striking “5-year period” and inserting “1-year period”, and

(2) in paragraph (4)(E)—

(b) REQUIREMENTS FOR QUALIFICATION.—Clause (ii) of section 401(a)(10)(B) (relating to requirements for qualifications for top-heavy plans) is amended by adding at the end the following new flush sentence:

“The preceding sentence shall not apply to a plan if the plan is not top-heavy and if it is not reasonable to expect that the plan will become a top-heavy plan.”

(c) FROZEN PLAN EXEMPT FROM MINIMUM BENEFIT REQUIREMENT.—

(1) IN GENERAL.—Subparagraph (C) of section 416(c)(1) (relating to defined benefit plans) is amended—

(A) in clause (i), by striking “clause (ii)” and inserting “clause (ii) or (iii)”, and

(B) by adding at the end the following:

“(iii) EXCEPTION FOR FROZEN PLAN.—For purposes of determining an employee’s years of service with the employer, any service with the employer shall be disregarded to the extent that such service occurs during a plan year when the plan benefits (within the meaning of section 410(b)) no employee or former employee.”

(2) CONFORMING AMENDMENT.—Subparagraph (A) of section 415(b)(5) is amended by adding at the end the following: “An employee shall not be credited with a year of participation in a defined benefit plan for any year in which the plan does not benefit (within the meaning of section 410(b)) such employee.”

### SEC. 804. CREDIT FOR SMALL EMPLOYER PENSION PLAN CONTRIBUTIONS AND START-UP COSTS.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 (relating to business related credits) is amended by adding at the end the following new section:

#### “SEC. 45D. SMALL EMPLOYER PENSION PLAN CREDIT.

“(a) GENERAL RULE.—For purposes of section 38, in the case of an eligible employer, the small employer pension plan credit determined under this section for any taxable year is an amount equal to the sum of—

“(1) 25 percent of the qualified employer contributions of the taxpayer for the taxable year, and

“(2) 50 percent of the qualified start-up costs paid or incurred by the taxpayer during the taxable year.

“(b) LIMITATIONS.—

“(1) LIMITS ON CONTRIBUTIONS.—For purposes of subsection (a)(1)—

“(A) qualified employer contributions may only be taken into account for each of the first 3 taxable years ending after the date the employer establishes the qualified employer plan to which the contribution is made, and

“(B) the amount of the qualified employer contributions taken into account with respect to any qualified employee for any such taxable year shall not exceed 3 percent of the compensation (as defined in section 414(s)) of the qualified employee for such taxable year.

“(2) LIMITS ON START-UP COSTS.—The amount of the credit determined under subsection (a)(2) for any taxable year shall not exceed—

“(A) \$2,000 for the first taxable year ending after the date the employer established the qualified employer plan to which such costs relate,

“(B) \$1,000 for each of the second and third such taxable years, and

“(C) zero for each taxable year thereafter.

“(c) DEFINITIONS.—For purposes of this section—

“(1) ELIGIBLE EMPLOYER.—

“(A) IN GENERAL.—The term ‘eligible employer’ means, with respect to any year, an employer which has no more than—

“(i) for purposes of subsection (a)(1), 25 employees, and

“(ii) for purposes of subsection (a)(2), 100 employees,

who received at least \$5,000 of compensation from the employer for the preceding year.

“(B) 2-YEAR GRACE PERIOD.—An eligible employer who establishes and maintains a qualified employer plan for 1 or more years and who fails to be an eligible employer for any subsequent year shall be treated as an eligible employer for the 2 years following the last year the employer was an eligible employer.

“(C) REQUIREMENT FOR NEW QUALIFIED EMPLOYER PLANS.—Such term shall not include an employer if, during the 3-taxable year period immediately preceding the 1st taxable year for which the credit under this section

is otherwise allowable for a qualified employer plan of the employer, the employer and each member of any controlled group including the employer (or any predecessor of either) established or maintained a qualified employer plan with respect to which contributions were made, or benefits were accrued, for substantially the same employees as are in the qualified employer plan.

**"(2) QUALIFIED EMPLOYER CONTRIBUTIONS.—"**

**"(A) IN GENERAL.—**The term 'qualified employer contributions' means, with respect to any taxable year, any employer contributions made on behalf of a qualified employee to a qualified employer plan for a plan year ending with or within the taxable year.

**"(B) EMPLOYER CONTRIBUTIONS.—**The term 'employer contributions' shall not include any elective deferral (within the meaning of section 402(g)(3)).

**"(3) QUALIFIED EMPLOYEE.—**The term 'qualified employee' means an individual who—

**"(A)** is eligible to participate in the qualified employer plan to which the employer contributions are made, and

**"(B)** is not a highly compensated employee (within the meaning of section 414(q)) for the year for which the contribution is made.

**"(4) QUALIFIED START-UP COSTS.—**The term 'qualified start-up costs' means any ordinary and necessary expenses of an eligible employer which are paid or incurred in connection with—

**"(A)** the establishment or maintenance of a qualified employer plan in which qualified employees are eligible to participate, and

**"(B)** providing educational information to employees regarding participation in such plan and the benefits of establishing an investment plan.

**"(5) QUALIFIED EMPLOYER PLAN.—**The term 'qualified employer plan' has the meaning given such term in section 4972(d).

**"(d) SPECIAL RULES.—"**

**"(1) AGGREGATION RULES.—**All persons treated as a single employer under subsection (a) or (b) of section 52, or subsection (n) or (o) of section 414, shall be treated as one person. All qualified employer plans of an employer shall be treated as a single qualified employer plan.

**"(2) DISALLOWANCE OF DEDUCTION.—**No deduction shall be allowable under this chapter for any qualified start-up costs or qualified contributions for which a credit is determined under subsection (a).

**"(3) ELECTION NOT TO CLAIM CREDIT.—**This section shall not apply to a taxpayer for any taxable year if such taxpayer elects to have this section not apply for such taxable year."

**(b) CREDIT ALLOWED AS PART OF GENERAL BUSINESS CREDIT.—**Section 38(b) (defining current year business credit) is amended by striking "plus" at the end of paragraph (11), by striking the period at the end of paragraph (12) and inserting ", plus", and by adding at the end the following new paragraph:

**"(13)** in the case of an eligible employer (as defined in section 45D(c)), the small employer pension plan credit determined under section 45D(a)."

**(c) PORTION OF CREDIT REFUNDABLE.—**Section 38(c) (relating to limitation based on amount of tax) is amended by adding at the end the following new paragraph:

**"(4) PORTION OF SMALL EMPLOYER PENSION PLAN CREDIT REFUNDABLE.—"**

**"(A) IN GENERAL.—**In the case of the small employer pension plan credit under subsection (b)(13), the aggregate credits allowed under subpart C shall be increased by the lesser of—

**"(i)** the credit which would be allowed without regard to this paragraph and the limitation under paragraph (1), or

**"(ii)** the amount by which the aggregate amount of credits allowed by this section (without regard to this paragraph) would increase if the limitation under paragraph (1) were increased by the taxpayer's applicable payroll taxes for the taxable year.

**"(B) TREATMENT OF CREDIT.—**The amount of the credit allowed under this paragraph shall not be treated as a credit allowed under this subpart and shall reduce the amount of the credit allowed under this section for the taxable year.

**"(C) APPLICABLE PAYROLL TAXES.—**For purposes of this paragraph—

**"(i) IN GENERAL.—**The term 'applicable payroll taxes' means, with respect to any taxpayer for any taxable year—

**"(I)** the amount of the taxes imposed by sections 3111 and 3221(a) on compensation paid by the taxpayer during the taxable year,

**"(II)** 50 percent of the taxes imposed by section 1401 on the self-employment income of the taxpayer during the taxable year, and

**"(III)** 50 percent of the taxes imposed by section 3211(a)(1) on amounts received by the taxpayer during the calendar year in which the taxable year begins.

**"(ii) AGREEMENTS REGARDING FOREIGN AFFILIATES.—**Section 24(d)(5)(C) shall apply for purposes of clause (i)."

**(d) CONFORMING AMENDMENT.—**The table of sections for subpart D of part IV of subchapter A of chapter 1 is amended by adding at the end the following new item:

**"Sec. 45D. Small employer pension plan credit."**

**(e) EFFECTIVE DATE.—**The amendments made by this section shall apply to costs paid or incurred or contributions made in connection with qualified employer plans established after December 31, 2000.

**SEC. 805. INCREASING LIMITS FOR DEFERRALS TO SIMPLE PLANS.**

**(a) SIMPLE RETIREMENT ACCOUNTS.—**Paragraph (2)(A)(ii) of section 408(p) (relating to simple retirement accounts) is amended by striking "\$6,000" and inserting "\$8,000".

**(b) NONDISCRIMINATION TESTS.—**Section 401(k)(1)(B)(i)(I) is amended by striking "\$6,000" and inserting "\$8,000".

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

**SEC. 806. ELECTIVE DEFERRALS NOT TAKEN INTO ACCOUNT FOR PURPOSES OF LIMITS.**

**(a) IN GENERAL.—**Section 404, as amended by section 803, is amended by adding at the end the following new subsection:

**"(o) ELECTIVE DEFERRALS NOT TAKEN INTO ACCOUNT FOR PURPOSES OF LIMITS.—**Elective deferrals (as defined in section 402(g)(3)) shall not be subject to any limitations described in this section (other than subsection (a)), and such elective deferrals shall not be taken into account in applying such limitations to any other contributions."

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

**Subtitle B—Increasing Pension Access and Fairness for Women**

**SEC. 811. EQUITABLE TREATMENT FOR CONTRIBUTIONS OF EMPLOYEES TO DEFINED CONTRIBUTION PLANS.**

**(a) EQUITABLE TREATMENT.—**

**(1) IN GENERAL.—**Subparagraph (B) of section 415(c)(1) (relating to limitation for defined contribution plans) is amended to read as follows:

**"(B)** the greater of 50 percent of the participant's compensation or \$10,000."

**(2) APPLICATION TO SECTION 403(b).—**Section 403(b) is amended—

**(A)** by striking "the exclusion allowance for such taxable year" in paragraph (1) and

inserting "the applicable limit under section 415", and

**(B)** by striking paragraph (2).

**(3) NONDISCRIMINATION TESTING.—**

**(A)** Section 401(k)(3)(A) is amended by adding at the end the following: "The actual deferral percentage of eligible employees other than highly compensated employees shall be computed without regard to contributions in excess of 25 percent of compensation."

**(B)** Section 401(m)(3) is amended by adding at the end the following: "The contribution percentage of eligible employees other than highly compensated employees shall be computed without regard to contributions in excess of 25 percent of compensation."

**(4) CONFORMING AMENDMENTS.—**

**(A)** Subsection (f) of section 72 is amended by striking "section 403(b)(2)(D)(iii)" and inserting "section 403(b)(2)(D)(iii), as in effect on December 31, 2000)".

**(B)** Section 403(b)(3) is amended by inserting "or any amount received by a former employee after the 5th taxable year following the taxable year in which such employee was terminated" before the period at the end of the second sentence.

**(C)** Section 404(a)(10)(B) is amended by striking ", the exclusion allowance under section 403(b)(2)."

**(D)** Section 415(a)(2) is amended by striking ", and the amount of the contribution for such portion shall reduce the exclusion allowance as provided in section 403(b)(2)".

**(E)** Section 415(c)(3) is amended by adding at the end the following new subparagraph:

**"(E) ANNUITY CONTRACTS.—**In the case of an annuity contract described in section 403(b), the term 'participant's compensation' means the participant's includible compensation determined under section 403(b)(3)."

**(F)** Section 415(c) is amended by striking paragraph (4) and by redesignating paragraph (6) as paragraph (4).

**(G)** Section 415(c) is amended by striking paragraph (7) and inserting the following new paragraph:

**"(5) CERTAIN CONTRIBUTIONS BY CHURCH PLANS NOT TREATED AS EXCEEDING LIMIT.—"**

**"(A) IN GENERAL.—**Notwithstanding any other provision of this subsection, at the election of a participant who is an employee of a church, a convention or association of churches, including an organization described in section 414(e)(3)(B)(ii), contributions and other additions for an annuity contract or retirement income account described in section 403(b) with respect to such participant, when expressed as an annual addition to such participant's account, shall be treated as not exceeding the limitation of paragraph (1) if such annual addition is not in excess of \$10,000.

**"(B) \$40,000 AGGREGATE LIMITATION.—**The total amount of additions with respect to any participant which may be taken into account for purposes of this subparagraph for all years may not exceed \$40,000.

**"(C) ANNUAL ADDITION.—**For purposes of this paragraph, the term 'annual addition' has the meaning given such term by paragraph (2)."

**(H)** Section 415(e)(3)(B) is amended—

**(i)** by striking "subsection (c)(6)" in clause (i) and inserting "subsection (c)(4)", and

**(ii)** by striking "subsection (c)(7)" in clause (ii)(II) and inserting "subsection (c)(5)".

**(I)** Section 415(e)(5) is amended—

**(i)** by striking "(except in the case of a participant who has elected under subsection (c)(4)(D) to have the provisions of subsection (c)(4)(C) apply)", and

**(ii)** by striking the last sentence.

**(J)** Section 415(n)(2)(B) is amended by striking "percentage".

(K) Subparagraph (B) of section 402(g)(7) is amended by inserting before the period at the end the following: "(as in effect on the date of the enactment of the Pension Coverage and Portability Act)".

(b) SPECIAL RULES FOR SECTIONS 403(b) AND 408.—Subsection (k) of section 415 is amended by adding at the end the following new paragraph:

"(4) SPECIAL RULES FOR ANNUITY CONTRACTS AND SIMPLIFIED PENSIONS.—For purposes of this section—

"(A) ANNUITY CONTRACTS.—Any annuity contract described in section 403(b) for the benefit of a participant shall be treated as a defined contribution plan maintained by each employer with respect to which the participant has the control required under subsection (b) or (c) of section 414 (as modified by subsection (h)).

"(B) SIMPLIFIED PLANS.—Any contribution by an employer to a simplified employee pension plan for an individual for a taxable year shall be treated as an employer contribution to a defined contribution plan for such individual for such year."

(c) DEFERRED COMPENSATION PLANS OF STATE AND LOCAL GOVERNMENTS AND TAX-EXEMPT ORGANIZATIONS.—Subparagraph (B) of section 457(b)(2) (relating to salary limitation on eligible deferred compensation plans) is amended by striking "33½ percent" and inserting "100 percent".

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

#### SEC. 812. FASTER VESTING OF CERTAIN EMPLOYER MATCHING CONTRIBUTIONS.

(a) AMENDMENTS TO 1986 CODE.—Section 411(a) (relating to minimum vesting standards) is amended—

(1) in paragraph (2), by striking "A plan" and inserting "Except as provided in paragraph (12), a plan", and

(2) by adding at the end the following:

"(12) FASTER VESTING FOR MATCHING CONTRIBUTIONS.—In the case of matching contributions (as defined in section 401(m)(4)(A)), paragraph (2) shall be applied—

"(A) by substituting '3 years' for '5 years' in subparagraph (A), and

"(B) by substituting the following table for the table contained in subparagraph (B):

"Years of service:	The nonforfeitable percentage is:
2 .....	20
3 .....	40
4 .....	60
5 .....	80
6 .....	100."

(b) AMENDMENTS TO ERISA.—Section 203(a) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1053(a)) is amended—

(1) in paragraph (2), by striking "A plan" and inserting "Except as provided in paragraph (4), a plan", and

(2) by adding at the end the following:

"(4) FASTER VESTING FOR MATCHING CONTRIBUTIONS.—In the case of matching contributions (as defined in section 401(m)(4)(A) of the Internal Revenue Code of 1986), paragraph (2) shall be applied—

"(A) by substituting '3 years' for '5 years' in subparagraph (A), and

"(B) by substituting the following table for the table contained in subparagraph (B):

"Years of service:	The nonforfeitable percentage is:
2 .....	20
3 .....	40
4 .....	60
5 .....	80
6 .....	100."

(c) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this

section shall apply to contributions for plan years beginning after December 31, 2000.

(2) COLLECTIVE BARGAINING AGREEMENTS.—In the case of a plan maintained pursuant to 1 or more collective bargaining agreements between employee representatives and 1 or more employers ratified by the date of enactment of this Act, the amendments made by this section shall not apply to contributions on behalf of employees covered by any such agreement for plan years beginning before the earlier of—

(A) the later of—

(i) the date on which the last of such collective bargaining agreements terminates (determined without regard to any extension thereof on or after such date of enactment), or

(ii) January 1, 2001, or

(B) January 1, 2005.

(3) SERVICE REQUIRED.—With respect to any plan, the amendments made by this section shall not apply to any employee before the date that such employee has 1 hour of service under such plan in any plan year to which the amendments made by this section apply.

#### SEC. 813. DEFERRED ANNUITIES FOR SURVIVING SPOUSES OF FEDERAL EMPLOYEES.

(a) IN GENERAL.—Section 8341 of title 5, United States Code, is amended—

(1) in subsection (h)(1), by striking "section 8338(b) of this title" and inserting "section 8338(b), and a former spouse of a deceased former employee who separated from the service with title to a deferred annuity under section 8338 (if they were married to one another prior to the date of separation)"; and

(2) by adding at the end the following:

"(j)(1) If a former employee dies after having separated from the service with title to a deferred annuity under section 8338 but before having established a valid claim for annuity, and is survived by a spouse to whom married on the date of separation, the surviving spouse may elect to receive—

"(A) an annuity, commencing on what would have been the former employee's 62d birthday, equal to 55 percent of the former employee's deferred annuity;

"(B) an annuity, commencing on the day after the date of death of the former employee, such that, to the extent practicable, the present value of the future payments of the annuity would be actuarially equivalent to the present value of the future payments under subparagraph (A) as of the day after the former employee's death; or

"(C) the lump-sum credit, if the surviving spouse is the individual who would be entitled to the lump-sum credit and if such surviving spouse files application therefor.

"(2) An annuity under this subsection and the right thereto terminate on the last day of the month before the surviving spouse remarries before becoming 55 years of age, or dies."

(b) CORRESPONDING AMENDMENT FOR FERS.—Section 8445(a) of title 5, United States Code, is amended—

(1) by striking "(or of a former employee or" and inserting "(or of a former"; and

(2) by striking "annuity" and inserting "annuity, or of a former employee who dies after having separated from the service with title to a deferred annuity under section 8413 but before having established a valid claim for annuity (if such former spouse was married to such former employee prior to the date of separation))".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply with respect to surviving spouses and former spouses (whose marriage, in the case of the amendments made by subsection (a), terminated after May 6, 1985) of former employees who die after December 31, 2000.

#### SEC. 814. CLARIFICATION OF TAX TREATMENT OF DIVISION OF SECTION 457 PLAN BENEFITS UPON DIVORCE.

(a) IN GENERAL.—Section 414(p)(11) (relating to application of rules to governmental and church plans) is amended—

(1) by inserting "or an eligible deferred compensation plan (within the meaning of section 457(b))" after "subsection (e))", and

(2) in the heading, by striking "GOVERNMENTAL AND CHURCH PLANS" and inserting "CERTAIN OTHER PLANS".

(b) WAIVER OF CERTAIN DISTRIBUTION REQUIREMENTS.—Paragraph (10) of section 414(p) is amended by striking "and section 409(d)" and inserting "section 409(d), and section 457(d)".

(c) TAX TREATMENT OF PAYMENTS FROM A SECTION 457 PLAN.—Subsection (p) of section 414 is amended by redesignating paragraph (12) as paragraph (13) and inserting after paragraph (11) the following new paragraph:

"(12) TAX TREATMENT OF PAYMENTS FROM A SECTION 457 PLAN.—If a distribution or payment from an eligible deferred compensation plan described in section 457(b) is made pursuant to a qualified domestic relations order, rules similar to the rules of section 402(e)(1)(A) shall apply to such distribution or payment."

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to transfers, distributions, and payments made after December 31, 2000.

#### SEC. 815. SPOUSES' RIGHT TO KNOW PROPOSAL.

(a) SPOUSE'S RIGHT TO KNOW DISTRIBUTION INFORMATION.—

(1) AMENDMENT OF INTERNAL REVENUE CODE.—Section 417(a)(3) (relating to plan to provide written explanations) is amended by adding at the end the following new subparagraph:

"(C) EXPLANATION TO SPOUSE.—At the time a plan provides a participant with a written explanation under subparagraph (A) or (B), such plan shall provide a copy of such explanation to such participant's spouse. If the last known address of the spouse is the same as the last known address of the participant, the requirement of the preceding sentence shall be treated as met if the copy referred to in the preceding sentence is included in a single mailing made to such address and addressed to both such participant and spouse."

(2) AMENDMENT OF ERISA.—Paragraph (3) of section 205(c) of Employee Retirement Income Security Act of 1974 is amended by adding at the end the following new subparagraph:

"(C) EXPLANATION TO SPOUSE.—At the time a plan provides a participant with a written explanation under subparagraph (A) or (B), such plan shall provide a copy of such explanation to such participant's spouse. If the last known address of the spouse is the same as the last known address of the participant, the requirement of the preceding sentence shall be treated as met if the copy referred to in the preceding sentence is included in a single mailing made to such address and addressed to both such participant and spouse."

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

#### Subtitle C—Increasing Portability of Pension Plans

#### SEC. 821. ROLLOVERS ALLOWED AMONG VARIOUS TYPES OF PLANS.

(a) ROLLOVERS FROM AND TO SECTION 457 PLANS.—

(1) ROLLOVERS FROM SECTION 457 PLANS.—

(A) IN GENERAL.—Section 457(e) (relating to other definitions and special rules) is amended by adding at the end the following:

"(16) ROLLOVER AMOUNTS.—

“(A) GENERAL RULE.—In the case of an eligible deferred compensation plan established and maintained by an employer described in subsection (e)(1)(A), if—

“(i) any portion of the balance to the credit of an employee in such plan is paid to such employee in an eligible rollover distribution (within the meaning of section 402(c)(4) without regard to subparagraph (C) thereof),

“(ii) the employee transfers any portion of the property such employee receives in such distribution to an eligible retirement plan described in section 402(c)(8)(B), and

“(iii) in the case of a distribution of property other than money, the amount so transferred consists of the property distributed, then such distribution (to the extent so transferred) shall not be includible in gross income for the taxable year in which paid.

“(B) CERTAIN RULES MADE APPLICABLE.—The rules of paragraphs (2) through (7) (other than paragraph (4)(C)) and (9) of section 402(c) and section 402(f) shall apply for purposes of subparagraph (A).

“(C) REPORTING.—Rollovers under this paragraph shall be reported to the Secretary in the same manner as rollovers from qualified retirement plans (as defined in section 4974(c)).”

(B) DEFERRAL LIMIT DETERMINED WITHOUT REGARD TO ROLLOVER AMOUNTS.—Section 457(b)(2) (defining eligible deferred compensation plan) is amended by inserting “(other than rollover amounts)” after “taxable year”.

(C) DIRECT ROLLOVER.—Paragraph (1) of section 457(d) is amended by striking “and” at the end of subparagraph (A), by striking the period at the end of subparagraph (B) and inserting “, and”, and by inserting after subparagraph (B) the following:

“(C) in the case of a plan maintained by an employer described in subsection (e)(1)(A), the plan meets requirements similar to the requirements of section 401(a)(31).

Any amount transferred in a direct trustee-to-trustee transfer in accordance with section 401(a)(31) shall not be includible in gross income for the taxable year of transfer.”

(D) WITHHOLDING.—

(i) Paragraph (12) of section 3401(a) is amended by adding at the end the following:

“(E) under or to an eligible deferred compensation plan which, at the time of such payment, is a plan described in section 457(b) maintained by an employer described in section 457(e)(1)(A); or”.

(ii) Paragraph (3) of section 3405(c) is amended to read as follows:

“(3) ELIGIBLE ROLLOVER DISTRIBUTION.—For purposes of this subsection, the term ‘eligible rollover distribution’ has the meaning given such term by section 402(f)(2)(A).”

(iii) LIABILITY FOR WITHHOLDING.—Subparagraph (B) of section 3405(d)(2) is amended by striking “or” at the end of clause (ii), by striking the period at the end of clause (iii) and inserting “, or”, and by adding at the end the following:

“(iv) section 457(b).”

(2) ROLLOVERS TO SECTION 457 PLANS.—

(A) IN GENERAL.—Section 402(c)(8)(B) (defining eligible retirement plan) is amended by striking “and” at the end of clause (iii), by striking the period at the end of clause (iv) and inserting “, and”, and by inserting after clause (iv) the following new clause:

“(v) an eligible deferred compensation plan described in section 457(b) of an employer described in section 457(e)(1)(A).”

(B) SEPARATE ACCOUNTING.—Section 402(c) is amended by adding at the end the following new paragraph:

“(11) SEPARATE ACCOUNTING.—Unless a plan described in clause (v) of paragraph (8)(B) agrees to separately account for amounts rolled into such plan from eligible retire-

ment plans not described in such clause, the plan described in such clause may not accept transfers or rollovers from such retirement plans.”

(C) 10 PERCENT ADDITIONAL TAX.—Subsection (t) of section 72 (relating to 10-percent additional tax on early distributions from qualified retirement plans) is amended by adding at the end the following new paragraph:

“(9) SPECIAL RULE FOR ROLLOVERS TO SECTION 457 PLANS.—For purposes of this subsection, a distribution from an eligible deferred compensation plan (as defined in section 457(b)) of an employer described in section 457(e)(1)(A) shall be treated as a distribution from a qualified retirement plan described in 4974(c)(1) to the extent that such distribution is attributable to an amount transferred to an eligible deferred compensation plan from a qualified retirement plan (as defined in section 4974(c)).”

(b) ALLOWANCE OF ROLLOVERS FROM AND TO 403(b) PLANS.—

(1) ROLLOVERS FROM SECTION 403(b) PLANS.—Section 403(b)(8)(A)(ii) (relating to rollover amounts) is amended by striking “such distribution” and all that follows and inserting “such distribution to an eligible retirement plan described in section 402(c)(8)(B), and”.

(2) ROLLOVERS TO SECTION 403(b) PLANS.—Section 402(c)(8)(B) (defining eligible retirement plan), as amended by subsection (a), is amended by striking “and” at the end of clause (iv), by striking the period at the end of clause (v) and inserting “, and”, and by inserting after clause (v) the following new clause:

“(vi) an annuity contract described in section 403(b).”

(c) EXPANDED EXPLANATION TO RECIPIENTS OF ROLLOVER DISTRIBUTIONS.—Paragraph (1) of section 402(f) (relating to written explanation to recipients of distributions eligible for rollover treatment) is amended by striking “and” at the end of subparagraph (C), by striking the period at the end of subparagraph (D) and inserting “, and”, and by adding at the end the following new subparagraph:

“(E) of the provisions under which distributions from the eligible retirement plan receiving the distribution may be subject to restrictions and tax consequences which are different from those applicable to distributions from the plan making such distribution.”

(d) SPOUSAL ROLLOVERS.—Section 402(c)(9) (relating to rollover where spouse receives distribution after death of employee) is amended by striking “; except that” and all that follows up to the end period.

(e) CONFORMING AMENDMENTS.—

(1) Section 72(o)(4) is amended by striking “and 408(d)(3)” and inserting “403(b)(8), 408(d)(3), and 457(e)(16)”.

(2) Section 219(d)(2) is amended by striking “or 408(d)(3)” and inserting “408(d)(3), or 457(e)(16)”.

(3) Section 401(a)(31)(B) is amended by striking “and 403(a)(4)” and inserting “, 403(a)(4), 403(b)(8), and 457(e)(16)”.

(4) Subparagraph (A) of section 402(f)(2) is amended by striking “or paragraph (4) of section 403(a)” and inserting “, paragraph (4) of section 403(a), subparagraph (A) of section 403(b)(8), or subparagraph (A) of section 457(e)(16)”.

(5) Paragraph (1) of section 402(f) is amended by striking “from an eligible retirement plan”.

(6) Subparagraphs (A) and (B) of section 402(f)(1) are amended by striking “another eligible retirement plan” and inserting “an eligible retirement plan”.

(7) Subparagraph (B) of section 403(b)(8) is amended to read as follows:

“(B) CERTAIN RULES MADE APPLICABLE.—The rules of paragraphs (2) through (7) and (9) of section 402(c) and section 402(f) shall apply for purposes of subparagraph (A), except that section 402(f) shall be applied to the payor in lieu of the plan administrator.”

(8) Section 408(a)(1) is amended by striking “or 403(b)(8)” and inserting “, 403(b)(8), or 457(e)(16)”.

(9) Subparagraphs (A) and (B) of section 415(b)(2) are each amended by striking “and 408(d)(3)” and inserting “403(b)(8), 408(d)(3), and 457(e)(16)”.

(10) Section 415(c)(2) is amended by striking “and 408(d)(3)” and inserting “408(d)(3), and 457(e)(16)”.

(11) Section 4973(b)(1)(A) is amended by striking “or 408(d)(3)” and inserting “408(d)(3), or 457(e)(16)”.

(f) EFFECTIVE DATE; SPECIAL RULE.—

(1) EFFECTIVE DATE.—The amendments made by this section shall apply to distributions after December 31, 2000.

(2) SPECIAL RULE.—Notwithstanding any other provision of law, subsections (h)(3) and (h)(5) of section 1122 of the Tax Reform Act of 1986 shall not apply to any distribution from an eligible retirement plan (as defined in clause (iii) or (iv) of section 402(c)(8)(B) of the Internal Revenue Code of 1986) on behalf of an individual if there was a rollover to such plan on behalf of such individual which is permitted solely by reason of any amendment made by this section.

#### SEC. 822. ROLLOVERS OF IRAS INTO WORKPLACE RETIREMENT PLANS.

(a) IN GENERAL.—Subparagraph (A) of section 408(d)(3) (relating to rollover amounts) is amended by adding “or” at the end of clause (i), by striking clauses (ii) and (iii), and by adding at the end the following:

“(ii) the entire amount received (including money and any other property) is paid into an eligible retirement plan for the benefit of such individual not later than the 60th day after the date on which the payment or distribution is received, except that the maximum amount which may be paid into such plan may not exceed the portion of the amount received which is includible in gross income (determined without regard to this paragraph).

For purposes of clause (ii), the term ‘eligible retirement plan’ means an eligible retirement plan described in clause (iii), (iv), (v), or (vi) of section 402(c)(8)(B) the trustee of which is a person which may be a trustee of an individual retirement plan under section 408.”

(b) CONFORMING AMENDMENTS.—

(1) Paragraph (1) of section 403(b) is amended by striking “section 408(d)(3)(A)(iii)” and inserting “section 408(d)(3)(A)(ii)”.

(2) Clause (i) of section 408(d)(3)(D) is amended by striking “(i), (ii), or (iii)” and inserting “(i) or (ii)”.

(3) Subparagraph (G) of section 408(d)(3) is amended to read as follows:

“(G) SIMPLE RETIREMENT ACCOUNTS.—In the case of any payment or distribution out of a simple retirement account (as defined in subsection (p)) to which section 72(t)(6) applies, this paragraph shall not apply unless such payment or distribution is paid into another simple retirement account.”

(c) EFFECTIVE DATE; SPECIAL RULE.—

(1) EFFECTIVE DATE.—The amendments made by this section shall apply to distributions after December 31, 2000.

(2) SPECIAL RULE.—Notwithstanding any other provision of law, subsections (h)(3) and (h)(5) of section 1122 of the Tax Reform Act of 1986 shall not apply to any distribution from an eligible retirement plan (as defined in clause (iii) or (iv) of section 402(c)(8)(B) of the Internal Revenue Code of 1986) on behalf of an individual if there was a rollover to

such plan on behalf of such individual which is permitted solely by reason of the amendments made by this section.

**SEC. 823. ROLLOVERS OF AFTER-TAX CONTRIBUTIONS.**

(a) **ROLLOVERS FROM EXEMPT TRUSTS.**—Paragraph (2) of section 402(c) (relating to maximum amount which may be rolled over) is amended by adding at the end the following: “The preceding sentence shall not apply to such distribution to the extent—

“(A) such portion is transferred in a direct trustee-to-trustee transfer to a qualified trust which is part of a plan which is a defined contribution plan and which agrees to separately account for amounts so transferred, including separately accounting for the portion of such distribution which is includible in gross income and the portion of such distribution which is not so includible, or

“(B) such portion is transferred to an eligible retirement plan described in clause (i) or (ii) of paragraph (8)(B).”

(b) **OPTIONAL DIRECT TRANSFER OF ELIGIBLE ROLLOVER DISTRIBUTIONS.**—Subparagraph (B) of section 401(a)(31) (relating to limitation) is amended by adding at the end the following: “The preceding sentence shall not apply to such distribution if the plan to which such distribution is transferred—

“(i) agrees to separately account for amounts so transferred, including separately accounting for the portion of such distribution which is includible in gross income and the portion of such distribution which is not so includible, or

“(ii) is an eligible retirement plan described in clause (i) or (ii) of section 402(c)(8)(B).”

(c) **RULES FOR APPLYING SECTION 72 TO IRAS.**—Paragraph (3) of section 408(d) (relating to special rules for applying section 72) is amended by inserting at the end the following:

“(H) APPLICATION OF SECTION 72.—

“(I) IN GENERAL.—If—

“(i) a distribution is made from an individual retirement plan, and

“(II) a rollover contribution is made to an eligible retirement plan described in section 402(c)(8)(B)(iii), (iv), (v), or (vi) with respect to all or part of such distribution,

then, notwithstanding paragraph (2), the rules of clause (ii) shall apply for purposes of applying section 72.

“(ii) **APPLICABLE RULES.**—In the case of a distribution described in clause (i)—

“(I) section 72 shall be applied separately to such distribution,

“(II) notwithstanding the pro rata allocation of income on, and investment in the contract, to distributions under section 72, the portion of such distribution rolled over to an eligible retirement plan described in clause (i) shall be treated as from income on the contract (to the extent of the aggregate income on the contract from all individual retirement plans of the distributee), and

“(III) appropriate adjustments shall be made in applying section 72 to other distributions in such taxable year and subsequent taxable years.”

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

**SEC. 824. HARDSHIP EXCEPTION TO 60-DAY RULE.**

(a) **EXEMPT TRUSTS.**—Paragraph (3) of section 402(c) (relating to transfer must be made within 60 days of receipt) is amended to read as follows:

“(3) **TRANSFER MUST BE MADE WITHIN 60 DAYS OF RECEIPT.**—

“(A) **IN GENERAL.**—Except as provided in subparagraph (B), paragraph (1) shall not apply to any transfer of a distribution made after the 60th day following the day on which

the distributee received the property distributed.

“(B) **HARDSHIP EXCEPTION.**—The Secretary may waive the 60-day requirement under subparagraph (A) where the failure to waive such requirement would be against equity or good conscience, including casualty, disaster, or other events beyond the reasonable control of the individual subject to such requirement.”

(b) **IRAS.**—Paragraph (3) of section 408(d) (relating to rollover contributions), as amended by section 333, is amended by adding after subparagraph (H) the following new subparagraph:

“(I) **WAIVER OF 60-DAY REQUIREMENT.**—The Secretary may waive the 60-day requirement under subparagraphs (A) and (D) where the failure to waive such requirement would be against equity or good conscience, including casualty, disaster, or other events beyond the reasonable control of the individual subject to such requirement.”

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

**SEC. 825. TREATMENT OF FORMS OF DISTRIBUTION.**

(a) **PLAN TRANSFERS.**—

(1) **AMENDMENT TO INTERNAL REVENUE CODE OF 1986.**—Paragraph (6) of section 411(d) (relating to accrued benefit not to be decreased by amendment) is amended by adding at the end the following:

“(D) **PLAN TRANSFERS.**—

“(i) A defined contribution plan (in this subparagraph referred to as the ‘transferee plan’) shall not be treated as failing to meet the requirements of this subsection merely because the transferee plan does not provide some or all of the forms of distribution previously available under another defined contribution plan (in this subparagraph referred to as the ‘transferor plan’) to the extent that—

“(I) the forms of distribution previously available under the transferor plan applied to the account of a participant or beneficiary under the transferor plan that was transferred from the transferor plan to the transferee plan pursuant to a direct transfer rather than pursuant to a distribution from the transferor plan,

“(II) the terms of both the transferor plan and the transferee plan authorize the transfer described in subclause (I),

“(III) the transfer described in subclause (I) was made pursuant to a voluntary election by the participant or beneficiary whose account was transferred to the transferee plan,

“(IV) the election described in subclause (III) was made after the participant or beneficiary received a notice describing the consequences of making the election,

“(V) if the transferor plan provides for an annuity as the normal form of distribution under the plan in accordance with section 417, the transfer is made with the consent of the participant’s spouse (if any), and such consent meets requirements similar to the requirements imposed by section 417(a)(2), and

“(VI) the transferee plan allows the participant or beneficiary described in subclause (III) to receive any distribution to which the participant or beneficiary is entitled under the transferee plan in the form of a single sum distribution.

“(ii) Clause (i) shall apply to plan mergers and other transactions having the effect of a direct transfer, including consolidations of benefits attributable to different employers within a multiple employer plan.

“(iii) Clause (i) shall not apply to a transfer unless it is in connection with a bona fide transaction or change in employer.

“(E) **ELIMINATION OF FORM OF DISTRIBUTION.**—Except to the extent provided in regulations, a defined contribution plan shall not be treated as failing to meet the requirements of this section merely because of the elimination of a form of distribution previously available thereunder. This subparagraph shall not apply to the elimination of a form of distribution with respect to any participant unless—

“(i) a single sum payment is available to such participant at the same time or times as the form of distribution being eliminated, and

“(ii) such single sum payment is based on the same or greater portion of the participant’s account as the form of distribution being eliminated.”

(2) **AMENDMENT TO ERISA.**—Section 204(g) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1054(g)) is amended by adding at the end the following:

“(4)(A) A defined contribution plan (in this subparagraph referred to as the ‘transferee plan’) shall not be treated as failing to meet the requirements of this subsection merely because the transferee plan does not provide some or all of the forms of distribution previously available under another defined contribution plan (in this paragraph referred to as the ‘transferor plan’) to the extent that—

“(i) the forms of distribution previously available under the transferor plan applied to the account of a participant or beneficiary under the transferor plan that was transferred from the transferor plan to the transferee plan pursuant to a direct transfer rather than pursuant to a distribution from the transferor plan;

“(ii) the terms of both the transferor plan and the transferee plan authorize the transfer described in clause (i);

“(iii) the transfer described in clause (i) was made pursuant to a voluntary election by the participant or beneficiary whose account was transferred to the transferee plan;

“(iv) the election described in clause (iii) was made after the participant or beneficiary received a notice describing the consequences of making the election;

“(v) if the transferor plan provides for an annuity as the normal form of distribution under the plan in accordance with section 417, the transfer is made with the consent of the participant’s spouse (if any), and such consent meets requirements similar to the requirements imposed by section 417(a)(2); and

“(vi) the transferee plan allows the participant or beneficiary described in subclause (III) to receive any distribution to which the participant or beneficiary is entitled under the transferee plan in the form of a single sum distribution.

“(B) Subparagraph (A) shall apply to plan mergers and other transactions having the effect of a direct transfer, including consolidations of benefits attributable to different employers within a multiple employer plan.

“(C) Subparagraph (A) shall not apply to a transfer unless it is in connection with a bona fide transaction or change in employer.

“(5) Except to the extent provided in regulations, a defined contribution plan shall not be treated as failing to meet the requirements of this section merely because of the elimination of a form of distribution previously available thereunder. This paragraph shall not apply to the elimination of a form of distribution with respect to any participant unless—

“(A) a single sum payment is available to such participant at the same time or times as the form of distribution being eliminated; and

“(B) such single sum payment is based on the same or greater portion of the participant’s account as the form of distribution being eliminated.”

(3) **EFFECTIVE DATE.**—The amendments made by this subsection shall apply to years beginning after December 31, 2000.

(b) **REGULATIONS.**—

(1) **AMENDMENT TO INTERNAL REVENUE CODE OF 1986.**—The last sentence of paragraph (6)(B) of section 411(d) (relating to accrued benefit not to be decreased by amendment) is amended to read as follows: “The Secretary may by regulations provide that this subparagraph shall not apply to any plan amendment that does not adversely affect the rights of participants in a material manner.”

(2) **AMENDMENT TO ERISA.**—The last sentence of section 204(g)(2) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1054(g)(2)) is amended to read as follows: “The Secretary of the Treasury may by regulations provide that this paragraph shall not apply to any plan amendment that does not adversely affect the rights of participants in a material manner.”

(3) **SECRETARY DIRECTED.**—Not later than December 31, 2001, the Secretary of the Treasury is directed to issue final regulations under section 411(d)(6) of the Internal Revenue Code of 1986 and section 204(g)(2) of the Employee Retirement Income Security Act of 1974. Such regulations shall apply to plan years beginning after December 31, 2001, or such earlier date as is specified by the Secretary of the Treasury.

#### **SEC. 826. RATIONALIZATION OF RESTRICTIONS ON DISTRIBUTIONS.**

(a) **MODIFICATION OF SAME DESK EXCEPTION.**—

(1) **SECTION 401(k).**—

(A) Section 401(k)(2)(B)(i)(I) (relating to qualified cash or deferred arrangements) is amended by striking “separation from service” and inserting “severance from employment”.

(B) Subparagraph (A) of section 401(k)(10) (relating to distributions upon termination of plan or disposition of assets or subsidiary) is amended to read as follows:

“(A) **IN GENERAL.**—An event described in this subparagraph is the termination of the plan without establishment or maintenance of another defined contribution plan (other than an employee stock ownership plan as defined in section 4975(e)(7)).”

(C) Section 401(k)(10) is amended—

(i) in subparagraph (B)—

(I) by striking “An event” in clause (i) and inserting “A termination”, and

(II) by striking “the event” in clause (i) and inserting “the termination”,

(ii) by striking subparagraph (C), and

(iii) by striking “OR DISPOSITION OF ASSETS OR SUBSIDIARY” in the heading.

(2) **SECTION 403(b).**—

(A) Paragraphs (7)(A)(ii) and (11)(A) of section 403(b) are each amended by striking “separates from service” and inserting “has a severance from employment”.

(B) The heading for paragraph (11) of section 403(b) is amended by striking “SEPARATION FROM SERVICE” and inserting “SEVERANCE FROM EMPLOYMENT”.

(3) **SECTION 457.**—Clause (ii) of section 457(d)(1)(A) is amended by striking “is separated from service” and inserting “has a severance from employment”.

(b) **EFFECTIVE DATE.**—The amendments made by this section shall apply to distributions after December 31, 2000.

#### **SEC. 827. PURCHASE OF SERVICE CREDIT IN GOVERNMENTAL DEFINED BENEFIT PLANS.**

(a) **403(b) PLANS.**—Subsection (b) of section 403 is amended by adding at the end the following new paragraph:

“(13) **TRUSTEE-TO-TRUSTEE TRANSFERS TO PURCHASE PERMISSIVE SERVICE CREDIT.**—No amount shall be includible in gross income by reason of a direct trustee-to-trustee transfer to a defined benefit governmental plan (as defined in section 414(d)) if such transfer is—

“(A) for the purchase of permissive service credit (as defined in section 415(n)(3)(A)) under such plan, or

“(B) a repayment to which section 415 does not apply by reason of subsection (k)(3) thereof.”

(b) **457 PLANS.**—

(1) Subsection (e) of section 457 is amended by adding after paragraph (17) the following new paragraph:

“(18) **TRUSTEE-TO-TRUSTEE TRANSFERS TO PURCHASE PERMISSIVE SERVICE CREDIT.**—No amount shall be includible in gross income by reason of a direct trustee-to-trustee transfer to a defined benefit governmental plan (as defined in section 414(d)) if such transfer is—

“(A) for the purchase of permissive service credit (as defined in section 415(n)(3)(A)) under such plan, or

“(B) a repayment to which section 415 does not apply by reason of subsection (k)(3) thereof.”

(2) Section 457(b)(2) is amended by striking “(other than rollover amounts)” and inserting “(other than rollover amounts and amounts received in a transfer referred to in subsection (e)(16))”.

(c) **EFFECTIVE DATE.**—The amendments made by this section shall apply to trustee-to-trustee transfers after December 31, 2000.

#### **SEC. 828. EMPLOYERS MAY DISREGARD ROLLOVERS FOR PURPOSES OF CASH-OUT AMOUNTS.**

(a) **QUALIFIED PLANS.**—

(1) **AMENDMENT TO INTERNAL REVENUE CODE OF 1986.**—Section 411(a)(11) (relating to restrictions on certain mandatory distributions) is amended by adding at the end the following:

“(D) **SPECIAL RULE FOR ROLLOVER CONTRIBUTIONS.**—A plan shall not fail to meet the requirements of this paragraph if, under the terms of the plan, the present value of the nonforfeitable accrued benefit is determined without regard to that portion of such benefit which is attributable to rollover contributions (and earnings allocable thereto). For purposes of this subparagraph, the term ‘rollover contributions’ means any rollover contribution under sections 402(c), 403(a)(4), 403(b)(8), 408(d)(3)(A)(ii), and 457(e)(16).”

(2) **AMENDMENT TO ERISA.**—Section 203(e) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1053(c)) is amended by adding at the end the following:

“(4) A plan shall not fail to meet the requirements of this subsection if, under the terms of the plan, the present value of the nonforfeitable accrued benefit is determined without regard to that portion of such benefit which is attributable to rollover contributions (and earnings allocable thereto). For purposes of this subparagraph, the term ‘rollover contributions’ means any rollover contribution under sections 402(c), 403(a)(4), 403(b)(8), 408(d)(3)(A)(ii), and 457(e)(16) of the Internal Revenue Code of 1986.”

(b) **ELIGIBLE DEFERRED COMPENSATION PLANS.**—Clause (i) of section 457(e)(9)(A) is amended by striking “such amount” and inserting “the portion of such amount which is not attributable to rollover contributions (as defined in section 411(a)(11)(D))”.

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

#### **Subtitle D—Strengthening Pension Security and Enforcement**

#### **SEC. 831. TREATMENT OF MULTIEMPLOYER PLANS UNDER SECTION 415.**

(a) **COMPENSATION LIMIT.**—Paragraph (11) of section 415(b) (relating to limitation for defined benefit plans) is amended to read as follows:

“(11) **SPECIAL LIMITATION RULE FOR GOVERNMENTAL AND MULTIEMPLOYER PLANS.**—In the case of a governmental plan (as defined in section 414(d)) or a multiemployer plan (as defined in section 414(f)), subparagraph (B) of paragraph (1) shall not apply.”

(b) **COMBINING AND AGGREGATION OF PLANS.**—

(1) **COMBINING OF PLANS.**—Subsection (f) of section 415 (relating to combining of plans) is amended by adding at the end the following:

“(3) **EXCEPTION FOR MULTIEMPLOYER PLANS.**—Notwithstanding paragraph (1) and subsection (g), a multiemployer plan (as defined in section 414(f)) shall not be combined or aggregated with any other plan maintained by an employer for purposes of applying the limitations established in this section. The preceding sentence shall not apply for purposes of applying subsection (b)(1)(A) to a plan which is not a multiemployer plan.”

(2) **CONFORMING AMENDMENT FOR AGGREGATION OF PLANS.**—Subsection (g) of section 415 (relating to aggregation of plans) is amended by striking “The Secretary” and inserting “Except as provided in subsection (f)(3), the Secretary”.

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

#### **SEC. 832. EXTENSION OF MISSING PARTICIPANTS PROGRAM TO MULTIEMPLOYER PLANS.**

(a) **IN GENERAL.**—Section 4050 of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1350) is amended by redesignating subsection (c) as subsection (d) and by inserting after subsection (b) the following:

“(c) **MULTIEMPLOYER PLANS.**—The corporation shall prescribe rules similar to the rules in subsection (a) for multiemployer plans covered by this title that terminate under section 4041A.”

(b) **CONFORMING AMENDMENT.**—Section 206(f) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1056(f)) is amended by striking “the plan shall provide that,”.

(c) **EFFECTIVE DATE.**—The amendments made by this section shall apply to distributions made after final regulations implementing subsection (c) of section 4050 of the Employee Retirement Income Security Act of 1974 (as added by subsection (a)) are prescribed.

#### **SEC. 833. CIVIL PENALTIES FOR BREACH OF FIDUCIARY RESPONSIBILITY.**

(a) **IMPOSITION AND AMOUNT OF PENALTY MADE DISCRETIONARY.**—Section 502(j)(1) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1132(j)(1)) is amended—

(1) by striking “shall” and inserting “may”, and

(2) by striking “equal to” and inserting “not greater than”.

(b) **APPLICABLE RECOVERY AMOUNT.**—Section 502(j)(2) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1132(j)(2)) is amended to read as follows:

“(2) For purposes of paragraph (1), the term ‘applicable recovery amount’ means any amount which is recovered from (or on behalf of) any fiduciary or other person with respect to a breach or violation described in paragraph (1) on or after the 90th day following receipt by such fiduciary or other person of written notice from the Secretary of the violation, whether paid voluntarily or



by order of a court in a judicial proceeding instituted by the Secretary under subsection (a)(2) or (a)(5). The Secretary may, in the Secretary's sole discretion, extend the 90-day period described in the preceding sentence."

(c) OTHER RULES.—Section 502(h) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1132(h)) is amended by adding at the end the following:

"(5) A person shall be jointly and severally liable for the penalty described in paragraph (1) to the same extent that such person is jointly and severally liable for the applicable recovery amount on which the penalty is based.

"(6) No penalty shall be assessed under this subsection unless the person against whom the penalty is assessed is given notice and opportunity for a hearing with respect to the violation and applicable recovery amount."

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to any action or claim, including any action or claim commenced by the Secretary of Labor, pending on or after the date of enactment of this Act.

**SEC. 834. FAILURE TO PROVIDE NOTICE BY DEFINED BENEFIT PLANS SIGNIFICANTLY REDUCING FUTURE BENEFIT ACCRUALS.**

(a) EXCISE TAX.—

(1) IN GENERAL.—Chapter 43 of subtitle D (relating to qualified pension, etc., plans) is amended by adding at the end the following new section:

**"SEC. 4980F. FAILURE OF DEFINED BENEFIT PLANS REDUCING BENEFIT ACCRUALS TO SATISFY NOTICE REQUIREMENTS.**

"(a) IMPOSITION OF TAX.—There is hereby imposed a tax on the failure of a large defined benefit plan to meet the requirements of subsection (e) with respect to any applicable individual.

"(b) AMOUNT OF TAX.—

"(1) IN GENERAL.—The amount of the tax imposed by subsection (a) on any failure with respect to any applicable individual shall be \$100 for each day in the noncompliance period with respect to such failure.

"(2) NONCOMPLIANCE PERIOD.—For purposes of this section, the term 'noncompliance period' means, with respect to any failure, the period beginning on the date the failure first occurs and ending on the date the failure is corrected.

"(3) MINIMUM TAX FOR NONCOMPLIANCE PERIOD WHERE FAILURE DISCOVERED AFTER NOTICE OF EXAMINATION.—Notwithstanding paragraphs (1) and (2) of subsection (c) —

"(A) IN GENERAL.—In the case of 1 or more failures with respect to an applicable individual —

"(i) which are not corrected before the date a notice of examination of income tax liability is sent to the employer, and

"(ii) which occurred or continued during the period under examination, the amount of tax imposed by subsection (a) by reason of such failures with respect to such beneficiary shall not be less than the lesser of \$2,500 or the amount of tax which would be imposed by subsection (a) without regard to such paragraphs.

"(B) HIGHER MINIMUM TAX WHERE VIOLATIONS ARE MORE THAN DE MINIMIS.—To the extent violations by the employer (or the plan in the case of a multiemployer plan) for any year are more than de minimis, subparagraph (A) shall be applied by substituting '\$15,000' for '\$2,500' with respect to the employer (or such plan).

"(c) LIMITATIONS ON AMOUNT OF TAX.—

"(1) TAX NOT TO APPLY WHERE FAILURE NOT DISCOVERED EXERCISING REASONABLE DILIGENCE.—No tax shall be imposed by subsection (a) on any failure during any period for which it is established to the satisfaction

of the Secretary that none of the persons referred to in subsection (d) knew, or exercising reasonable diligence would have known, that the failure existed.

"(2) TAX NOT TO APPLY TO FAILURES CORRECTED WITHIN 30 DAYS.—No tax shall be imposed by subsection (a) on any failure if—

"(A) such failure was due to reasonable cause and not to willful neglect, and

"(B) such failure is corrected during the 30-day period beginning on the first date any of the persons referred to in subsection (d) knew, or exercising reasonable diligence would have known, that such failure existed.

"(3) OVERALL LIMITATION FOR UNINTENTIONAL FAILURES.—

"(A) IN GENERAL.—In the case of failures that are due to reasonable cause and not to willful neglect, the tax imposed by subsection (a) for failures during the taxable year of the employer (or, in the case of a multiemployer plan, the taxable year of the trust forming part of the plan) shall not exceed \$500,000. For purposes of the preceding sentence, all multiemployer plans of which the same trust forms a part shall be treated as 1 plan.

"(B) TAXABLE YEARS IN THE CASE OF CERTAIN CONTROLLED GROUPS.—For purposes of this paragraph, if all persons who are treated as a single employer for purposes of this section do not have the same taxable year, the taxable years taken into account shall be determined under principles similar to the principles of section 1561.

"(4) WAIVER BY SECRETARY.—In the case of a failure which is due to reasonable cause and not to willful neglect, the Secretary may waive part or all of the tax imposed by subsection (a) to the extent that the payment of such tax would be excessive relative to the failure involved.

"(d) LIABILITY FOR TAX.—The following shall be liable for the tax imposed by subsection (a):

"(1) In the case of a plan other than a multiemployer plan, the employer.

"(2) In the case of a multiemployer plan, the plan.

"(e) NOTICE REQUIREMENTS FOR PLANS SIGNIFICANTLY REDUCING BENEFIT ACCRUALS.—

"(1) IN GENERAL.—If a large defined benefit plan adopts an amendment which has the effect of significantly reducing the rate of future benefit accrual of 1 or more participants, a trust which is part of such plan shall not constitute a qualified trust under this section unless, after adoption of such amendment and not less than 15 days before its effective date, the plan administrator provides—

"(A) a written statement of benefit change described in paragraph (2) to each applicable individual, and

"(B) a written notice setting forth the plan amendment and its effective date to each employee organization representing participants in the plan.

Any such notice may be provided to a person designated, in writing, by the person to which it would otherwise be provided. The plan administrator shall not be treated as failing to meet the requirements of this paragraph merely because the statement or notice is provided before the adoption of the plan amendment if no material modification of the amendment occurs before the amendment is adopted.

"(2) STATEMENT OF BENEFIT CHANGE.—A statement of benefit change described in this subparagraph shall—

"(A) be written in a manner calculated to be understood by the average plan participant, and

"(B) include the information described in paragraph (3).

"(3) INFORMATION CONTAINED IN STATEMENT OF BENEFIT CHANGE.—The information de-

scribed in this paragraph includes the following:

"(A) Notice setting forth the plan amendment and its effective date.

"(B) A comparison of the following amounts under the plan with respect to an applicable individual, determined both with and without regard to the plan amendment:

"(i) The accrued benefit and the present value of the accrued benefit as of the effective date.

"(ii) The projected accrued benefit and the projected present value of the accrued benefit as of the date which is 3 years, 5 years, and 10 years from the effective date and as of the normal retirement age.

Such comparison may include a statement that 'The projected benefits were computed using assumptions required under Federal law and may not prove accurate over time.'

"(C) A table of all annuity factors used to calculate benefits under the plan, presented in the form provided in section 72 and the regulations thereunder.

Benefits described in subparagraph (B) shall be stated separately and shall be calculated by using the applicable mortality table and the applicable interest rate under section 417(e)(3)(A). The Secretary may prescribe regulations under which information other than that described in this paragraph may be provided in cases where the comparative benefits are not needed.

"(4) EMPLOYERS HELD HARMLESS.—A plan (and any employer maintaining the plan) shall not be treated as failing to meet the requirements of this subsection (or as being liable to any applicable individual) by reason of any projected amounts under paragraph (3) being wrong if such amounts were computed in accordance with such paragraph.

"(5) LARGE DEFINED BENEFIT PLAN; APPLICABLE INDIVIDUAL.—For purposes of this subsection—

"(A) LARGE DEFINED BENEFIT PLAN.—The term 'large defined benefit plan' means any defined benefit plan which had 1,000 or more participants who had accrued a benefit under the plan (whether or not nonforfeitable) as of the last day of the plan year preceding the plan year in which the plan amendment becomes effective. Such term shall not include a governmental plan (within the meaning of section 414(d)) or a church plan (within the meaning of section 414(e)).

"(B) APPLICABLE INDIVIDUAL.—The term 'applicable individual' means—

"(i) each participant in the plan, and

"(ii) each beneficiary who is an alternate payee (within the meaning of section 414(p)(8)) under an applicable qualified domestic relations order (within the meaning of section 414(p)(1)(A)),

who has a nonforfeitable benefit under the plan as of the effective date of the plan amendment and who may reasonably be expected to be affected by the plan amendment.

"(6) ACCRUED BENEFIT; PROJECTED RETIREMENT BENEFIT.—For purposes of this subsection—

"(A) PRESENT VALUE OF ACCRUED BENEFIT.—The present value of an accrued benefit of any applicable individual shall be calculated as if the accrued benefit were in the form of a single life annuity commencing at the participant's normal retirement age (and by taking into account any early retirement subsidy).

"(B) PROJECTED ACCRUED BENEFIT.—

"(i) IN GENERAL.—The projected accrued benefit of any applicable individual shall be calculated as if the benefit were payable in the form of a single life annuity commencing at the participant's normal retirement age (and by taking into account any early retirement subsidy).

"(ii) COMPENSATION AND OTHER ASSUMPTIONS.—Such benefit shall be calculated by assuming that compensation and all other benefit factors would increase for each plan year beginning after the effective date of the plan amendment at a rate equal to the median average of the CPI increase percentage (as defined in section 215(i) of the Social Security Act) for the 5 calendar years immediately preceding the calendar year before the calendar year in which such effective date occurs.

"(iii) BENEFIT FACTORS.—For purposes of clause (ii), the term 'benefit factors' means social security benefits and all other relevant factors under section 411(b)(1)(A) used to compute benefits under the plan which had increased from the 2d plan year preceding the plan year in which the effective date of the plan amendment occurs to the 1st such preceding plan year.

"(C) NORMAL RETIREMENT AGE.—The term 'normal retirement age' means the later of—

"(i) the date determined under section 411(a)(8), or

"(ii) the date a plan participant attains age 62."

(2) CONFORMING AMENDMENT.—The table of sections for chapter 43 of subtitle D is amended by adding at the end the following new item:

"Sec. 4980F. Failure of defined benefit plans reducing benefit accruals to satisfy notice requirements."

(b) AMENDMENTS TO ERISA.—

(1) BENEFIT STATEMENT REQUIREMENT.—Section 204(h) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1054(h)) is amended by adding at the end the following new paragraphs:

"(3)(A) If paragraph (1) applies to the adoption of a plan amendment by a large defined benefit plan, the plan administrator shall, after adoption of such amendment and not less than 15 days before its effective date, provide with the notice under paragraph (1) a written statement of benefit change described in subparagraph (B) to each applicable individual. The Secretary may provide that paragraph (1) shall not apply to an amendment by reason of a failure under this paragraph if such application would be an excessive penalty relative to the failure involved.

"(B) A statement of benefit change described in this subparagraph shall—

"(i) be written in a manner calculated to be understood by the average plan participant, and

"(ii) include the information described in subparagraph (C).

"(C) The information described in this subparagraph includes the following:

"(i) A comparison of the following amounts under the plan with respect to an applicable individual, determined both with and without regard to the plan amendment:

"(I) The accrued benefit and the present value of the accrued benefit as of the effective date.

"(II) The projected accrued benefit and the projected present value of the accrued benefit as of the date which is 3 years, 5 years, and 10 years from the effective date and as of the normal retirement age.

Such comparison shall include a statement that 'The projected benefits were computed using assumptions required under Federal law and may not prove accurate over time.'

"(ii) A table of all annuity factors used to calculate benefits under the plan, presented in the form provided in section 72 of the Internal Revenue Code of 1986 and the regulations thereunder.

Benefits described in clause (i) shall be stated separately and shall be calculated by using the applicable mortality table and the

applicable interest rate under section 417(e)(3)(A) of such Code. The Secretary may prescribe regulations under which information other than that described in this subparagraph may be provided in cases where the comparative benefits are not needed.

"(D) A plan (and any employer maintaining the plan) shall not be treated as failing to meet the requirements of this paragraph (or as being liable to any applicable individual) by reason of any projected amounts under subparagraph (C) being wrong if such amounts were computed in accordance with such subparagraph.

"(E) For purposes of this paragraph—

"(i) The term 'large defined benefit plan' means any defined benefit plan which had 1,000 or more participants who had accrued a benefit under the plan (whether or not non-forfeitable) as of the last day of the plan year preceding the plan year in which the plan amendment becomes effective. Such term shall not include a governmental plan (within the meaning of section 3(32)) or a church plan (within the meaning of section 3(33)).

"(ii) The term 'applicable individual' means an individual described in subparagraph (A) or (B) of paragraph (1) who has a nonforfeitable benefit under the plan as of the effective date of the plan amendment and who may reasonably be expected to be affected by the plan amendment.

"(F) For purposes of this paragraph—

"(i) The present value of an accrued benefit of any applicable individual shall be calculated as if the accrued benefit were in the form of a single life annuity commencing at the participant's normal retirement age (and by taking into account any early retirement subsidy).

"(ii)(I) The projected accrued benefit of any applicable individual shall be calculated as if the benefit were payable in the form of a single life annuity commencing at the participant's normal retirement age (and by taking into account any early retirement subsidy).

"(II) Such benefit shall be calculated by assuming that compensation and all other benefit factors would increase for each plan year beginning after the effective date of the plan amendment at a rate equal to the median average of the CPI increase percentage (as defined in section 215(i) of the Social Security Act) for the 5 calendar years immediately preceding the calendar year before the calendar year in which such effective date occurs.

"(III) For purposes of subclause (II), the term 'benefit factors' means social security benefits and all other relevant factors under section 204(b)(1)(A) used to compute benefits under the plan which had increased from the 2d plan year preceding the plan year in which the effective date of the plan amendment occurs to the 1st such preceding plan year.

"(iii) The term 'normal retirement age' means the later of—

"(I) the date determined under section 3(24), or

"(II) the date a plan participant attains age 62.

"(4) A plan administrator shall not be treated as failing to meet the requirements of this subsection merely because the notice or statement is provided before the adoption of the plan amendment if no material modification of the amendment occurs before the amendment is adopted."

(2) CONFORMING AMENDMENT.—Section 204(h)(1) of such Act (29 U.S.C. 1054(h)(1)) is amended by inserting "(including any written statement of benefit change if required by paragraph (3))" after "written notice".

(c) EFFECTIVE DATES.—

(1) IN GENERAL.—The amendments made by this section shall apply to plan amendments taking effect in plan years beginning on or after the earlier of—

(A) the later of—

(i) January 1, 1999, or

(ii) the date on which the last of the collective bargaining agreements pursuant to which the plan is maintained terminates (determined without regard to any extension thereof after the date of the enactment of this Act), or

(B) January 1, 2001.

(2) EXCEPTION WHERE NOTICE GIVEN.—The amendments made by this section shall not apply to any plan amendment for which written notice was given to participants or their representatives before March 17, 1999, without regard to whether the amendment was adopted before such date.

(3) SPECIAL RULE.—The period for providing any notice required by, or any notice the contents of which are changed by, the amendments made by this Act shall not end before the date which is 6 months after the date of the enactment of this Act.

#### Subtitle E—Encouraging Retirement Education

#### SEC. 841. PERIODIC PENSION BENEFITS STATEMENTS.

(a) IN GENERAL.—Section 105(a) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1025(a)) is amended by striking "shall furnish to any plan participant or beneficiary who so requests in writing, a statement" and inserting "shall furnish to each plan participant at least once each year (3 years in the case of a defined benefit plan) or upon written request of a plan participant or beneficiary, a statement in written or electronic form".

(b) RULE FOR MULTIPLE EMPLOYER PLANS.—Section 105(d) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1025(d)) is amended to read as follows:

"(d) Upon written request of a plan participant or beneficiary, each administrator of a plan to which more than 1 unaffiliated employer is required to contribute shall furnish a statement described in subsection (a) in written or electronic form."

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to plan years beginning after the earlier of—

(1) the date of issuance by the Secretary of Labor of regulations providing guidance for simplifying defined benefit plan calculations with respect to the information required under section 105 of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1025), or

(2) December 31, 1998.

#### SEC. 842. CLARIFICATION OF TREATMENT OF EMPLOYER-PROVIDED RETIREMENT ADVICE.

(a) IN GENERAL.—Subsection (a) of section 132 (relating to exclusion from gross income) is amended by striking "or" at the end of paragraph (5), by striking the period at the end of paragraph (6) and inserting ", or", and by adding at the end the following new paragraph:

"(7) qualified retirement planning advice."

(b) QUALIFIED RETIREMENT PLANNING ADVICE DEFINED.—Section 132 is amended by redesignating subsection (m) as subsection (n) and by inserting after subsection (l) the following:

"(m) QUALIFIED RETIREMENT PLANNING ADVICE.—

"(1) IN GENERAL.—For purposes of this section, the term 'qualified retirement planning advice' means any retirement planning advice provided to an employee and his spouse by an employer maintaining a qualified employer plan. Such term shall not include the providing of tax preparation, accounting, legal, brokerage, or other similar services.

"(2) NONDISCRIMINATION RULE.—Subsection (a)(7) shall apply in the case of highly compensated employees only if such advice is available on substantially the same terms to each member of the group of employees normally provided education and information regarding the employer's qualified employer plan.

"(3) QUALIFIED EMPLOYER PLAN.—For purposes of this subsection, the term 'qualified employer plan' means a plan, contract, pension, or account described in section 219(g)(5)."

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

#### Subtitle F—Reducing Red Tape

#### SEC. 851. ESOP DIVIDENDS MAY BE REINVESTED WITHOUT LOSS OF DIVIDEND DEDUCTION.

(a) IN GENERAL.—Section 404(k)(2)(A) (defining applicable dividends) is amended by striking "or" at the end of clause (ii), by redesignating clause (iii) as clause (iv), and by inserting after clause (ii) the following:

"(iii) is, at the election of such participants or their beneficiaries—

"(I) payable as provided in clause (i) or (ii), or

"(II) paid to the plan and reinvested in qualifying employer securities, or".

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

#### SEC. 852. REDUCED PBGC PREMIUM FOR NEW PLANS OF SMALL EMPLOYERS.

(a) IN GENERAL.—Subparagraph (A) of section 4006(a)(3) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1306(a)(3)(A)) is amended—

(i) in clause (i), by inserting "other than a new single-employer plan (as defined in subparagraph (F)) maintained by a small employer (as so defined)," after "single-employer plan,"

(2) in clause (iii), by striking the period at the end and inserting "; and", and

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

"(iv) in the case of a new single-employer plan (as defined in subparagraph (F)) maintained by a small employer (as so defined) for the plan year, \$5 for each individual who is a participant in such plan during the plan year."

(b) DEFINITION OF NEW SINGLE-EMPLOYER PLAN.—Section 4006(a)(3) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1306(a)(3)) is amended by adding at the end the following new subparagraph:

"(F)(i) For purposes of this paragraph, a single-employer plan maintained by a contributing sponsor shall be treated as a new single-employer plan for each of its first 5 plan years if, during the 36-month period ending on the date of the adoption of such plan, the sponsor or any member of such sponsor's controlled group (or any predecessor of either) had not established or maintained a plan to which this title applies with respect to which benefits were accrued for substantially the same employees as are in the new single-employer plan.

"(ii)(I) For purposes of this paragraph, the term 'small employer' means an employer which on the first day of any plan year has, in aggregation with all members of the controlled group of such employer, 100 or fewer employees.

"(II) In the case of a plan maintained by 2 or more contributing sponsors that are not part of the same controlled group, the employees of all contributing sponsors and controlled groups of such sponsors shall be aggregated for purposes of determining whether any contributing sponsor is a small employer."

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

#### SEC. 853. REDUCTION OF ADDITIONAL PBGC PREMIUM FOR NEW PLANS.

(a) IN GENERAL.—Subparagraph (E) of section 4006(a)(3) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1306(a)(3)(E)) is amended by adding at the end the following new clause:

"(v) In the case of a new defined benefit plan, the amount determined under clause (ii) for any plan year shall be an amount equal to the product of the amount determined under clause (ii) and the applicable percentage. For purposes of this clause, the term 'applicable percentage' means—

"(I) 0 percent, for the first plan year.

"(II) 20 percent, for the second plan year.

"(III) 40 percent, for the third plan year.

"(IV) 60 percent, for the fourth plan year.

"(V) 80 percent, for the fifth plan year.

For purposes of this clause, a defined benefit plan (as defined in section 3(35)) maintained by a contributing sponsor shall be treated as a new defined benefit plan for its first 5 plan years if, during the 36-month period ending on the date of the adoption of the plan, the sponsor and each member of any controlled group including the sponsor (or any predecessor of either) did not establish or maintain a plan to which this title applies with respect to which benefits were accrued for substantially the same employees as are in the new plan."

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to plans established after December 31, 2000.

#### SEC. 854. ELIMINATION OF USER FEE FOR REQUESTS TO IRS REGARDING NEW PENSION PLANS.

(a) ELIMINATION OF CERTAIN USER FEES.—The Secretary of the Treasury or the Secretary's delegate shall not require payment of user fees under the program established under section 7527 of the Internal Revenue Code of 1986 for requests to the Internal Revenue Service for ruling letters, opinion letters, and determination letters or similar requests with respect to the qualified status of a new pension benefit plan or any trust which is part of the plan.

(b) NEW PENSION BENEFIT PLAN.—For purposes of this section—

(i) IN GENERAL.—The term "new pension benefit plan" means a pension, profit-sharing, stock bonus, annuity, or employee stock ownership plan which is maintained by one or more eligible employers if such employer (or any predecessor employer) has not made a prior request described in subsection (a) for such plan (or any predecessor plan).

(2) ELIGIBLE EMPLOYER.—The term "eligible employer" means an employer (or any predecessor employer) which has not established or maintained a qualified employer plan with respect to which contributions were made, or benefits were accrued for service, in the 3 most recent taxable years ending prior to the first taxable year in which the request is made.

(c) EFFECTIVE DATE.—The provisions of this section shall apply with respect to requests made after December 31, 2000.

#### SEC. 855. DISTRIBUTIONAL ANALYSIS OF PENSION TAX BENEFITS.

(a) ANALYSIS.—The Secretary of the Treasury shall, not later than June 30, 2000 conduct a distributional analysis of the tax benefits of major pension and retirement savings arrangements by income group.

(b) REPORT.—The Secretary shall report to the Committee on Finance of the Senate and the Committee on Ways and Means of the House of Representatives the results of the analysis under subsection (a). To the extent feasible, the Secretary shall report prelimi-

nary results of such analysis within 60 days of the date of the enactment of this Act.

#### Subtitle G—Other Provisions

#### SEC. 303. TAX CREDIT FOR MATCHING CONTRIBUTIONS TO INDIVIDUAL DEVELOPMENT ACCOUNTS.

(a) IN GENERAL.—Subchapter F of chapter 1 (relating to exempt organizations) is amended by adding at the end the following new part:

#### "PART IX—INDIVIDUAL DEVELOPMENT ACCOUNTS

"Sec. 530A. Individual development accounts.

#### "SEC. 530A. INDIVIDUAL DEVELOPMENT ACCOUNTS.

"(a) INDIVIDUAL DEVELOPMENT ACCOUNT.—For purposes of this section, the term 'Individual Development Account' means a custodial account established for the exclusive benefit of an eligible individual or such individual's beneficiaries, but only if the written governing instrument creating the account meets the following requirements:

"(1) Except in the case of a qualified rollover (as defined in subsection (c)(2)(E))—

"(A) no contribution will be accepted unless it is in cash, and

"(B) contributions will not be accepted for the taxable year in excess of the lesser of—

"(i) \$350, or

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

"(2) The custodian of the account is a qualified financial institution.

"(3) The interest of an eligible individual in the balance of the account (determined without regard to any such matching contribution or earnings thereon) is nonforfeitable.

"(4) The assets of the account will not be commingled with other property except in a common trust fund or common investment fund.

"(5) Except as provided in subsection (c), any amount in the account may be paid out only for qualified expense distributions.

"(b) MATCHING CONTRIBUTIONS WITH RESPECT TO INDIVIDUAL DEVELOPMENT ACCOUNTS.—

"(1) IN GENERAL.—If an eligible individual establishes an Individual Development Account with a qualified financial institution, the qualified financial institution may deposit into a separate, parallel, individual or pooled matching account an eligible matching contribution for the taxable year. The qualified financial institution shall maintain a separate accounting of matching contributions and earnings thereon.

"(2) ELIGIBLE MATCHING CONTRIBUTION.—For purposes of this section, the term 'eligible matching contribution' means a dollar-for-dollar match of the contributions made by the eligible individual into the Individual Development Account described in paragraph (1) with respect to any taxable year.

"(3) ALLOWANCE OF CREDIT FOR ELIGIBLE MATCHING CONTRIBUTIONS.—

"(A) IN GENERAL.—In the case of a qualified financial institution, there shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to 85 percent of the eligible matching contributions made by such institution with respect to an eligible individual under this subsection for such taxable year (determined without regard to any amount described in paragraph (4)(B)). If any amount determined under the preceding sentence is not a multiple of \$10, such amount shall be rounded to the next highest multiple of \$10.

"(B) LIMITATION BASED ON AMOUNT OF TAX.—The credit allowed under subparagraph (A) for any taxable year shall not exceed the excess of—

“(i) the sum of the regular tax liability (as defined in section 26(b)) plus the tax imposed by section 55, over

“(ii) the sum of the credits allowable under part IV of subchapter A of this chapter.

“(C) CREDIT TREATED AS ALLOWED UNDER PART IV OF SUBCHAPTER A.—For purposes of subtitle F, the credit allowed under subparagraph (A) shall be treated as a credit allowable under part IV of subchapter A of this chapter.

“(4) FORFEITURE OF MATCHING FUNDS.—

“(A) IN GENERAL.—Amounts in the matching account established under this subsection for an eligible individual shall be reduced by the amount of any distribution from an Individual Development Account of such individual which is not a qualified expense distribution and which is not re-contributed as part of a qualified rollover (as defined in subsection (c)(2)(E)).

“(B) USE OF FORFEITED FUNDS.—Eligible matching contributions which are forfeited by an eligible individual under subparagraph (A) shall be used by the qualified financial institution to make eligible matching contributions for other Individual Development Account contributions by eligible individuals.

“(5) EXCLUSION FROM INCOME.—Gross income of an eligible individual shall not include any eligible matching contribution and the earnings thereon deposited into a matching account under paragraph (1) on behalf of such individual.

“(6) REGULAR REPORTING OF MATCHING CONTRIBUTIONS.—Any qualified financial institution shall report eligible matching contributions to eligible individuals with Individual Development Accounts on not less than a quarterly basis.

“(7) TERMINATION.—No eligible matching contribution may be made for any taxable year beginning after December 31, 2005.

“(C) QUALIFIED EXPENSE DISTRIBUTION.—For purposes of this section—

“(1) IN GENERAL.—The term ‘qualified expense distribution’ means any amount paid or distributed out of an Individual Development Account and the matching account established under subsection (b) for an eligible individual if such amount—

“(A) is used exclusively to pay the qualified expenses of such individual or such individual’s spouse or dependents,

“(B) is paid by the qualified financial institution directly to the person to whom the amount is due or to another Individual Development Account, and

“(C) is paid after the holder of the Individual Development Account has completed an economic literacy course offered by the qualified financial institution, a nonprofit organization, or a government entity.

“(2) QUALIFIED EXPENSES.—

“(A) IN GENERAL.—The term ‘qualified expenses’ means any of the following:

“(i) Qualified higher education expenses.

“(ii) Qualified first-time homebuyer costs.

“(iii) Qualified business capitalization costs.

“(iv) Qualified rollovers.

“(B) QUALIFIED HIGHER EDUCATION EXPENSES.—

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

“(ii) POSTSECONDARY VOCATIONAL EDUCATION SCHOOL.—The term ‘postsecondary vocational educational school’ means an area vocational education school (as defined in subparagraph (C) or (D) of section 521(4) of the Carl D. Perkins Vocational and Applied Technology Education Act (20 U.S.C. 2471(4))) which is in any State (as defined in section

521(33) of such Act), as such sections are in effect on the date of the enactment of this section.

“(iii) COORDINATION WITH OTHER BENEFITS.—The amount of qualified higher education expenses for any taxable year shall be reduced as provided in section 25A(g)(2) and by the amount of such expenses for which a credit or exclusion is allowed under this chapter for such taxable year.

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

“(D) QUALIFIED BUSINESS CAPITALIZATION COSTS.—

“(i) IN GENERAL.—The term ‘qualified business capitalization costs’ means qualified expenditures for the capitalization of a qualified business pursuant to a qualified business plan.

“(ii) QUALIFIED EXPENDITURES.—The term ‘qualified expenditures’ means expenditures included in a qualified business plan, including capital, plant, equipment, working capital and inventory expenses.

“(iii) QUALIFIED BUSINESS.—The term ‘qualified business’ means any business that does not contravene any law.

“(iv) QUALIFIED BUSINESS PLAN.—The term ‘qualified business plan’ means a business plan which meets such requirements as the Secretary of Housing and Urban Development may specify.

“(E) QUALIFIED ROLLOVERS.—The term ‘qualified rollover’ means, with respect to any distribution from an Individual Development Account, the payment, within 120 days of such distribution, of all or a portion of such distribution to such account or to another Individual Development Account established in another qualified financial institution for the benefit of the eligible individual. Rules similar to the rules of section 408(d)(3) (other than subparagraph (C) thereof) shall apply for purposes of this subparagraph.

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

“(1) ELIGIBLE INDIVIDUAL.—

“(A) IN GENERAL.—The term ‘eligible individual’ means an individual who—

“(i) has attained the age of 18 years,

“(ii) is a citizen or legal resident of the United States, and

“(iii) is a member of a household—

“(I) which is eligible for the earned income tax credit under section 32,

“(II) which is eligible for assistance under a State program funded under part A of title IV of the Social Security Act, or

“(III) the gross income of which does not exceed 60 percent of the area median income (as determined by the Department of Housing and Urban Affairs) and the net worth of which does not exceed \$10,000.

“(B) HOUSEHOLD.—The term ‘household’ means all individuals who share use of a dwelling unit as primary quarters for living and eating separate from other individuals.

“(C) DETERMINATION OF NET WORTH.—

“(i) IN GENERAL.—For purposes of subparagraph (A)(iii)(III), the net worth of a household is the amount equal to—

“(I) the aggregate fair market value of all assets that are owned in whole or in part by any member of a household, minus

“(II) the obligations or debts of any member of the household.

“(ii) CERTAIN ASSETS DISREGARDED.—For purposes of determining the net worth of a household, a household’s assets shall not be considered to include the primary dwelling

unit and 1 motor vehicle owned by the household.

“(D) PROOF OF COMPENSATION AND STATUS AS AN ELIGIBLE INDIVIDUAL.—Statements under section 6051 and other forms specified by the Secretary proving the eligible individual’s wages and other compensation and the status of the individual as an eligible individual shall be presented to the custodian at the time of the establishment of the Individual Development Account and at least once annually thereafter.

“(2) QUALIFIED FINANCIAL INSTITUTION.—The term ‘qualified financial institution’ means any person authorized to be a trustee of any individual retirement account under section 408(a)(2).

“(3) TREATMENT OF MORE THAN ONE ACCOUNT.—All Individual Development Accounts of an individual shall be treated as one account.

“(4) OTHER RULES TO APPLY.—Rules similar to the rules of paragraphs (1), (2), and (3) of section 219(f), section 220(f)(8), paragraphs (4) and (6) of section 408(d), and section 408(m) shall apply for purposes of this section.

“(5) REPORTS.—The custodian of an Individual Development Account shall make such reports regarding such account to the Secretary and to the individual for whom the account is maintained with respect to contributions (and the years to which they relate), distributions, and such other matters as the Secretary may require under regulations. The reports required by this paragraph—

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

“(B) shall be furnished to individuals—

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

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

“(e) APPLICATION OF SECTION.—This section shall apply to amounts paid to an Individual Development Account for any taxable year beginning after December 31, 2000, and before January 1, 2006.”

(b) TAX ON EXCESS CONTRIBUTIONS.—

(1) TAX IMPOSED.—Subsection (a) of section 4973 is amended by striking “or” at the end of paragraph (3), adding “or” at the end of paragraph (4), and inserting after paragraph (4) the following new paragraph:

“(5) an Individual Development Account (within the meaning of section 530A(a)).”

(2) EXCESS CONTRIBUTIONS.—Section 4973 is amended by adding at the end the following new subsection:

“(g) INDIVIDUAL DEVELOPMENT ACCOUNTS.—For purposes of this section, in the case of Individual Development Accounts, the term ‘excess contributions’ means the excess (if any) of—

“(1) the amount contributed for the taxable year to the accounts (other than a qualified rollover, as defined in section 530A(c)(2)(E)), over

“(2) the amount allowable as a contribution under section 530A.

For purposes of this subsection, any contribution which is distributed from the Individual Development Account in a distribution to which rules similar to the rules of section 408(d)(4) apply by reason of section 530A(d)(4) shall be treated as an amount not contributed.”

(c) INFORMATION RELATING TO CERTAIN TRUSTS AND ANNUITY PLANS.—Subsection (c) of section 6047 is amended—

(1) by inserting “or section 530A” after “section 219”; and

(2) by inserting “, of any Individual Development Account described in section 530A(a).”, after “section 408(a)”.

(d) FAILURE TO PROVIDE REPORTS ON INDIVIDUAL DEVELOPMENT ACCOUNTS.—Paragraph (2) of section 6693(a) is amended by striking “and” at the end of subparagraph (C), by striking the period and inserting “, and” at the end of subparagraph (D), and by adding at the end the following new subparagraph: “(E) section 530(d)(5) (relating to Individual Development Accounts).”

(e) CLERICAL AMENDMENT.—The table of parts for subchapter F of chapter 1 is amended by adding at the end the following new item:

“Part IX. Individual development accounts.”

(f) FUNDS IN ACCOUNTS DISREGARDED FOR PURPOSES OF CERTAIN MEANS-TESTED FEDERAL PROGRAMS.—Notwithstanding any other provision of the Internal Revenue Code of 1986 or the Social Security Act that requires consideration of 1 or more financial circumstances of an individual, for the purpose of determining eligibility to receive, or the amount of, any assistance or benefit authorized by such provision to be provided to or for the benefit of such individual, contributions (including earnings thereon) in any Individual Development Account and applicable matching account under section 530A of such Code shall be disregarded for such purpose.

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

#### SEC. 862. FEDERAL EMPLOYEE RETIREMENT CONTRIBUTIONS.

(a) DEDUCTIONS, CONTRIBUTIONS, AND DEPOSITS.—

(1) CIVIL SERVICE RETIREMENT SYSTEM.—The table under section 8334(c) of title 5, United States Code, is amended—

(A) in the matter relating to an employee by striking:

“7.4 January 1, 2000, to December 31, 2000.  
7.5 January 1, 2001, to December 31, 2002.  
7 After December 31, 2002.”;

and inserting the following:

“7 After December 31, 1999.”;

(B) in the matter relating to a Member or employee for Congressional employee service by striking:

“7.9 January 1, 2000, to December 31, 2000.  
8 January 1, 2001, to December 31, 2002.  
7.5 After December 31, 2002.”;

and inserting the following:

“7 After December 31, 1999.”;

(C) in the matter relating to a Member for Member service by striking:

“8.4 January 1, 2000, to December 31, 2000.  
8.5 January 1, 2001, to December 31, 2002.  
8 After December 31, 2002.”;

and inserting the following:

“8 After December 31, 1999.”;

(D) in the matter relating to a law enforcement officer for law enforcement service and firefighter for firefighter service by striking:

“7.9 January 1, 2000, to December 31, 2000.  
8 January 1, 2001, to December 31, 2002.  
7.5 After December 31, 2002.”;

and inserting the following:

“7.5 After December 31, 1999.”;

(E) in the matter relating to a bankruptcy judge by striking:

“8.4 January 1, 2000, to December 31, 2000.  
8.5 January 1, 2001, to December 31, 2002.  
8 After December 31, 2002.”;

and inserting the following:

“8 After December 31, 1999.”;

(F) in the matter relating to a judge of the United States Court of Appeals for the Armed Forces for service as a judge of that court by striking:

“8.4 January 1, 2000, to December 31, 2000.  
8.5 January 1, 2001, to December 31, 2002.  
8 After December 31, 2002.”;

and inserting the following:

“8 After December 31, 1999.”;

(G) in the matter relating to a United States magistrate by striking:

“8.4 January 1, 2000, to December 31, 2000.  
8.5 January 1, 2001, to December 31, 2002.  
8 After December 31, 2002.”;

and inserting the following:

“8 After December 31, 1999.”;

(H) in the matter relating to a Court of Federal Claims judge by striking:

“8.4 January 1, 2000, to December 31, 2000.  
8.5 January 1, 2001, to December 31, 2002.  
8 After December 31, 2002.”;

and inserting the following:

“8 After December 31, 1999.”;

(I) in the matter relating to the Capitol Police by striking:

“7.9 January 1, 2000, to December 31, 2000.  
8 January 1, 2001, to December 31, 2002.  
7.5 After December 31, 2002.”;

and inserting the following:

“7.5 After December 31, 1999.”;

and

(J) in the matter relating to a nuclear material courier by striking:

“7.9 January 1, 2000, to December 31, 2000.  
8 January 1, 2001, to December 31, 2002.  
7.5 After December 31, 2002.”;

and inserting the following:

“7.5 After December 31, 1999.”;

(2) FEDERAL EMPLOYEES' RETIREMENT SYSTEM.—Section 8422(a) of title 5, United States Code, is amended by striking paragraph (3) and inserting the following:

“(3) The applicable percentage under this paragraph for civilian service shall be as follows:

“Employee	7	January 1, 1987, to December 31, 1998.
	7.25	January 1, 1999, to December 31, 1999.
	7	After December 31, 1999.
Congressional employee	7.5	January 1, 1987, to December 31, 1998.
	7.75	January 1, 1999, to December 31, 1999.
	7.5	After December 31, 1999.
Member	7.5	January 1, 1987, to December 31, 1998.
	7.75	January 1, 1999, to December 31, 1999.
	7.5	After December 31, 1999.
Law enforcement officer, firefighter, member of the Capitol Police, or air traffic controller	7.5	January 1, 1987, to December 31, 1998.

Nuclear materials courier

7.75 January 1, 1999,  
to December 31,  
1999.  
7.5 After December  
31, 1999.  
7 January 1, 1987,  
to the day be-  
fore the date of  
enactment of  
the Strom Thur-  
mond National  
Defense Au-  
thorization Act  
for Fiscal Year  
1999.  
7.75 The date of en-  
actment of the  
Strom Thur-  
mond National  
Defense Au-  
thorization Act  
for Fiscal Year  
1999 to Decem-  
ber 31, 1998.  
7.75 January 1, 1999,  
to December 31,  
1999.  
7.5 After December  
31, 1999.”.

(b) CONFORMING AMENDMENTS RELATING TO MILITARY AND VOLUNTEER SERVICE UNDER FERS.—

(1) MILITARY SERVICE.—Section 8422(e)(6) of title 5, United States Code, is amended to read as follows:

“(6) The percentage of basic pay under section 204 of title 37 payable under paragraph (1), with respect to any period of military service performed during January 1, 1999, through December 31, 1999, shall be 3.25 percent.”.

(2) VOLUNTEER SERVICE.—Section 8422(f)(4) of title 5, United States Code, is amended to read as follows:

“(4) The percentage of the readjustment allowance or stipend (as the case may be) payable under paragraph (1), with respect to any period of volunteer service performed during January 1, 1999, through December 31, 1999, shall be 3.25 percent.”.

(c) OTHER FEDERAL RETIREMENT SYSTEMS.—

(1) CENTRAL INTELLIGENCE AGENCY RETIREMENT AND DISABILITY SYSTEM.—

(A) DEDUCTIONS, WITHHOLDINGS, AND DEPOSITS.—Section 7001(c)(2) of the Balanced Budget Act of 1997 (Public Law 105-33; 111 Stat. 659) is amended to read as follows:

“(2) INDIVIDUAL DEDUCTIONS, WITHHOLDINGS, AND DEPOSITS.—Notwithstanding section 211(a)(1) of the Central Intelligence Agency Retirement Act (50 U.S.C. 2021(a)(1)) beginning on January 1, 1999, through December 31, 1999, the percentage deducted and withheld from the basic pay of an employee participating in the Central Intelligence Agency Retirement and Disability System shall be 7.25 percent.”.

(B) MILITARY SERVICE.—Section 252(h)(1)(A) of the Central Intelligence Agency Retirement Act (50 U.S.C. 2082(h)(1)(A)), is amended to read as follows:

“(h)(1)(A) Each participant who has performed military service before the date of separation on which entitlement to an annuity under this title is based may pay to the Agency an amount equal to 7 percent of the amount of basic pay paid under section 204 of title 37, United States Code, to the participant for each period of military service after December 1956; except, the amount to be paid for military service performed beginning on January 1, 1999, through December 31, 1999, shall be 7.25 percent of basic pay.”.

(2) FOREIGN SERVICE RETIREMENT AND DISABILITY SYSTEM.—

(A) IN GENERAL.—Section 7001(d)(2) of the Balanced Budget Act of 1997 (Public Law 105-

33; 111 Stat. 660) is amended by striking subparagraphs (A) and (B) and inserting the following:

“(A) IN GENERAL.—Notwithstanding section 805(a)(1) of the Foreign Service Act of 1980 (22 U.S.C. 4045(a)(1)), beginning on January 1, 1999, through December 31, 1999, the amount withheld and deducted from the basic pay of a participant in the Foreign Service Retirement and Disability System shall be 7.25 percent.

“(B) FOREIGN SERVICE CRIMINAL INVESTIGATORS/INSPECTORS OF THE OFFICE OF THE INSPECTOR GENERAL, AGENCY FOR INTERNATIONAL DEVELOPMENT.—Notwithstanding section 805(a)(2) of the Foreign Service Act of 1980 (22 U.S.C. 4045(a)(2)), beginning on January 1, 1999, through December 31, 1999, the amount withheld and deducted from the basic pay of an eligible Foreign Service criminal investigator/inspector of the Office of the Inspector General, Agency for International Development participating in the Foreign Service Retirement and Disability System shall be 7.75 percent.”.

(B) CONFORMING AMENDMENT.—Section 805(d)(1) of the Foreign Service Act of 1980 (22 U.S.C. 4045(d)(1)) is amended in the table in the matter following subparagraph (B) by striking:

“January 1, 1970, through December 31, 1998, inclusive	7
January 1, 1999, through December 31, 1999, inclusive	7.25
January 1, 2000, through December 31, 2000, inclusive	7.4
January 1, 2001, through December 31, 2002, inclusive	7.5
After December 31, 2002	7”.

and inserting the following:

“January 1, 1970, through December 31, 1998, inclusive	7
January 1, 1999, through December 31, 1999, inclusive	7.25
After December 31, 1999	7”.

(3) FOREIGN SERVICE PENSION SYSTEM.—

(A) IN GENERAL.—Section 856(a)(2) of the Foreign Service Act of 1980 (22 U.S.C. 4071e(a)(2)) is amended to read as follows:

“(2) The applicable percentage under this subsection shall be as follows:

“7.5 Before January 1, 1999.
7.5 January 1, 1999, to December 31, 1999.
7.5 After December 31, 1999.”.

(B) VOLUNTEER SERVICE.—Section 854(c)(1) of the Foreign Service Act of 1980 (22 U.S.C. 4071c(c)(1)) is amended by striking all after “volunteer service;” and inserting “except, the amount to be paid for volunteer service beginning on January 1, 1999, through December 31, 1999, shall be 3.25 percent.”.

(e) EFFECTIVE DATE.—This section and the amendments made by this section shall take effect on December 31, 1999.

#### **SEC. 863. EXCLUSION FROM INCOME OF SEVERANCE PAYMENT AMOUNTS**

(a) EXCLUSION FROM INCOME OF SEVERANCE PAYMENT AMOUNTS.—Part III of subchapter B of chapter 1 (relating to items specifically excluded from gross income) is amended by redesignating section 139 as section 140 and by inserting after section 138 the following new section:

##### **“SEC. 139. SEVERANCE PAYMENTS.**

“(a) IN GENERAL.—In the case of an individual, gross income shall not include any qualified severance payment.

“(b) LIMITATION.—The amount to which the exclusion under subsection (a) applies shall not exceed \$2,000 with respect to any separation from employment.

“(c) QUALIFIED SEVERANCE PAYMENT.—For purposes of this section—

“(1) IN GENERAL.—The term ‘qualified severance payment’ means any payment received by an individual if—

“(A) such payment was paid by such individual’s employer on account of such individual’s separation from employment,

“(B) such separation was in connection with a reduction in the work force of the employer, and

“(C) such individual does not attain employment within 6 months of the date of such separation in which the amount of compensation is equal to or greater than 95 percent of the amount of compensation for the employment that is related to such payment.

“(2) LIMITATION.—Such term shall not include any payment received by an individual if the aggregate payments received with respect to the separation from employment exceed \$75,000.”

(b) CLERICAL AMENDMENT.—The table of sections for part III of subchapter B of chapter 1 is amended by striking the item relating to section 139 and inserting the following new items:

“Sec. 139. Severance payments.

“Sec. 140. Cross references to other Acts.”

(c) EFFECTIVE DATES.—The amendments made by subsections (a) and (c) shall apply to taxable years beginning after December 31, 2000, and before January 1, 2003.

#### **Subtitle H—Plan Amendments**

#### **SEC. 871. PROVISIONS RELATING TO PLAN AMENDMENTS.**

(a) IN GENERAL.—If this section applies to any plan or contract amendment—

(1) such plan or contract shall be treated as being operated in accordance with the terms of the plan during the period described in subsection (b)(2)(A), and

(2) such plan shall not fail to meet the requirements of section 411(d)(6) of the Internal Revenue Code of 1986 or section 204(g) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1054(g)) by reason of such amendment.

(b) AMENDMENTS TO WHICH SECTION APPLIES.—

(1) IN GENERAL.—This section shall apply to any amendment to any plan or annuity contract which is made—

(A) pursuant to any amendment made by this title, or pursuant to any regulation issued under this title, and

(B) on or before the last day of the first plan year beginning on or after January 1, 2004.

In the case of a government plan (as defined in section 414(d) of the Internal Revenue Code of 1986 and section 3(32) of the Employee Retirement Income Security Act of 1974), this paragraph shall be applied by substituting “2005” for “2004”.

(2) CONDITIONS.—This section shall not apply to any amendment unless—

(A) during the period—

(i) beginning on the date the legislative or regulatory amendment described in paragraph (1)(A) takes effect (or in the case of a plan or contract amendment not required by such legislative or regulatory amendment, the effective date specified by the plan), and

(ii) ending on the date described in paragraph (1)(B) (or, if earlier, the date the plan or contract amendment is adopted),

the plan or contract is operated as if such plan or contract amendment were in effect, and

(B) such plan or contract amendment applies retroactively for such period.

#### **TITLE IX—FARM RELIEF AND ECONOMIC DEVELOPMENT**

#### **SEC. 901. FARM AND RANCH RISK MANAGEMENT ACCOUNTS.**

(a) IN GENERAL.—Subpart C of part II of subchapter E of chapter 1 (relating to tax-

able year for which deductions taken) is amended by inserting after section 468B the following:

#### **“SEC. 468C. FARM AND RANCH RISK MANAGEMENT ACCOUNTS.**

“(a) DEDUCTION ALLOWED.—In the case of an individual engaged in an eligible farming business, there shall be allowed as a deduction for any taxable year the amount paid in cash by the taxpayer during the taxable year to a Farm and Ranch Risk Management Account (hereinafter referred to as the ‘FARRM Account’).

“(b) LIMITATION.—The amount which a taxpayer may pay into the FARRM Account for any taxable year shall not exceed 20 percent of so much of the taxable income of the taxpayer (determined without regard to this section) which is attributable (determined in the manner applicable under section 1301) to any eligible farming business.

“(c) ELIGIBLE FARMING BUSINESS.—For purposes of this section, the term ‘eligible farming business’ means any farming business (as defined in section 263A(e)(4)) which is not a passive activity (within the meaning of section 469(c)) of the taxpayer.

“(d) FARRM ACCOUNT.—For purposes of this section—

“(1) IN GENERAL.—The term ‘FARRM Account’ means a trust created or organized in the United States for the exclusive benefit of the taxpayer, but only if the written governing instrument creating the trust meets the following requirements:

“(A) No contribution will be accepted for any taxable year in excess of the amount allowed as a deduction under subsection (a) for such year.

“(B) The trustee is a bank (as defined in section 408(n)) or another person who demonstrates to the satisfaction of the Secretary that the manner in which such person will administer the trust will be consistent with the requirements of this section.

“(C) The assets of the trust consist entirely of cash or of obligations which have adequate stated interest (as defined in section 1274(c)(2)) and which pay such interest not less often than annually.

“(D) All income of the trust is distributed currently to the grantor.

“(E) The assets of the trust will not be commingled with other property except in a common trust fund or common investment fund.

“(2) ACCOUNT TAXED AS GRANTOR TRUST.—The grantor of a FARRM Account shall be treated for purposes of this title as the owner of such Account and shall be subject to tax thereon in accordance with subpart E of part I of subchapter J of this chapter (relating to grantors and others treated as substantial owners).

“(e) INCLUSION OF AMOUNTS DISTRIBUTED.—

“(1) IN GENERAL.—Except as provided in paragraph (2), there shall be includible in the gross income of the taxpayer for any taxable year—

“(A) any amount distributed from a FARRM Account of the taxpayer during such taxable year, and

“(B) any deemed distribution under—

“(i) subsection (f)(1) (relating to deposits not distributed within 5 years),

“(ii) subsection (f)(2) (relating to cessation in eligible farming business), and

“(iii) subparagraph (A) or (B) of subsection (f)(3) (relating to prohibited transactions and pledging account as security).

“(2) EXCEPTIONS.—Paragraph (1)(A) shall not apply to—

“(A) any distribution to the extent attributable to income of the Account, and

“(B) the distribution of any contribution paid during a taxable year to a FARRM Account to the extent that such contribution

exceeds the limitation applicable under subsection (b) if requirements similar to the requirements of section 408(d)(4) are met.

For purposes of subparagraph (A), distributions shall be treated as first attributable to income and then to other amounts.

“(f) SPECIAL RULES.—

“(1) TAX ON DEPOSITS IN ACCOUNT WHICH ARE NOT DISTRIBUTED WITHIN 5 YEARS.—

“(A) IN GENERAL.—If, at the close of any taxable year, there is a nonqualified balance in any FARRM Account—

“(i) there shall be deemed distributed from such Account during such taxable year an amount equal to such balance, and

“(ii) the taxpayer's tax imposed by this chapter for such taxable year shall be increased by 10 percent of such deemed distribution.

The preceding sentence shall not apply if an amount equal to such nonqualified balance is distributed from such Account to the taxpayer before the due date (including extensions) for filing the return of tax imposed by this chapter for such year (or, if earlier, the date the taxpayer files such return for such year).

“(B) NONQUALIFIED BALANCE.—For purposes of subparagraph (A), the term ‘nonqualified balance’ means any balance in the Account on the last day of the taxable year which is attributable to amounts deposited in such Account before the 4th preceding taxable year.

“(C) ORDERING RULE.—For purposes of this paragraph, distributions from a FARRM Account (other than distributions of current income) shall be treated as made from deposits in the order in which such deposits were made, beginning with the earliest deposits.

“(2) CESSATION IN ELIGIBLE FARMING BUSINESS.—At the close of the first disqualification period after a period for which the taxpayer was engaged in an eligible farming business, there shall be deemed distributed from the FARRM Account of the taxpayer an amount equal to the balance in such Account (if any) at the close of such disqualification period. For purposes of the preceding sentence, the term ‘disqualification period’ means any period of 2 consecutive taxable years for which the taxpayer is not engaged in an eligible farming business.

“(3) CERTAIN RULES TO APPLY.—Rules similar to the following rules shall apply for purposes of this section:

“(A) Section 220(f)(8) (relating to treatment on death).

“(B) Section 408(e)(2) (relating to loss of exemption of account where individual engages in prohibited transaction).

“(C) Section 408(e)(4) (relating to effect of pledging account as security).

“(D) Section 408(g) (relating to community property laws).

“(E) Section 408(h) (relating to custodial accounts).

“(4) TIME WHEN PAYMENTS DEEMED MADE.—For purposes of this section, a taxpayer shall be deemed to have made a payment to a FARRM Account on the last day of a taxable year if such payment is made on account of such taxable year and is made on or before the due date (without regard to extensions) for filing the return of tax for such taxable year.

“(5) INDIVIDUAL.—For purposes of this section, the term ‘individual’ shall not include an estate or trust.

“(6) DEDUCTION NOT ALLOWED FOR SELF-EMPLOYMENT TAX.—The deduction allowable by reason of subsection (a) shall not be taken into account in determining an individual's net earnings from self-employment (within the meaning of section 1402(a)) for purposes of chapter 2.

“(g) REPORTS.—The trustee of a FARRM Account shall make such reports regarding

such Account to the Secretary and to the person for whose benefit the Account is maintained with respect to contributions, distributions, and such other matters as the Secretary may require under regulations. The reports required by this subsection shall be filed at such time and in such manner and in such manner as may be required by such regulations.”

(b) TAX ON EXCESS CONTRIBUTIONS.—

(1) Subsection (a) of section 4973 (relating to tax on excess contributions to certain tax-favored accounts and annuities), as amended by section 303(b)(1), is amended by striking “or” at the end of paragraph (4), by redesignating paragraphs (4) and (5) as paragraphs (5) and (6), respectively, and by inserting after paragraph (3) the following:

“(4) a FARRM Account (within the meaning of section 468C(d)), or”.

(2) Section 4973, as amended by section 303(b)(2), is amended by adding at the end the following:

“(h) EXCESS CONTRIBUTIONS TO FARRM ACCOUNTS.—For purposes of this section, in the case of a FARRM Account (within the meaning of section 468C(d)), the term ‘excess contributions’ means the amount by which the amount contributed for the taxable year to the Account exceeds the amount which may be contributed to the Account under section 468C(b) for such taxable year. For purposes of this subsection, any contribution which is distributed out of the FARRM Account in a distribution to which section 468C(e)(2)(B) applies shall be treated as an amount not contributed.”

(3) The section heading for section 4973 is amended to read as follows:

“SEC. 4973. EXCESS CONTRIBUTIONS TO CERTAIN ACCOUNTS, ANNUITIES, ETC.”

(4) The table of sections for chapter 43 is amended by striking the item relating to section 4973 and inserting the following:

“Sec. 4973. Excess contributions to certain accounts, annuities, etc.”

(c) TAX ON PROHIBITED TRANSACTIONS.—

(1) Subsection (c) of section 4975 (relating to tax on prohibited transactions) is amended by adding at the end the following:

“(6) SPECIAL RULE FOR FARRM ACCOUNTS.—A person for whose benefit a FARRM Account (within the meaning of section 468C(d)) is established shall be exempt from the tax imposed by this section with respect to any transaction concerning such account (which would otherwise be taxable under this section) if, with respect to such transaction, the account ceases to be a FARRM Account by reason of the application of section 468C(f)(3)(A) to such account.”

(2) Paragraph (1) of section 4975(e) is amended by redesignating subparagraphs (E) and (F) as subparagraphs (F) and (G), respectively, and by inserting after subparagraph (D) the following:

“(E) a FARRM Account described in section 468C(d).”

(d) FAILURE TO PROVIDE REPORTS ON FARRM ACCOUNTS.—Paragraph (2) of section 6693(a) (relating to failure to provide reports on certain tax-favored accounts or annuities), as amended by section 303(d), is amended by redesignating subparagraphs (C), (D), and (E) as subparagraphs (D), (E), and (F), respectively, and by inserting after subparagraph (B) the following:

“(C) section 468C(g) (relating to FARRM Accounts).”

(e) CLERICAL AMENDMENT.—The table of sections for subpart C of part II of subchapter E of chapter 1 is amended by inserting after the item relating to section 468B the following:

“Sec. 468C. Farm and Ranch Risk Management Accounts.”

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

#### SEC. 902. LEASE AGREEMENT RELATING TO EXCLUSION OF CERTAIN FARM RENTAL INCOME FROM NET EARNINGS FROM SELF-EMPLOYMENT.

(a) INTERNAL REVENUE CODE.—Section 1402(a)(1)(A) (relating to net earnings from self-employment) is amended by striking “an arrangement” and inserting “a lease agreement”.

(b) SOCIAL SECURITY ACT.—Section 211(a)(1)(A) of the Social Security Act is amended by striking “an arrangement” and inserting “a lease agreement”.

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

#### SEC. 903. EXCLUSION OF GAIN FROM SALE OF CERTAIN FARMLAND.

(a) IN GENERAL.—Part III of subchapter B of chapter 1 (relating to items specifically excluded from gross income) is amended by adding after section 121 the following new section:

##### “SEC. 121A. EXCLUSION OF GAIN FROM SALE OF QUALIFIED FARM PROPERTY.

“(a) EXCLUSION.—In the case of a natural person, gross income shall not include gain from the sale or exchange of qualified farm property, to the extent such property does not exceed 160 acres.

“(b) LIMITATION ON AMOUNT OF EXCLUSION.—

“(1) IN GENERAL.—The amount of gain excluded from gross income under subsection (a) with respect to any taxable year shall not exceed \$500,000 (\$250,000 in the case of a married individual filing a separate return), reduced by the aggregate amount of gain excluded under subsection (a) for all preceding taxable years.

“(2) SPECIAL RULE FOR JOINT RETURNS.—The amount of the exclusion under subsection (a) on a joint return for any taxable year shall be allocated equally between the spouses for purposes of applying the limitation under paragraph (1) for any succeeding taxable year.

“(c) QUALIFIED FARM PROPERTY.—

“(1) QUALIFIED FARM PROPERTY.—For purposes of this section, the term ‘qualified farm property’ means real property located in the United States if—

“(A) during periods aggregating 3 years or more of the 5-year period ending on the date of the sale or exchange of such real property—

“(i) such real property was used as a farm for farming purposes by the taxpayer or a member of the family of the taxpayer, and

“(ii) there was material participation by the taxpayer (or such a member) in the operation of the farm, and

“(B) such real property is located contiguous to the principal residence of the taxpayer which is sold or exchanged in the same taxable year as such real property.

“(2) DEFINITIONS.—For purposes of this subsection, the terms ‘member of the family’, ‘farm’, and ‘farming purposes’ have the respective meanings given such terms by paragraphs (2), (4), and (5) of section 2032A(e).

“(3) SPECIAL RULES.—For purposes of this section, rules similar to the rules of paragraphs (4) and (5) of section 2032A(b) and paragraphs (3) and (6) of section 2032A(e) shall apply.

“(d) OTHER RULES.—For purposes of this section, rules similar to the rules of subsection (e) and subsection (f) of section 121 shall apply.”

(b) CONFORMING AMENDMENT.—The table of sections for part III of subchapter B of chapter 1 is amended by adding after the item relating to section 121 the following new item:

“Sec. 121A. Exclusion of gain from sale of qualified farm property.”



(c) EFFECTIVE DATE.—The amendment made by this section shall apply to any sale or exchange after December 31, 2000, in taxable years ending after such date.

**SEC. 904. EXEMPTION OF SMALL ISSUE AGRICULTURE BONDS FROM STATE VOLUNTARY CAP.**

(a) IN GENERAL.—Section 146(g) (relating to exception for certain bonds) is amended by striking “and” at the end of paragraph (3), by striking the period at the end of paragraph (4) and inserting “, and”, and by inserting after paragraph (4) the following:

“(5) any small issue bond described in section 144(a)(12)(B)(ii).”

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to bonds issued after December 31, 2000.

**SEC. 905. CAPITAL GAIN REALIZED FROM TRANSFER OF FARM PROPERTY IN COMPLETE OR PARTIAL SATISFACTION OF QUALIFIED FARM INDEBTEDNESS EXCLUDED FROM GROSS INCOME.**

(a) IN GENERAL.—Part III of subchapter B of chapter 1 (relating to items specifically excluded from gross income) is amended by redesignating section 139 as section 140 and by inserting after section 138 the following new section:

**“SEC. 139. CAPITAL GAIN REALIZED FROM TRANSFER OF FARM PROPERTY IN COMPLETE OR PARTIAL SATISFACTION OF QUALIFIED FARM INDEBTEDNESS.**

“(a) IN GENERAL.—Gross income of any taxpayer arising in subsection (d) does not include so much of the gain from the transfer of farm property in complete or partial satisfaction of qualified farm indebtedness as does not exceed \$300,000.

“(b) PRIOR GAINS AND DISCHARGES OF INDEBTEDNESS TAKEN INTO ACCOUNT.—

“(1) IN GENERAL.—If for any prior year—

“(A) gain from the transfer of farm property in complete or partial satisfaction of qualified farm indebtedness, or

“(B) a discharge of such indebtedness,

is excluded from the taxpayer's gross income under subsection (a) of this section or section 108(g), respectively, subsection (a) of this section shall be applied for the taxable year with respect to such gain by reducing the dollar amount contained in such subsection by the such excluded prior year gains and discharges.

“(2) CURRENT YEAR COORDINATION WITH SECTION 108.—Subsection (a) of this section shall be applied for the taxable year with respect to any gain by reducing the dollar amount contained in such subsection (after any reduction under paragraph (1)) by any amount excluded from gross income under section 108 for such year.

“(c) REDUCTION OF TAX ATTRIBUTES.—

“(1) IN GENERAL.—The amount excluded from gross income under subsection (a) shall be applied to reduce the tax attributes described under section 108(b)(2).

“(2) COORDINATION WITH SECTION 108.—For purposes of this subsection, the amount of tax attributes shall be determined after any reduction under section 108(b) by reason of amounts excluded from gross income under section 108(a)(1).

“(d) TAXPAYER DESCRIBED IN THIS SUBSECTION.—

“(1) IN GENERAL.—A taxpayer is described in this subsection if—

“(A) more than 50 percent of the gross receipts of the taxpayer for 6 of the 10 taxable years preceding such taxable year are attributable to—

“(i) the trade or business of farming (within the meaning of section 2032A(e)(5)), or

“(ii) the sale or lease of assets used in such trade or business, or

“(iii) both, and

“(B) equity in all property held by the taxpayer after such transfer is less than the greater of—

“(i) \$25,000, or

“(ii) 150 percent of the excess (if any) of—

“(1) the tax imposed by this chapter determined as if this section and section 108 did not apply to the transfer, over

“(II) the tax imposed by this chapter determined with regard to this section and section 108 (if applicable).

“(2) MODIFIED ADJUSTED GROSS INCOME.—For purposes of this subsection, the term ‘modified adjusted gross income’ means adjusted gross income—

“(A) determined with regard to this section and section 108, and

“(B) increased by the amount of interest received or accrued by the taxpayer during the taxable year which is exempt from tax.

“(3) EQUITY.—For purposes of this subsection, the term ‘equity’ means, with respect to all property held by the taxpayer, an amount equal to—

“(A) the fair market value of such property, minus

“(B) any indebtedness relating to such property.

“(e) FARM PROPERTY.—For purposes of this section, the term ‘farm property’ means real and personal property used by the taxpayer in the trade or business of farming (within the meaning of section 2032A(e)(5)).

“(f) QUALIFIED FARM INDEBTEDNESS.—For purposes of this section, indebtedness of a taxpayer shall be treated as qualified farm indebtedness if such indebtedness was incurred directly in connection with the operation by the taxpayer of the trade or business of farming (within the meaning of section 2032A(e)(5)) and when such taxpayer materially participated in such trade or business (within the meaning of section 2032A(e)(6)).

“(g) APPLICATION WITH RECAPTURE PROVISIONS.—In the case of any gain from the transfer of farm property in complete or partial satisfaction of qualified farm indebtedness which is treated as ordinary income under section 1245, 1250, 1252, or 1255, subsection (a) shall be applied for the taxable year by first reducing the dollar amount contained in such subsection by such gain.”

(b) CLERICAL AMENDMENT.—The table of sections for part III of subchapter B of chapter 1 is amended by striking out the item relating to section 139 and inserting in lieu thereof the following new items:

“Sec. 139. Capital gain realized from transfer of farm property in complete or partial satisfaction of qualified farm indebtedness.

“Sec. 140. Cross references to other Acts.”

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to transfers occurring after December 31, 2000, in taxable years ending after such date.

**SEC. 906. EXCLUSION OF DISCHARGE OF QUALIFIED FARM INDEBTEDNESS FROM GROSS INCOME INCREASED FOR CERTAIN SOLVENT FARMERS.**

(a) IN GENERAL.—Section 108(g) (relating to special rules for discharge of qualified farm indebtedness) is amended by adding at the end thereof the following new paragraph:

“(4) SPECIAL LIMITATIONS FOR CERTAIN FARMERS.—

“(A) IN GENERAL.—With respect to a taxpayer who is described in subparagraph (C) of this paragraph and who elects the application of this paragraph—

“(i) the amount excluded under subparagraph (C) of subsection (a)(1) shall not exceed \$300,000, and

“(ii) paragraph (2) of this subsection shall be applied by amending such paragraph to read as follows: ‘For purposes of this section,

indebtedness of a taxpayer shall be treated as qualified farm indebtedness if such indebtedness was incurred directly in connection with the operation by the taxpayer of the trade or business of farming and when such taxpayer materially participated in such trade or business (within the meaning of section 2032A(e)(6)).’

“(B) PRIOR DISCHARGES OF INDEBTEDNESS AND GAINS TAKEN INTO ACCOUNT.—If for any prior year—

“(i) a discharge of qualified farm indebtedness, or

“(ii) gain from the transfer of farm property in complete or partial satisfaction of such indebtedness,

is excluded from the taxpayer's gross income under this subsection or section 139, respectively, subparagraph (A) shall be applied for the taxable year with respect to such discharge by reducing the dollar amount contained in such subparagraph by the such excluded prior year discharges and gains.

“(C) TAXPAYER DESCRIBED IN THIS SUBPARAGRAPH.—A taxpayer is described in this subparagraph if—

“(i) more than 50 percent of the gross receipts of the taxpayer for 6 of the 10 taxable years preceding such taxable year are attributable to—

“(1) the trade or business of farming (within the meaning of section 2032A(e)(5)), or

“(II) the sale or lease of assets used in such trade or business, or

“(III) both,

“(ii) the indebtedness of the taxpayer both before and after such discharge is equal to 70 percent or more of the fair market value in all property held by such taxpayer, and

“(iii) equity in all property held by the taxpayer after such discharge is less than the greater of—

“(I) \$25,000, or

“(II) 150 percent of the excess (if any) of the tax imposed by this chapter determined as if this section and section 139 did not apply to the transfer, over the tax imposed by this chapter determined with regard to this section and section 139 (if applicable).

“(D) DEFINITIONS.—For purposes of this paragraph—

“(i) FARM PROPERTY.—The term ‘farm property’ means real and personal property used by the taxpayer in the trade or business of farming (within the meaning of section 2032A(e)(5)).

“(ii) MODIFIED ADJUSTED GROSS INCOME.—The term ‘modified adjusted gross income’ means adjusted gross income—

“(I) determined with regard to this section and section 139, and

“(II) increased by the amount of interest received or accrued by the taxpayer during the taxable year which is exempt from tax.

“(iii) EQUITY.—The term ‘equity’ means, with respect to any property, an amount equal to—

“(I) the fair market value of such property, minus

“(II) any indebtedness relating to such property.”

(b) CONFORMING AMENDMENT.—Subparagraph (A) of section 108(g)(3) is amended by striking out “The amount” and inserting in lieu thereof “Except as provided in paragraph (4), the amount”.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to any sale or exchange occurring after December 31, 2000, in taxable years ending after such date.

**SEC. 907. NET OPERATING LOSS OF FARMERS.**

(a) INCREASE IN CARRYBACK YEARS.—Paragraph (1) of section 172(b) (relating to net operating loss carrybacks and carryforwards) is amended by adding at the end the following new subparagraph:

“(G) FARMING LOSSES.—Subparagraph (A) shall be applied—

"(i) in the matter preceding clause (i), by substituting 'any taxable year beginning with the 3rd taxable year after the taxable year of such loss' for 'any taxable year', and

"(ii) in clause (i), by substituting '10 years' for '2 years',

with respect to the portion of the net operating loss of an eligible taxpayer (as defined in subsection (i)) for any taxable year beginning after December 31, 1997, and ending before January 1, 2000, which is a farming loss (as so defined) with respect to the taxpayer."

(b) DEFINITIONS AND RULES RELATING TO FARMING LOSSES.—Section 172 is amended by redesignating subsection (i) as subsection (j) and inserting after subsection (h) the following new subsection:

"(i) DEFINITIONS AND RULES RELATING TO FARMING LOSSES.—For purposes of this section—

"(I) FARMING LOSS.—

"(A) IN GENERAL.—The term 'farming loss' means the lesser of—

"(i) the net operating loss of the taxpayer for the taxable year, or

"(ii) the net operating loss of the taxpayer for the taxable year determined by only taking into account items of income and deduction attributable to 1 or more qualified farming business of the taxpayer.

"(B) DOLLAR LIMITATION.—

"(i) IN GENERAL.—The farming loss of taxpayer for any taxable year shall not exceed \$200,000.

"(ii) AGGREGATION RULES.—

"(I) IN GENERAL.—All persons treated as 1 employer under subsections (a) or (b) of section 52 shall be treated as 1 person.

"(II) PASS-THRU ENTITY.—In the case of a partnership, trust, or other pass-thru entity, the limitation shall be applied at both the entity and the owner level.

"(III) OWNER.—The limitation shall be reduced by the amount of farming loss determined for a corporation for which the taxpayer is a 50 percent owner in the taxable year of the corporation ending in the taxable year of the taxpayer owner.

"(2) ELIGIBLE TAXPAYER.—

"(A) IN GENERAL.—The term 'eligible taxpayer' means a taxpayer which derives more than 50 percent of its gross income for the 3-year period beginning 2 years prior to the current taxable year from qualified farming businesses.

"(B) QUALIFIED FARMING BUSINESS.—The term 'qualified farming business' means a trade or business of farming (within the meaning of section 2032A)—

"(i) with respect to which—

"(I) the taxpayer or a member of the family of the taxpayer materially participates (within the meaning of section 2032A(e)(6)), or

"(II) in the case of a taxpayer other than an individual, a 20 percent owner of the taxpayer or a member of the owner's family materially participates (as so defined), and

"(ii) which does not receive in excess of \$7,000,000 for sales in a taxable year.

For purposes of clause (i)(II), owners which are members of a single family shall be treated as a single owner.

"(3) OWNER.—

"(A) 20 PERCENT OWNER.—The term '20 percent owner' means any person who would be described in section 416(i)(1)(B)(i) if '20 percent' were substituted for '5 percent' each place it appears in such section.

"(B) 50 PERCENT OWNER.—The term '50 percent owner' means any person who would be described in section 416(i)(1)(B)(i) if '50 percent' were substituted for '5 percent' each place it appears in such section.

"(4) COORDINATION WITH SUBSECTION (b)(2).—For purposes of applying subsection (b)(2), a farming loss for any taxable year shall be

treated as a separate net operating loss for such taxable year to be taken into account for the remaining portion of the net operating loss for such taxable year.

"(5) ELECTION.—Any taxpayer entitled to a 10-year carryback under subsection (b)(1)(G) from any loss year may elect to have the carryback period with respect to such loss year, and any portion of the farming loss for such year, determined without regard to subsection (b)(1)(G). Such election shall be made in such manner as may be prescribed by the Secretary and shall be made by the due date (including extensions of time) for filing the taxpayer's return for the taxable year of the net operating loss. Such election, once made for any taxable year, shall be irrevocable for the taxable year."

#### **SEC. 908. CERTAIN CASH RENTALS OF FARMLAND NOT TO CAUSE RECAPTURE OF SPECIAL ESTATE TAX VALUATION.**

(a) IN GENERAL.—Subsection (c) of section 2032A (relating to tax treatment of dispositions and failures to use for qualified use) is amended by adding at the end the following new paragraph:

"(8) CERTAIN CASH RENTAL NOT TO CAUSE RECAPTURE.—For purposes of this subsection, a qualified heir shall not be treated as failing to use property in a qualified use solely because such heir rents such property on a net cash basis to a member of the decedent's family, but only if, during the period of the lease, such member of the decedent's family uses such property in a qualified use."

(b) CONFORMING AMENDMENT.—Section 2032A (b)(5)(A) is amended by striking the last sentence.

(c) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply with respect to rentals occurring after December 31, 1976.

#### **SEC. 909. DECLARATORY JUDGMENT REMEDY RELATING TO STATUS AND CLASSIFICATION OF FARMERS' COOPERATIVES.**

(a) IN GENERAL.—Paragraph (1) of section 7428(a) (relating to creation of remedy) is amended by striking "or" at the end of subparagraph (B), and by inserting after subparagraph (C) the following new subparagraph:

"(D) with respect to the initial qualification or continuing qualification of an organization as a cooperative described in section 521(b) which is exempt from tax under section 521(a), or"

(b) EFFECTIVE DATE.—The amendment made by this section shall apply with respect to pleadings filed with the United States Tax Court, the district court of the United States for the District of Columbia, or the United States Court of Federal Claims after the date of enactment of this Act but only with respect to determinations (or requests for determinations) made after January 1, 1998.

#### **TITLE X—TECHNOLOGY AND ECONOMIC DEVELOPMENT**

##### **SEC. 1001. PERMANENT EXTENSION AND MODIFICATION OF RESEARCH CREDIT.**

(a) PERMANENT EXTENSION.—

(1) IN GENERAL.—Section 41 (relating to credit for increasing research activities) is amended by striking subsection (h).

(2) CONFORMING AMENDMENT.—Paragraph (1) of section 45C(b) is amended by striking subparagraph (D).

(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) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years beginning after June 30, 1999.

##### **SEC. 1002. NEW MARKETS TAX CREDIT.**

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 (relating to business-related credits), as amended by section 608(a), is amended by adding at the end the following new section:

##### **"SEC. 45E. NEW MARKETS TAX CREDIT.**

"(a) ALLOWANCE OF CREDIT.—

"(1) IN GENERAL.—For purposes of section 38, in the case of a taxpayer who holds a qualified equity investment on a credit allowance date of such investment which occurs during the taxable year, the new markets tax credit determined under this section for such taxable year is an amount equal to 6 percent of the amount paid to the qualified community development entity for such investment at its original issue.

"(2) CREDIT ALLOWANCE DATE.—The term 'credit allowance date' means, with respect to any qualified equity investment—

"(A) the date on which such investment is initially made, and

"(B) each of the 4 anniversary dates of such date thereafter.

"(b) QUALIFIED EQUITY INVESTMENT.—For purposes of this section—

"(1) IN GENERAL.—The term 'qualified equity investment' means any equity investment in a qualified community development entity if—

"(A) such investment is acquired by the taxpayer at its original issue (directly or through an underwriter) solely in exchange for cash,

"(B) substantially all of such cash is used by the qualified community development entity to make qualified low-income community investments, and

"(C) such investment is designated for purposes of this section by the qualified community development entity.

Such term shall not include any equity investment issued by a qualified community development entity more than 5 years after the date that such entity receives an allocation under subsection (f). Any allocation not used within such 5-year period may be reallocated by the Secretary under subsection (f).

"(2) LIMITATION.—The maximum amount of equity investments issued by a qualified community development entity which may be designated under paragraph (1)(C) by such entity shall not exceed the portion of the limitation amount allocated under subsection (f) to such entity.

"(3) SAFE HARBOR FOR DETERMINING USE OF CASH.—The requirement of paragraph (1)(B) shall be treated as met if at least 85 percent of the aggregate gross assets of the qualified community development entity are invested in qualified low-income community investments.

"(4) TREATMENT OF SUBSEQUENT PURCHASERS.—The term 'qualified equity investment' includes any equity investment which would (but for paragraph (1)(A)) be a qualified equity investment in the hands of the taxpayer if such investment was a qualified equity investment in the hands of a prior holder.

“(5) REDEMPTIONS.—A rule similar to the rule of section 1202(c)(3) shall apply for purposes of this subsection.

“(6) EQUITY INVESTMENT.—The term ‘equity investment’ means—

“(A) any stock in a qualified community development entity which is a corporation, and

“(B) any capital interest in a qualified community development entity which is a partnership.

“(C) QUALIFIED COMMUNITY DEVELOPMENT ENTITY.—For purposes of this section—

“(1) IN GENERAL.—The term ‘qualified community development entity’ means any domestic corporation or partnership if—

“(A) the primary mission of the entity is serving, or providing investment capital for, low-income communities or low-income persons,

“(B) the entity maintains accountability to residents of low-income communities through representation on governing or advisory boards or otherwise, and

“(C) the entity is certified by the Secretary for purposes of this section as being a qualified community development entity.

“(2) SPECIAL RULES FOR CERTAIN ORGANIZATIONS.—The requirements of paragraph (1) shall be treated as met by—

“(A) any specialized small business investment company (as defined in section 1044(c)(3)), and

“(B) any community development financial institution (as defined in section 103 of the Community Development Banking and Financial Institutions Act of 1994 (12 U.S.C. 4702)).

“(d) QUALIFIED LOW-INCOME COMMUNITY INVESTMENTS.—For purposes of this section—

“(1) IN GENERAL.—The term ‘qualified low-income community investment’ means—

“(A) any equity investment in, or loan to, any qualified active low-income community business,

“(B) the purchase from another community development entity of any loan made by such entity which is a qualified low-income community investment if the amount received by such other entity from such purchase is used by such other entity to make qualified low-income community investments,

“(C) financial counseling and other services specified in regulations prescribed by the Secretary to businesses located in, and residents of, low-income communities, and

“(D) any equity investment in, or loan to, any qualified community development entity if substantially all of the investment or loan is used by such entity to make qualified low-income community investments described in subparagraphs (A), (B), and (C).

“(2) QUALIFIED ACTIVE LOW-INCOME COMMUNITY BUSINESS.—

“(A) IN GENERAL.—For purposes of paragraph (1), the term ‘qualified active low-income community business’ means, with respect to any taxable year, any corporation or partnership if for such year—

“(i) at least 50 percent of the total gross income of such entity is derived from the active conduct of a qualified business within any low-income community,

“(ii) a substantial portion of the use of the tangible property of such entity (whether owned or leased) is within any low-income community,

“(iii) a substantial portion of the services performed for such entity by its employees are performed in any low-income community,

“(iv) less than 5 percent of the average of the aggregate unadjusted bases of the property of such entity is attributable to collectibles (as defined in section 408(m)(2)) other than collectibles that are held primarily for

sale to customers in the ordinary course of such business, and

“(v) less than 5 percent of the average of the aggregate unadjusted bases of the property of such entity is attributable to non-qualified financial property (as defined in section 1397B(e)).

“(B) PROPRIETORSHIP.—Such term shall include any business carried on by an individual as a proprietor if such business would meet the requirements of subparagraph (A) were it incorporated.

“(C) PORTIONS OF BUSINESS MAY BE QUALIFIED ACTIVE LOW-INCOME COMMUNITY BUSINESS.—The term ‘qualified active low-income community business’ includes any trades or businesses which would qualify as a qualified active low-income community business if such trades or businesses were separately incorporated.

“(3) QUALIFIED BUSINESS.—For purposes of this subsection, the term ‘qualified business’ has the meaning given to such term by section 1397B(d); except that—

“(A) in lieu of applying paragraph (2)(B) thereof, the rental to others of real property located in any low-income community shall be treated as a qualified business if there are substantial improvements located on such property,

“(B) paragraph (3) thereof shall not apply, and

“(C) such term shall not include any business if a significant portion of the equity interests in such business are held by any person who holds a significant portion of the equity investments in the community development entity.

“(e) LOW-INCOME COMMUNITY.—For purposes of this section—

“(1) IN GENERAL.—The term ‘low-income community’ means any population census tract if—

“(A) the poverty rate for such tract is at least 20 percent, or

“(B)(i) in the case of a tract not located within a metropolitan area, the median family income for such tract does not exceed 80 percent of statewide median family income, or

“(ii) in the case of a tract located within a metropolitan area, the median family income for such tract does not exceed 80 percent of the greater of statewide median family income or the metropolitan area median family income.

“(2) AREAS NOT WITHIN CENSUS TRACTS.—In the case of an area which is not tracted for population census tracts, the equivalent county divisions (as defined by the Bureau of the Census for purposes of defining poverty areas) shall be used for purposes of determining poverty rates and median family income.

“(f) NATIONAL LIMITATION ON AMOUNT OF INVESTMENTS DESIGNATED.—

“(1) IN GENERAL.—There is a new markets tax credit limitation of \$750,000,000 for each of calendar years 2000 through 2004 and zero for any succeeding calendar year.

“(2) ALLOCATION OF LIMITATION.—The limitation under paragraph (1) shall be allocated by the Secretary among qualified community development entities selected by the Secretary. In making allocations under the preceding sentence, the Secretary shall give priority to entities with records of having successfully provided capital or technical assistance to disadvantaged businesses or communities.

“(3) CARRYOVER OF UNUSED LIMITATION.—If the new markets tax credit limitation for any calendar year exceeds the aggregate amount allocated under paragraph (2) for such year, such limitation for the succeeding calendar year shall be increased by the amount of such excess.

“(g) RECAPTURE OF CREDIT IN CERTAIN CASES.—

“(1) IN GENERAL.—If, at any time during the 5-year period beginning on the date of the original issue of a qualified equity investment in a qualified community development entity, there is a recapture event with respect to such investment, then the tax imposed by this chapter for the taxable year in which such event occurs shall be increased by the credit recapture amount.

“(2) CREDIT RECAPTURE AMOUNT.—For purposes of paragraph (1), the credit recapture amount is an amount equal to the sum of—

“(A) the aggregate decrease in the credits allowed to the taxpayer under section 38 for all prior taxable years which would have resulted if no credit had been determined under this section with respect to such investment, plus

“(B) interest at the overpayment rate established under section 6621 on the amount determined under subparagraph (A) for each prior taxable year for the period beginning on the due date for filing the return for the prior taxable year involved.

No deduction shall be allowed under this chapter for interest described in subparagraph (B).

“(3) RECAPTURE EVENT.—For purposes of paragraph (1), there is a recapture event with respect to an equity investment in a qualified community development entity if—

“(A) such entity ceases to be a qualified community development entity,

“(B) the proceeds of the investment cease to be used as required of subsection (b)(1)(B), or

“(C) such investment is redeemed by such entity.

“(4) SPECIAL RULES.—

“(A) TAX BENEFIT RULE.—The tax for the taxable year shall be increased under paragraph (1) only with respect to credits allowed by reason of this section which were used to reduce tax liability. In the case of credits not so used to reduce tax liability, the carryforwards and carrybacks under section 39 shall be appropriately adjusted.

“(B) NO CREDITS AGAINST TAX.—Any increase in tax under this subsection shall not be treated as a tax imposed by this chapter for purposes of determining the amount of any credit under this chapter or for purposes of section 55.

“(h) BASIS REDUCTION.—The basis of any qualified equity investment shall be reduced by the amount of any credit determined under this section with respect to such investment.

“(i) REGULATIONS.—The Secretary shall prescribe such regulations as may be appropriate to carry out this section, including regulations—

“(1) which limit the credit for investments which are directly or indirectly subsidized by other Federal benefits (including the credit under section 42 and the exclusion from gross income under section 103),

“(2) which prevent the abuse of the provisions of this section through the use of related parties,

“(3) which impose appropriate reporting requirements

“(4) which apply the provisions of this section to newly formed entities.”

(b) CREDIT MADE PART OF GENERAL BUSINESS CREDIT.—

(1) IN GENERAL.—Subsection (b) of section 38, as amended by section 608(b), is amended by striking “plus” at the end of paragraph (13), by striking the period at the end of paragraph (14) and inserting “, plus”, and by adding at the end the following new paragraph:

“(15) the new markets tax credit determined under section 45E(a).”

(2) **LIMITATION ON CARRYBACK.**—Subsection (d) of section 39, as amended by section 608(c) is amended by adding at the end the following new paragraph:

“(11) **NO CARRYBACK OF NEW MARKETS TAX CREDIT BEFORE JANUARY 1, 2000.**—No portion of the unused business credit for any taxable year which is attributable to the credit under section 45E may be carried back to a taxable year ending before January 1, 2000.”

(c) **DEDUCTION FOR UNUSED CREDIT.**—Subsection (c) of section 196, as amended by section 205(d), is amended by striking “and” at the end of paragraph (8), by striking the period at the end of paragraph (9) and inserting “, and”, and by adding at the end the following new paragraph:

“(10) the new markets tax credit determined under section 45E(a).”

(d) **CLERICAL AMENDMENT.**—The table of sections for subpart D of part IV of subchapter A of chapter 1, as amended by section 608(d), is amended by adding at the end the following new item:

“Sec. 45E. New markets tax credit.”

(e) **EFFECTIVE DATE.**—The amendments made by this section shall apply to investments made after December 31, 1999.

**SEC. 1003. INCREASE IN STATE CEILING ON LOW-INCOME HOUSING CREDIT.**

(a) **IN GENERAL.**—Clause (i) of section 42(h)(3)(C) (relating to State housing credit ceiling) is amended to read as follows:

“(i) the applicable amount under subparagraph (H) multiplied by the State population.”

(b) **APPLICABLE AMOUNT.**—Paragraph (3) of section 42(h) (relating to housing credit dollar amount for agencies) is amended by adding at the end the following new subparagraph:

“(H) **APPLICABLE AMOUNT OF STATE CEILING.**—For purposes of subparagraph (C)(i), the applicable amount shall be determined under the following table:

“For calendar year—	The applicable amount is—
2001, 2002, and 2003 .....	\$1.30
2004 and 2005 .....	1.40
2006 and thereafter .....	1.50.”

(c) **EFFECTIVE DATE.**—The amendments made by this section shall apply to calendar years after 2000.

**SEC. 1004. INCREASE IN VOLUME CAP ON PRIVATE ACTIVITY BONDS.**

(a) **IN GENERAL.**—The table contained in section 146(d)(2) (relating to per capita limit; aggregate limit) is amended by striking “2002”, “2003”, “2004”, “2005”, “2006”, and “2007” and inserting “2000”, “2001”, “2002”, “2003”, “2004”, and “2005”, respectively.

(b) **EFFECTIVE DATE.**—The amendments made by this section shall apply to calendar years after 2000.

**SEC. 1005. SPACEPORTS TREATED LIKE AIRPORTS UNDER EXEMPT FACILITY BOND RULES.**

(a) **IN GENERAL.**—Paragraph (1) of section 142(a) (relating to exempt facility bond) is amended to read as follows:

“(1) airports and spaceports.”

(b) **TREATMENT OF GROUND LEASES.**—Paragraph (1) of section 142(b) (relating to certain facilities must be governmentally owned) is amended by adding at the end the following new subparagraph:

“(C) **SPECIAL RULE FOR SPACEPORT GROUND LEASES.**—For purposes of subparagraph (A), spaceport property which is located on land owned by the United States and which is used by a governmental unit pursuant to a lease (as defined in section 168(h)(7)) from the United States shall be treated as owned by such unit if—

“(i) the lease term (within the meaning of section 168(i)(3)) is at least 15 years, and

“(ii) such unit would be treated as owning such property if such lease term were equal to the useful life of such property.”

(c) **BOND MAY BE FEDERALLY GUARANTEED.**—Paragraph (3) of section 149(b) (relating to exceptions) is amended by adding at the end the following new subparagraph:

“(E) **EXCEPTION FOR SPACEPORTS.**—Paragraph (1) shall not apply to any exempt facility bond issued as part of an issue described in paragraph (1) of section 142(a) to provide a spaceport in situations where—

“(i) the guarantee of the United States (or an agency or instrumentality thereof) is the result of payment of rent, user fees, or other charges by the United States (or any agency or instrumentality thereof), and

“(ii) the payment of the rent, user fees, or other charges is for, and conditioned upon, the use of the spaceport by the United States (or any agency or instrumentality thereof).”

(d) **EFFECTIVE DATE.**—The amendments made by this section shall apply to obligations issued after December 31, 2000.

**SEC. 1006. INCREASE IN EXPENSE TREATMENT FOR SMALL BUSINESSES.**

(a) **IN GENERAL.**—Paragraph (1) of section 179(b) (relating to dollar limitation) is amended to read as follows:

“(1) **DOLLAR LIMITATION.**—The aggregate cost which may be taken into account under subsection (a) for any taxable year shall not exceed \$25,000.”

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

**TITLE XI—MISCELLANEOUS INCENTIVES**  
**Subtitle A—Miscellaneous Provisions**

**SEC. 1101. OIL AND GAS INCENTIVES.**

(a) **ELECTION TO EXPENSE GEOLOGICAL AND GEOPHYSICAL EXPENDITURES.**—

(1) **IN GENERAL.**—Section 263 (relating to capital expenditures) is amended by adding at the end the following new paragraph:

“(j) **GEOLOGICAL AND GEOPHYSICAL EXPENDITURES FOR DOMESTIC OIL AND GAS WELLS.**—Notwithstanding subsection (a), a taxpayer may elect to treat geological and geophysical expenses incurred in connection with the exploration for, or development of, oil or gas within the United States (as defined in section 638) as expenses which are not chargeable to capital account. Any expenses so treated shall be allowed as a deduction in the taxable year in which paid or incurred.”

(2) **CONFORMING AMENDMENT.**—Section 263A(c)(3) is amended by inserting “263(j),” after “263(i).”

(3) **EFFECTIVE DATE.**—The amendments made by this subsection shall apply to expenses paid or incurred in taxable years beginning after December 31, 2000.

(b) **ELECTION TO EXPENSE DELAY RENTAL PAYMENTS.**—

(1) **IN GENERAL.**—Section 263 (relating to capital expenditures), as amended by subsection (a)(1), is amended by adding at the end the following new paragraph:

“(k) **DELAY RENTAL PAYMENTS FOR DOMESTIC OIL AND GAS WELLS.**—

“(1) **IN GENERAL.**—Notwithstanding subsection (a), a taxpayer may elect to treat delay rental payments incurred in connection with the development of oil or gas within the United States (as defined in section 638) as payments which are not chargeable to capital account. Any payments so treated shall be allowed as a deduction in the taxable year in which paid or incurred.

“(2) **DELAY RENTAL PAYMENTS.**—For purposes of paragraph (1), the term ‘delay rental payment’ means an amount paid for the privilege of deferring development of an oil or gas well.”

(2) **CONFORMING AMENDMENT.**—Section 263A(c)(3), as amended by subsection (a)(2), is amended by inserting “263(k),” after “263(j).”

(3) **EFFECTIVE DATE.**—The amendments made by this subsection shall apply to payments made or incurred in taxable years beginning after December 31, 2000.

(c) **SUSPENSION OF GROSS INCOME LIMIT FOR PERCENTAGE DEPLETION.**—Section 613A(d)(1) (relating to limitation based on taxable income) is amended by adding at the end the following: “This paragraph shall not apply to any taxpayer in taxable years beginning after December 31, 2000, and ending before January 1, 2006.”

**SEC. 1102. TREATMENT OF CERTAIN REVENUES OF ELECTRIC COOPERATIVES.**

(a) **IN GENERAL.**—Section 501(c)(12)(C) is amended by striking “or” at the end of clause (i), by striking the period at the end of clause (ii) and inserting “, or”, and by adding at the end the following new clause:

“(iii) from revenues received from nonmembers solely as a result of conforming operations to meet provisions of an applicable Federal or State plan designed to provide customer choice in electric power supply, including wheeling revenue, revenue from replacement of lost member sales with nonmember sales, revenue from unbundled electric activities (including metering, billing, and service charges), revenue from member sales at below cost in order to meet market rates, revenue from asset sales, and revenue from diversified businesses if such a business is conducted on a cooperative basis.”

(b) **EFFECTIVE DATE.**—The amendments made by this section shall apply to amounts received after December 31, 1999.

**SEC. 1103. TAX-EXEMPT BOND FINANCING OF CERTAIN ELECTRIC FACILITIES.**

(a) **PERMITTED OPEN ACCESS TRANSACTIONS NOT A PRIVATE BUSINESS USE.**—Section 141(b)(6) of the Internal Revenue Code of 1986 (defining private business use) is amended by adding at the end the following:

“(C) **PERMITTED OPEN ACCESS TRANSACTIONS NOT A PRIVATE BUSINESS USE.**—

“(i) **IN GENERAL.**—For purposes of this subsection, the term ‘private business use’ shall not include a permitted open access transaction.

“(ii) **PERMITTED OPEN ACCESS TRANSACTION DEFINED.**—For purposes of clause (i), the term ‘permitted open access transaction’ means any of the following transactions or activities with respect to an electric output facility (as defined in subsection (f)(4)(A)) owned by a governmental unit:

“(I) Providing open access transmission services and ancillary services which meet the reciprocity requirements of Federal Energy Regulatory Commission Order No. 888, which are ordered by the Federal Energy Regulatory Commission, which are provided in accordance with a transmission tariff of an independent system operator approved by such Commission, or which are consistent with State administered laws, rules, or orders providing for open transmission access.

“(II) Participation in an independent system operator agreement (including the relinquishment of control of transmission facilities to an independent system operator), in a regional transmission group, or in a power exchange agreement approved by such Commission.

“(III) Delivery on an open access basis of electric energy sold by other entities to end-users served by such governmental unit’s distribution facilities.

“(IV) If open access service is provided under subclauses (I) and (III), the sale of electric output of electric output facilities on terms other than those available to the general public if such sale is to an on-system purchaser or is an existing off-system sale.

“(V) Such other transactions or activities as may be provided in regulations prescribed by the Secretary.

“(iii) **DEFINITIONS; SPECIAL RULES.**—For purposes of this subparagraph—

“(I) ON-SYSTEM PURCHASER.—The term ‘on-system purchaser’ means a person who purchases electric energy from a governmental unit and whose electric facilities or equipment are directly connected with transmission or distribution facilities that are owned by such governmental unit.

“(II) OFF-SYSTEM PURCHASER.—The term ‘off-system purchaser’ means a purchaser of electric energy from a governmental unit other than an on-system purchaser.

“(III) EXISTING OFF-SYSTEM SALE.—The term ‘existing off-system sale’ means a sale of electric energy to a person that was an off-system purchaser of electric energy in the base year, but not in excess of the kilowatt hours purchased by such person in such year.

“(IV) BASE YEAR.—The term ‘base year’ means 1998 (or, at the election of such unit, in 1996 or 1997).

“(V) JOINT ACTION AGENCIES.—A member of a joint action agency that is entitled to make a sale described in clause (ii)(IV) in a year may transfer that entitlement to the joint action agency in accordance with rules of the Secretary.

“(VI) GOVERNMENT-OWNED FACILITY.—An electric output facility (as defined in subsection (f)(4)(A)) which is leased by a governmental unit or in which a governmental unit has capacity rights acquired with the proceeds of tax-exempt bonds issued before the date of the enactment of this subparagraph shall be treated as owned by such governmental unit.”.

(b) ELECTION TO TERMINATE TAX EXEMPT FINANCING.—Section 141 of the Internal Revenue Code of 1986 (relating to private activity bond; qualified bond) is amended by adding at the end the following:

“(f) ELECTION TO TERMINATE TAX-EXEMPT BOND FINANCING FOR CERTAIN ELECTRIC OUTPUT FACILITIES.—

“(1) IN GENERAL.—An issuer may make an irrevocable election under this paragraph to terminate certain tax-exempt financing for electric output facilities. If the issuer makes such election, then—

“(A) except as provided in paragraph (2), no bond the interest on which is exempt from tax under section 103 may be issued on or after the date of such election with respect to an electric output facility; and

“(B) notwithstanding paragraph (1) or (2) of subsection (a) or paragraph (5) of subsection (b), with respect to an electric output facility no bond that was issued before the date of the enactment of this subsection, the interest on which was exempt from tax on such date, shall be treated as a private activity bond, for so long as such facility continues to be owned by a governmental unit.

“(2) EXCEPTIONS.—An election under paragraph (1) does not apply to—

“(A) any qualified bond (as defined in subsection (e)),

“(B) any eligible refunding bond,

“(C) any bond issued to finance a qualifying T&D facility, or

“(D) any bond issued to finance—

“(i) equipment necessary to meet Federal or State environmental requirements applicable to electric output facilities, or

“(ii) repair of electric output facilities in service on the date of the enactment of this subsection.

Any repair under subparagraph (D)(ii) may not increase by more than a de minimis degree the capacity of the facility beyond its original design.

“(3) FORM AND EFFECT OF ELECTIONS.—An election under paragraph (1) shall be made in such a manner as the Secretary prescribes and shall be binding on any successor in interest to the electing issuer.

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

“(A) ELECTRIC OUTPUT FACILITY.—The term ‘electric output facility’ means an output facility that is an electric generation, transmission, or distribution facility.

“(B) ELIGIBLE REFUNDING BOND.—The term ‘eligible refunding bond’ means any bond (or series of bonds) issued after an election described in paragraph (1) to directly or indirectly refund a bond issued before such election, if—

“(i) the average maturity date of the issue of which the refunding bond is a part is not later than the average maturity date of the bonds to be refunded by such issue, and

“(ii) the amount of the refunding bond does not exceed the outstanding amount of the refunded bond.

For purposes of clause (i), average maturity shall be determined in accordance with section 147(b)(2)(A).

“(C) QUALIFYING T&D FACILITY.—The term ‘qualifying T&D facility’ means—

“(i) transmission facilities over which services described in subsection (b)(6)(C)(ii)(I) are provided, or

“(ii) distribution facilities over which services described in subsection (b)(6)(C)(ii)(III) are provided.”

(c) EFFECTIVE DATE AND TRANSITION RULES.—

(1) EFFECTIVE DATE.—The amendments made by this section take effect on the date of enactment of this Act, except that a governmental unit may elect to apply section 141(b)(6)(C) of the Internal Revenue Code of 1986, as added by subsection (a), with respect to permitted open access transactions on or after July 9, 1996.

(3) TRANSITION RULES.—

(A) PRIVATE BUSINESS USE.—Any activity that was not a private business use prior to the effective date of the amendment made by subsection (a) shall not be deemed to be a private business use by reason of the enactment of such amendment.

(B) ELECTION.—An issuer making the election under section 141(f) of the Internal Revenue Code of 1986, as added by subsection (b), shall not be liable under any contract in effect on the date of enactment of this Act for any claim arising from having made the election.

#### SEC. 1104. MODIFICATIONS TO SPECIAL RULES FOR NUCLEAR DECOMMISSIONING COSTS.

(a) REPEAL OF LIMITATION ON DEPOSITS INTO FUND BASED ON COST OF SERVICE.—Subsection (b) of section 468A is amended to read as follows:

“(b) LIMITATION ON AMOUNTS PAID INTO FUND.—The amount which a taxpayer may pay into the Fund for any taxable year shall not exceed the ruling amount applicable to such taxable year.”

(b) CLARIFICATION OF TREATMENT OF FUND TRANSFERS.—Subsection (e) of section 468A is amended by adding at the end the following new paragraph:

“(8) TREATMENT OF FUND TRANSFERS.—If, in connection with the transfer of the taxpayer's interest in a nuclear powerplant, the taxpayer transfers the Fund with respect to such powerplant to the transferee of such interest and the transferee elects to continue the application of this section to such Fund—

“(A) the transfer of such Fund shall not cause such Fund to be disqualified from the application of this section, and

“(B) no amount shall be treated as distributed from such Fund, or be includible in gross income, by reason of such transfer.”

(c) TRANSFERS OF BALANCES IN NONQUALIFIED FUNDS.—Section 468A is amended by redesignating subsections (f) and (g) as subsections (g) and (h), respectively, and by inserting after subsection (e) the following new subsection:

“(f) TRANSFERS OF BALANCES IN NONQUALIFIED FUNDS INTO QUALIFIED FUNDS.—

“(1) IN GENERAL.—Notwithstanding subsection (b), any taxpayer maintaining a Fund to which this section applies with respect to a nuclear powerplant may transfer into such Fund amounts held in any nonqualified fund of such taxpayer with respect to such powerplant.

“(2) MAXIMUM AMOUNT PERMITTED TO BE TRANSFERRED.—The amount permitted to be transferred under paragraph (1) shall not exceed the balance in the nonqualified fund as of December 31, 1998.

“(3) DEDUCTION FOR AMOUNTS TRANSFERRED.—

“(A) IN GENERAL.—The deduction allowed by subsection (a) for any transfer permitted by this subsection shall be allowed ratably over the remaining estimated useful life (within the meaning of subsection (d)(2)(A)) of the nuclear powerplant, beginning with the later of the taxable year during which the transfer is made or the taxpayer's first taxable year beginning after December 31, 2001.

“(B) DENIAL OF DEDUCTION FOR PREVIOUSLY DEDUCTED AMOUNTS.—No deduction shall be allowed for any transfer under this subsection of an amount for which a deduction was allowed when such amount was paid into the nonqualified fund. For purposes of the preceding sentence, a ratable portion of each transfer shall be treated as being from previously deducted amounts to the extent thereof.

“(C) TRANSFERS OF QUALIFIED FUNDS.—If—

“(i) any transfer permitted by this subsection is made to any Fund to which this section applies, and

“(ii) such Fund is transferred thereafter,

any deduction under this subsection for taxable years ending after the date that such Fund is transferred shall be allowed to the transferee and not to the transferor. The preceding sentence shall not apply if the transferor is an organization exempt from tax imposed by this chapter.

“(4) NEW RULING AMOUNT REQUIRED.—Paragraph (1) shall not apply to any transfer unless the taxpayer requests from the Secretary a new schedule of ruling amounts in connection with such transfer.

“(5) NONQUALIFIED FUND.—For purposes of this subsection, the term ‘nonqualified fund’ means, with respect to any nuclear powerplant, any fund in which amounts are irrevocably set aside pursuant to the requirements of any State or Federal agency exclusively for the purpose of funding the decommissioning of such powerplant.

“(6) NO BASIS IN QUALIFIED FUNDS.—Notwithstanding any other provision of law, the basis of any Fund to which this section applies shall not be increased by reason of any transfer permitted by this subsection.”

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

#### SEC. 1105. MODIFICATION OF DEPENDENT CARE CREDIT.

(b) INCREASE IN LIMIT ON EMPLOYMENT-RELATED EXPENSES.—Section 21(c) (relating to dollar limit on amount creditable) is amended—

(1) by striking “\$2,400” in paragraph (1) and inserting “\$2,700”, and

(2) by striking “\$4,800” in paragraph (2) and inserting “\$5,400”.

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

#### SEC. 1106. ALLOWANCE OF CREDIT FOR EMPLOYER EXPENSES FOR CHILD CARE ASSISTANCE.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 (relating to business related credits), as amended by section

1002(a), is amended by adding at the end the following:

**"SEC. 45F. EMPLOYER-PROVIDED CHILD CARE CREDIT.**

"(a) IN GENERAL.—For purposes of section 38, the employer-provided child care credit determined under this section for the taxable year is an amount equal to 25 percent of the qualified child care expenditures of the eligible taxpayer for such taxable year.

"(b) DOLLAR LIMITATION.—The credit allowable under subsection (a) for any taxable year shall not exceed \$90,000.

"(c) DEFINITIONS.—For purposes of this section—

"(1) QUALIFIED CHILD CARE EXPENDITURE.—

"(A) IN GENERAL.—The term 'qualified child care expenditure' means any amount paid or incurred—

"(i) to acquire, construct, rehabilitate, or expand property—

"(I) which is to be used as part of a qualified child care facility of the taxpayer,

"(II) with respect to which a deduction for depreciation (or amortization in lieu of depreciation) is allowable, and

"(III) which does not constitute part of the principal residence (within the meaning of section 121) of the taxpayer or any employee of the taxpayer,

"(ii) for the operating costs of a qualified child care facility of the taxpayer, including costs related to the training of employees, to scholarship programs, and to the providing of increased compensation to employees with higher levels of child care training,

"(iii) under a contract with a qualified child care facility to provide child care services to employees of the taxpayer, or

"(iv) to reimburse an employee for expenses for child care which enables the employee to be gainfully employed including expenses related to—

"(I) day care and before and after school care,

"(II) transportation associated with such care, and

"(III) before and after school and holiday programs including educational and recreational programs and camp programs.

"(B) FAIR MARKET VALUE.—The term 'qualified child care expenditures' shall not include expenses in excess of the fair market value of such care.

"(2) QUALIFIED CHILD CARE FACILITY.—

"(A) IN GENERAL.—The term 'qualified child care facility' means a facility—

"(i) the principal use of which is to provide child care assistance, and

"(ii) which meets the requirements of all applicable laws and regulations of the State or local government in which it is located, including, but not limited to, the licensing of the facility as a child care facility.

Clause (i) shall not apply to a facility which is the principal residence (within the meaning of section 121) of the operator of the facility.

"(B) SPECIAL RULES WITH RESPECT TO A TAXPAYER.—A facility shall not be treated as a qualified child care facility with respect to a taxpayer unless—

"(i) enrollment in the facility is open to employees of the taxpayer during the taxable year,

"(ii) if the facility is the principal trade or business of the taxpayer, at least 30 percent of the enrollees of such facility are dependents of employees of the taxpayer, and

"(iii) the use of such facility (or the eligibility to use such facility) does not discriminate in favor of employees of the taxpayer who are highly compensated employees (within the meaning of section 414(q)).

"(3) ELIGIBLE TAXPAYER.—The term 'eligible taxpayer' means for any taxable year a taxpayer with gross receipts of less than \$50,000,000 for such year.

"(d) RECAPTURE OF ACQUISITION AND CONSTRUCTION CREDIT.—

"(1) IN GENERAL.—If, as of the close of any taxable year, there is a recapture event with respect to any qualified child care facility of the taxpayer, then the tax of the taxpayer under this chapter for such taxable year shall be increased by an amount equal to the product of—

"(A) the applicable recapture percentage, and

"(B) the aggregate decrease in the credits allowed under section 38 for all prior taxable years which would have resulted if the qualified child care expenditures of the taxpayer described in subsection (c)(1)(A) with respect to such facility had been zero.

"(2) APPLICABLE RECAPTURE PERCENTAGE.—

"(A) IN GENERAL.—For purposes of this subsection, the applicable recapture percentage shall be determined from the following table:

<b>"If the recapture event occurs in:</b>	<b>The applicable recapture percentage is:</b>
Years 1-3 .....	100
Year 4 .....	85
Year 5 .....	70
Year 6 .....	55
Year 7 .....	40
Year 8 .....	25
Years 9 and 10 .....	10
Years 11 and thereafter	0.

"(B) YEARS.—For purposes of subparagraph (A), year 1 shall begin on the first day of the taxable year in which the qualified child care facility is placed in service by the taxpayer.

"(3) RECAPTURE EVENT DEFINED.—For purposes of this subsection, the term 'recapture event' means—

"(A) CESSATION OF OPERATION.—The cessation of the operation of the facility as a qualified child care facility.

"(B) CHANGE IN OWNERSHIP.—

"(i) IN GENERAL.—Except as provided in clause (ii), the disposition of a taxpayer's interest in a qualified child care facility with respect to which the credit described in subsection (a) was allowable.

"(ii) AGREEMENT TO ASSUME RECAPTURE LIABILITY.—Clause (i) shall not apply if the person acquiring such interest in the facility agrees in writing to assume the recapture liability of the person disposing of such interest in effect immediately before such disposition. In the event of such an assumption, the person acquiring the interest in the facility shall be treated as the taxpayer for purposes of assessing any recapture liability (computed as if there had been no change in ownership).

"(4) SPECIAL RULES.—

"(A) TAX BENEFIT RULE.—The tax for the taxable year shall be increased under paragraph (1) only with respect to credits allowed by reason of this section which were used to reduce tax liability. In the case of credits not so used to reduce tax liability, the carryforwards and carrybacks under section 39 shall be appropriately adjusted.

"(B) NO CREDITS AGAINST TAX.—Any increase in tax under this subsection shall not be treated as a tax imposed by this chapter for purposes of determining the amount of any credit under subpart A, B, or D of this part.

"(C) NO RECAPTURE BY REASON OF CASUALTY LOSS.—The increase in tax under this subsection shall not apply to a cessation of operation of the facility as a qualified child care facility by reason of a casualty loss to the extent such loss is restored by reconstruction or replacement within a reasonable period established by the Secretary.

"(e) SPECIAL RULES.—For purposes of this section—

"(1) AGGREGATION RULES.—All persons which are treated as a single employer under subsections (a) and (b) of section 52 shall be treated as a single taxpayer.

"(2) PASS-THRU IN THE CASE OF ESTATES AND TRUSTS.—Under regulations prescribed by the Secretary, rules similar to the rules of subsection (d) of section 52 shall apply.

"(3) ALLOCATION IN THE CASE OF PARTNERSHIPS.—In the case of partnerships, the credit shall be allocated among partners under regulations prescribed by the Secretary.

"(f) NO DOUBLE BENEFIT.—

"(1) REDUCTION IN BASIS.—For purposes of this subtitle—

"(A) IN GENERAL.—If a credit is determined under this section with respect to any property by reason of expenditures described in subsection (c)(1)(A), the basis of such property shall be reduced by the amount of the credit so determined.

"(B) CERTAIN DISPOSITIONS.—If, during any taxable year, there is a recapture amount determined with respect to any property the basis of which was reduced under subparagraph (A), the basis of such property (immediately before the event resulting in such recapture) shall be increased by an amount equal to such recapture amount. For purposes of the preceding sentence, the term 'recapture amount' means any increase in tax (or adjustment in carrybacks or carryovers) determined under subsection (d).

"(2) OTHER DEDUCTIONS AND CREDITS.—No deduction or credit shall be allowed under any other provision of this chapter with respect to the amount of the credit determined under this section."

(b) CONFORMING AMENDMENTS.—

(1) Section 38(b), as amended by section 1002(b)(1), is amended by striking "plus" at the end of paragraph (12), by striking the period at the end of paragraph (13) and inserting ", plus", and by adding at the end the following new paragraph:

"(14) the employer-provided child care credit determined under section 45F."

(2) The table of sections for subpart D of part IV of subchapter A of chapter 1, as amended by section 1002(d), is amended by adding at the end the following:

"Sec. 45F. Employer-provided child care credit."

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

**SEC. 1107. RECOVERY PERIOD FOR DEPRECIATION OF CERTAIN LEASEHOLD IMPROVEMENTS.**

(a) 15-YEAR RECOVERY PERIOD.—Subparagraph (E) of section 168(e)(3) (relating to 15-year property) is amended by striking "and" at the end of clause (ii), by striking the period at the end of clause (iii) and inserting ", and", and by adding at the end the following new clause:

"(iv) any qualified leasehold improvement property."

(b) QUALIFIED LEASEHOLD IMPROVEMENT PROPERTY.—Subsection (e) of section 168 is amended by adding at the end the following new paragraph:

"(6) QUALIFIED LEASEHOLD IMPROVEMENT PROPERTY.—

"(A) IN GENERAL.—The term 'qualified leasehold improvement property' means any improvement to an interior portion of a building which is nonresidential real property if—

"(i) such improvement is made under or pursuant to a lease (as defined in subsection (h)(7))—

"(I) by the lessee (or any sublessee) of such portion, or

"(II) by the lessor of such portion,

"(ii) the original use of such improvement begins with the lessee and after December 31, 2000,

“(iii) such portion is to be occupied exclusively by the lessee (or any sublessee) of such portion, and

“(iv) such improvement is placed in service more than 3 years after the date the building was first placed in service.

“(B) CERTAIN IMPROVEMENTS NOT INCLUDED.—Such term shall not include any improvement for which the expenditure is attributable to—

“(i) the enlargement of the building,

“(ii) any elevator or escalator,

“(iii) any structural component benefiting a common area, and

“(iv) the internal structural framework of the building.

“(C) DEFINITIONS AND SPECIAL RULES.—For purposes of this paragraph—

“(i) COMMITMENT TO LEASE TREATED AS LEASE.—A commitment to enter into a lease shall be treated as a lease, and the parties to such commitment shall be treated as lessor and lessee, respectively, if the lease is in effect at the time the property is placed in service.

“(ii) RELATED PERSONS.—A lease between related persons shall not be considered a lease. For purposes of the preceding sentence, the term ‘related persons’ means—

“(I) members of an affiliated group (as defined in section 1504), and

“(II) persons having a relationship described in subsection (b) of section 267(b) or 707(b)(1); except that, for purposes of this clause, the phrase ‘80 percent or more’ shall be substituted for the phrase ‘more than 50 percent’ each place it appears in such subsections.”

(C) REQUIREMENT TO USE STRAIGHT LINE METHOD.—Paragraph (3) of section 168(b) is amended by adding at the end the following new subparagraph:

“(G) Qualified leasehold improvement property described in subsection (e)(6).”

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to qualified leasehold improvement property placed in service after December 31, 2000.

**SEC. 1108. EXEMPTION FROM INCOME TAX FOR STATE-CREATED ORGANIZATIONS PROVIDING PROPERTY AND CASUALTY INSURANCE FOR PROPERTY FOR WHICH SUCH COVERAGE IS OTHERWISE UNAVAILABLE.**

(a) IN GENERAL.—Subsection (c) of section 501 (relating to exemption from tax on corporations, certain trusts, etc.) is amended by adding at the end the following new paragraph:

“(28)(A) Any association created before January 1, 1999, by State law and organized and operated exclusively to provide property and casualty insurance coverage for property located within the State for which the State has determined that coverage in the authorized insurance market is limited or unavailable at reasonable rates, if—

“(i) no part of the net earnings of which inures to the benefit of any private shareholder or individual,

“(ii) except as provided in clause (v), no part of the assets of which may be used for, or diverted to, any purpose other than—

“(I) to satisfy, in whole or in part, the liability of the association for, or with respect to, claims made on policies written by the association,

“(II) to invest in investments authorized by applicable law,

“(III) to pay reasonable and necessary administration expenses in connection with the establishment and operation of the association and the processing of claims against the association, or

“(IV) to make remittances pursuant to State law to be used by the State to provide for the payment of claims on policies written by the association, purchase reinsurance

covering losses under such policies, or to support governmental programs to prepare for or mitigate the effects of natural catastrophic events,

“(iii) the State law governing the association permits the association to levy assessments on insurance companies authorized to sell property and casualty insurance in the State, or on property and casualty insurance policyholders with insurable interests in property located in the State to fund deficits of the association, including the creation of reserves,

“(iv) the plan of operation of the association is subject to approval by the chief executive officer or other executive branch official of the State, by the State legislature, or both, and

“(v) the assets of the association revert upon dissolution to the State, the State’s designee, or an entity designated by the State law governing the association, or State law does not permit the dissolution of the association.

“(B)(i) An entity described in clause (ii) shall be disregarded as a separate entity and treated as part of the association described in subparagraph (A) from which it receives remittances described in clause (ii) if an election is made within 30 days after the date that such association is determined to be exempt from tax.

“(ii) An entity is described in this clause if it is an entity or fund created before January 1, 1999, pursuant to State law and organized and operated exclusively to receive, hold, and invest remittances from an association described in subparagraph (A) and exempt from tax under subsection (a) and to make disbursements to pay claims on insurance contracts issued by such association, and to make disbursements to support governmental programs to prepare for or mitigate the effects of natural catastrophic events.”

(b) UNRELATED BUSINESS TAXABLE INCOME.—Subsection (a) of section 512 (relating to unrelated business taxable income) is amended by adding at the end the following new paragraph:

“(6) SPECIAL RULE APPLICABLE TO ORGANIZATIONS DESCRIBED IN SECTION 501(C)(28).—In the case of an organization described in section 501(c)(28), the term ‘unrelated business taxable income’ means taxable income for a taxable year computed without the application of section 501(c)(28) if, at the end of the immediately preceding taxable year, the organization’s net equity exceeded 15 percent of the total coverage in force under insurance contracts issued by the organization and outstanding at the end of such preceding year.”

(c) TRANSITIONAL RULE.—No income or gain shall be recognized by an association as a result of a change in status to that of an association described by section 501(c)(28) of the Internal Revenue Code of 1986, as amended by subsection (a).

(d) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 2000.

**SEC. 1109. DISCLOSURE OF TAX INFORMATION TO FACILITATE COMBINED EMPLOYMENT TAX REPORTING.**

Section 6103(d)(5) is amended to read as follows:

“(5) DISCLOSURE FOR COMBINED EMPLOYMENT TAX REPORTING.—The Secretary may disclose taxpayer identity information and signatures to any agency, body, or commission of any State for the purpose of carrying out with such agency, body, or commission a combined Federal and State employment tax reporting program approved by the Secretary. Subsections (a)(2) and (p)(4) and sections 7213 and 7213A shall not apply with re-

spect to disclosures or inspections made pursuant to this paragraph.”

**SEC. 1110. INCREASE IN LIMIT ON CERTAIN CHARITABLE CONTRIBUTIONS AS PERCENTAGE OF AGI.**

(a) IN GENERAL.—Section 170(b)(1) (relating to percentage limitations) is amended by striking “30 percent” each place it appears in subparagraphs (B) and (C) and inserting “50 percent”.

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

**SEC. 1111. LOW-INCOME SECOND MORTGAGE TAX CREDIT.**

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 (relating to business related credits), as amended by section 1002(a), is amended by adding at the end the following:

**“SEC. 45F. LOW-INCOME SECOND MORTGAGE TAX CREDIT.**

“(a) ALLOWANCE OF CREDIT.—

“(1) IN GENERAL.—For purposes of section 38, the amount of the low-income second mortgage tax credit determined under this section for any taxable year in the credit period shall be an amount equal to the applicable percentage of the low-income second mortgage tax credit amount allocated such taxpayer by a State housing finance agency in the credit allocation year under subsection (b).

“(2) APPLICABLE PERCENTAGE.—For purposes of this section, the Secretary shall prescribe the applicable percentage for any year in which the taxpayer is a qualified lender. Such percentage with respect to any month in the credit period with respect to such taxpayer shall be percentages which will yield over such period amounts of credit under paragraph (1) which have a present value equal to 100 percent of the low-income second mortgage tax credit amount allocated such taxpayer under subsection (b).

“(3) METHOD OF DISCOUNTING.—The present value under paragraph (2) shall be determined in the same manner as the low-income housing credit under section 42(b)(2)(C).

“(b) ALLOCATION OF LOW-INCOME SECOND MORTGAGE TAX CREDIT AMOUNTS.—

“(1) AMOUNT OF CREDIT.—Each qualified State shall receive a low-income second mortgage tax credit dollar amount for each calendar year in an amount equal to the sum of—

“(A) an amount equal to—

“(i) 10 cents multiplied by the State population, multiplied by

“(ii) 10, plus

“(B) the unused low-income second mortgage tax credit dollar amount (if any) of such State for the preceding year.

“(2) QUALIFIED STATE.—For purposes of this section—

“(A) IN GENERAL.—The term ‘qualified State’ means a State with an approved allocation plan to allocate low-income second mortgage tax credits to qualified lenders through the State housing finance agency.

“(B) APPROVED ALLOCATION PLAN.—For purposes of this paragraph, the term ‘approved allocation plan’ means a written plan, certified by the Secretary, which includes—

“(i) selection criteria for the allocation of credits to qualified lenders—

“(I) based on a process in which lenders submit bids for the value of the credit, and

“(II) which gives priority to qualified lenders with qualified low-income second mortgage tax credit loans which are prepaid during a calendar year, for credit allocations in the succeeding calendar year,

“(ii) an assurance that the State will not allocate in excess of 10 percent of the low-income second mortgage tax credit amount for the calendar year for qualified low-income



second mortgage tax credit loans which are neighborhood revitalization project loans,

"(iii) a procedure that the agency (or an agent or other private contractor of such agency) will follow in monitoring for non-compliance with the provisions of this section and in notifying the Internal Revenue Service of such noncompliance with respect to which such agency becomes aware, and

"(iv) such other assurances as the Secretary may require.

"(3) QUALIFIED LENDER.—For purposes of this section, the term 'qualified lender' means a lender which—

"(A) is an insured depository institution (as defined in section 3 of the Federal Deposit Insurance Act), insured credit union (as defined in section 101 of the Federal Credit Union Act), community development financial institution (as defined in section 103 of the Community Development Banking and Financial Institutions Act of 1994 (12 U.S.C. 4702)), or nonprofit community development corporation (as defined in section 613 of the Community Economic Development Act of 1981 (42 U.S.C. 9802)),

"(B) makes available, through such lender or the lender's designee, pre-purchase homeownership counseling for mortgagors, and

"(C) during the 1-year period beginning on the date of the credit allocation, originates not less than 100 qualified low-income second mortgage tax credit loans in an aggregate amount not less than the amount of the bid of such lender for such credit allocation.

"(4) CARRYOVER OF CREDIT.—A low-income second mortgage tax credit amount received by a State for any calendar year and not allocated in such year shall remain available to be allocated in the succeeding calendar year.

"(5) POPULATION.—For purposes of this section, population shall be determined in accordance with section 146(j).

"(6) COST-OF-LIVING ADJUSTMENT.—In the case of a calendar year after 2001, the 10 cent amount contained in paragraph (1)(A)(i) shall be increased by an amount equal to—

"(A) such amount, multiplied by

"(B) the cost-of-living adjustment determined under section 1(f)(3) for such calendar year by substituting 'calendar year 1999' for 'calendar year 1992' in subparagraph (B) thereof.

"(c) QUALIFIED LOW-INCOME SECOND MORTGAGE TAX CREDIT LOAN DEFINED.—For purposes of this section—

"(1) IN GENERAL.—The term 'qualified low-income second mortgage tax credit loan' means a loan originated and funded by a qualified lender which is secured by a second lien on a residence, but only if—

"(A) the requirements of subsections (d), (e), and (f) are met,

"(B) subject to subparagraphs (F), (H), and (I), the proceeds from such loan are applied exclusively—

"(i) to acquire such residence, or

"(ii) to substantially improve such residence in connection with a neighborhood revitalization project,

"(C) the principal amount of the loan is equal to an amount which is—

"(i) not less than 18 percent of the purchase price of the residence securing the loan, and

"(ii) not more than the lesser of—

"(I) 22 percent of such purchase price, or

"(II) \$25,000,

"(D) in the case of a neighborhood revitalization project loan, subparagraph (C) is applied by substituting—

"(i) 'purchase price or appraised value' for 'purchase price', and

"(ii) '\$40,000' for '\$25,000',

"(E) the loan is—

"(i) amortized over a period of not more than 30 years (or any lesser period of time as

determined by the lender or the State housing finance agency (as applicable)), or

"(ii) described in paragraph (2),

"(F) the proceeds of such loan are not used for settlement or other closing costs of the transaction in an amount in excess of 4 percent of the purchase price of the residence securing the loan,

"(G) the rate of interest of the loan does not exceed the greater of—

"(i) the excess of—

"(I) the prime lending rate in effect as of the date on which the loan is originated, over

"(II) 5.5 percent, or

"(ii) 3 percent,

"(H) the origination fee paid with respect to the loan does not cause the aggregate amount of origination fees paid with respect to any loans secured by the residence—

"(i) in the case of a neighborhood revitalization project loan, to exceed 1 percent of the appraised value of the residence which secures the loan, and

"(ii) in the case of any other loan, to exceed 2 percent of the appraised value of such residence, and

"(I) the servicing fees of such loan—

"(i) are allocated from interest payments made with respect to the loan, and

"(ii) may not—

"(1) in the case of a neighborhood revitalization project loan, exceed a total of 38 basis points, and

"(II) in the case of any other loan, when added to such fees of any other loan secured by the residence, exceed a total of 63 basis points.

"(2) BALLOON PAYMENT LOAN.—

"(A) IN GENERAL.—A loan is described in this paragraph if such loan—

"(i) meets the requirements of subparagraphs (B) and (C),

"(ii) is for a period of 25 years and, except as provided in clause (iv), no payment is due on such loan until the sooner of—

"(I) the end of such period, or

"(II) the date on which the residence which secures the loan is disposed of,

"(iii) does not prohibit early repayment of such loan, and

"(iv) requires payment on such loan if the mortgagor receives any portion of the equity of such residence as part of a refinancing of any loan secured by such residence.

"(B) INTEREST.—Notwithstanding paragraph (1)(G), the rate of interest of the loan is zero percent.

"(C) SERVICING FEES.—Notwithstanding paragraph (1)(I), there shall be no servicing fees in connection with the loan.

"(3) INDEX OF AMOUNT.—

"(A) IN GENERAL.—In the case of a calendar year after 2001, the amounts under subparagraphs (C) and (D) of paragraph (1) shall be increased by an amount equal to—

"(i) such amount, multiplied by

"(ii) the housing price adjustment for such calendar year.

"(B) HOUSING PRICE ADJUSTMENT.—For purposes of subparagraph (A), the housing price adjustment for any calendar year is the percentage (if any) by which—

"(i) the housing price index for the preceding calendar year, exceeds

"(ii) the housing price index for calendar year 2001.

"(C) HOUSING PRICE INDEX.—For purposes of subparagraph (B), the housing price index means the housing price index published by the Federal Housing Finance Board (as established in section 2A of the Federal Home Loan Bank Act (12 U.S.C. 1422a)) for the calendar year.

"(d) MORTGAGOR.—

"(1) IN GENERAL.—A loan meets the requirements of this subsection if it is made to a mortgagor—

"(A) whose family income for the year in which the mortgagor applies for the loan is 80 percent or less of the area median gross income for the area in which the residence which secures the mortgage is located,

"(B) for whom the loan would not result in a housing debt-to-income ratio, with respect to the residence securing the loan, or total debt-to-income ratio which is greater than the guidelines set by the Federal Housing Administration (or any other ratio as determined by the State housing finance agency or lender if such ratio is less than such guidelines), and

"(C) who attends pre-purchase homeownership counseling provided by the qualified lender or the lender's designee.

"(2) DETERMINATION OF FAMILY INCOME.—For purposes of this subsection and subsection (h), the family income of a mortgagor and area median gross income shall be determined in accordance with section 143(f)(2).

"(e) RESIDENCE REQUIREMENTS.—A loan meets the requirements of this subsection if it is secured by a residence that is—

"(1) a single-family residence (including a manufactured home (within the meaning of section 25(e)(10))) which is the principal residence (within the meaning of section 121) of the mortgagor, or can reasonably be expected to become the principal residence of the mortgagor within a reasonable time after the financing is provided,

"(2) purchased by the mortgagor with a down payment in an amount not less than the lesser of—

"(A) 2 percent of the purchase price, or

"(B) \$1,000, and

"(3) in the case of a mortgagor with a family income greater than 50 percent of the area median gross income, as determined under subsection (d)(1)(A), not financed in connection with a qualified mortgage issued under section 143.

"(f) DEFINITION AND SPECIAL RULES RELATING TO CREDIT PERIOD.—

"(1) CREDIT PERIOD DEFINED.—For purposes of this section, the term 'credit period' means the period of 10 taxable years beginning with the taxable year in which a low-income second mortgage tax credit amount is allocated to the taxpayer.

"(2) SPECIAL RULE FOR 1ST YEAR OF CREDIT PERIOD.—

"(A) IN GENERAL.—The credit allowable under subsection (a) with respect to any taxpayer for the 1st taxable year of the credit period shall be determined by substituting for the applicable percentage under subsection (a)(2) the fraction—

"(i) the numerator of which is the sum of the applicable percentages determined under subsection (a)(2) as of the close of each full month of such year, during which the taxpayer was a qualified lender, and

"(ii) the denominator of which is 12.

"(B) DISALLOWED 1ST YEAR CREDIT ALLOWED IN 11TH YEAR.—Any reduction by reason of subparagraph (A) in the credit allowable (without regard to subparagraph (A)) for the 1st taxable year of the credit period shall be allowable under subsection (a) for the 1st taxable year following the credit period.

"(3) DISPOSITION OF LOW-INCOME SECOND MORTGAGE TAX CREDIT LOANS.—If a qualified low-income second mortgage tax credit loan is disposed of during any year for which a credit is allowable under subsection (a), such credit shall be allocated between the parties on the basis of the number of days during such year the mortgage was held by each and the portion of the total credit allocated to the qualified lender which is attributable to such mortgage.

"(g) LOSS OF CREDIT.—If, during the taxable year, a qualified low-income second mortgage tax credit loan is repaid prior to

the expiration of the credit period with respect to such loan, the amount of the low-income second mortgage tax credit attributable to such loan is no longer available under subsection (a). For purposes of the preceding sentence, the tax credit is allowable for the portion of the year in which such repayment occurs for which the loan is outstanding, determined in the same manner as provided in subsection (f)(2)(A).

“(h) RECAPTURE OF PORTION OF FEDERAL SUBSIDY FROM HOME-OWNER.—

“(1) IN GENERAL.—If, during the taxable year, any taxpayer described in paragraph (3) disposes of an interest in a residence with respect to which a low-income second mortgage tax credit amount applies, then the taxpayer's tax imposed by this chapter for such taxable year shall be increased by 50 percent of the gain (if any) on the disposition of such interest.

“(2) EXCEPTIONS.—Paragraph (1) shall not apply to any disposition—

“(A) by reason of death,

“(B) which is made on a date that is more than 10 years after the date on which the qualified low-income second mortgage tax credit loan secured by such residence was made, or

“(C) in which the purchaser of the residence assumes the qualified low-income second mortgage tax credit loan secured by the residence.

“(3) INCOME LIMITATION.—A taxpayer is described in this paragraph if, on the date of the disposition, the family income of the mortgagor is 115 percent or more of the area median gross income as determined under subsection (d)(1)(A) for the year in which the disposition occurs.

“(4) SPECIAL RULES RELATING TO LIMITATION ON RECAPTURE AMOUNT BASED ON GAIN REALIZED.—For purposes of this subsection, rules similar to the rules of section 143(m)(6) shall apply.

“(5) LENDER TO INFORM MORTGAGOR OF POTENTIAL RECAPTURE.—The qualified lender which makes a qualified low-income second mortgage tax credit loan to a mortgagor shall, at the time of settlement, provide a written statement informing the mortgagor of the potential recapture under this subsection.

“(6) SPECIAL RULES.—For purposes of this subsection, rules similar to the rules of section 143(m)(8) shall apply.

“(i) OTHER DEFINITIONS.—

“(1) NEIGHBORHOOD REVITALIZATION PROJECT LOAN.—

“(A) IN GENERAL.—The term ‘neighborhood revitalization project loan’ means a loan secured by a second lien on a residence, the proceeds of which are used to substantially improve such residence in connection with a neighborhood revitalization project.

“(B) NEIGHBORHOOD REVITALIZATION PROJECT.—The term ‘neighborhood revitalization project’ means a project of sufficient size and scope to alleviate physical deterioration and stimulate investment in—

“(i) a geographic location within the jurisdiction of a unit of local government (but not the entire jurisdiction) designated in comprehensive plans, ordinances, or other documents as a neighborhood, village, or similar geographic designation, or

“(ii) the entire jurisdiction of a unit of local government if the population of such jurisdiction is not in excess of 25,000.

“(2) STATE.—The term ‘State’ includes a possession of the United States.

“(3) STATE HOUSING FINANCE AGENCY.—The term ‘State housing finance agency’ means the public agency, authority, corporation, or other instrumentality of a State that has the authority to provide residential mortgage loan financing throughout the State.

“(j) CERTIFICATION AND OTHER REPORTS TO THE SECRETARY.—

“(1) CERTIFICATION WITH RESPECT TO STATE ALLOCATION OF LOW-INCOME SECOND MORTGAGE TAX CREDITS.—The Secretary may, upon a finding of noncompliance, revoke the certification of a qualified State and revoke any qualified low-income second mortgage tax credit amounts allocated to such State or allocated by such State to a qualified lender.

“(2) ANNUAL REPORT FROM HOUSING FINANCE AGENCIES.—Each State housing finance agency which allocates any low-income second mortgage tax credit amount to any qualified lender for any calendar year shall submit to the Secretary (at such time and in such manner as the Secretary shall prescribe) an annual report specifying—

“(A) the low-income second mortgage tax credit amount allocated to each qualified lender for such year, and

“(B) with respect to each qualified lender—

“(i) the principal amount of the aggregate qualified low-income second mortgage tax credit loans made by such lender in such year and the outstanding amount of such loans in such year, and

“(ii) the number of qualified low-income second mortgage tax credit loans made by such lender in such year.

The penalty under section 6652(j) shall apply to any failure to submit the report required by this paragraph on the date prescribed therefore.

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

(b) LIMITATION ON CARRYBACK OF UNUSED CREDIT.—Subsection (d) of section 39 (relating to carryback and carryforward of unused credits), as amended by section 1002(b)(2), is amended by adding at the end the following:

“(12) NO CARRYBACK OF LOW-INCOME SECOND MORTGAGE TAX CREDITS BEFORE EFFECTIVE DATE.—No portion of the unused business credit for any taxable year which is attributable to the low-income second mortgage tax credit determined under section 45F may be carried back to a taxable year ending before the date of the enactment of section 45F.”

(c) CONFORMING AMENDMENTS.—

(1) Section 38(b), as amended by section 1002(b)(1), is amended—

(A) by striking “plus” at the end of paragraph (14),

(B) by striking the period at the end of paragraph (15), and inserting “, plus”, and

(C) by adding at the end the following:

“(16) the low-income second mortgage tax credit determined under section 45F.”

(2) The table of sections for subpart D of part IV of subchapter A of chapter 1, as amended by section 1002(d), is amended by adding at the end the following:

“Sec. 45F. Low-income second mortgage tax credit.”

(d) REGULATIONS.—The Secretary of the Treasury shall, by regulation, make any necessary adjustments to the amount of credit allocated under section 45F(b)(1) of the Internal Revenue Code of 1986, as added by subsection (a), to ensure that the decrease in revenues in the Treasury, resulting from the amendments made by this section, in calendar years before 2011 does not exceed \$1,000,000,000.

(e) EFFECTIVE DATE.—The amendments made by this section apply to calendar years after 2000.

#### SEC. 1112. COORDINATION OF CHILD TAX CREDIT AND EARNED INCOME CREDIT WITH CERTAIN MEANS-TESTED PROGRAMS.

(a) CHILD TAX CREDIT.—Section 24 (relating to child tax credit) is amended by adding at the end the following new subsection:

“(g) COORDINATION WITH CERTAIN MEANS-TESTED PROGRAMS.—Any refund or credit made to an individual by reason of this section shall not be treated as income or receipts (or taken into account in determining resources) for purposes of determining—

“(1) the eligibility of the individual or any other individual for any month for benefits or assistance under any Federal program or any State or local program financed in whole or in part with Federal funds, or

“(2) the amount or extent of such benefits or assistance.”

(b) EARNED INCOME CREDIT.—Subsection (l) of section 32 (relating to coordination with certain means-tested programs) is amended to read as follows:

“(l) COORDINATION WITH CERTAIN MEANS-TESTED PROGRAMS.—Any refund or credit made to an individual by reason of this section, and any payment made to such individual by an employer under section 3507, shall not be treated as income or receipts (or taken into account in determining resources) for purposes of determining—

“(1) the eligibility of the individual or any other individual for any month for benefits or assistance under any Federal program or any State or local program financed in whole or in part with Federal funds, or

“(2) the amount or extent of such benefits or assistance.”

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

#### SEC. 1113. NO FEDERAL INCOME TAX ON AMOUNTS RECEIVED BY HOLOCAUST VICTIMS OR THEIR HEIRS.

(a) IN GENERAL.—For purposes of the Internal Revenue Code of 1986, gross income shall not include any amount received by an individual (or any heir of the individual)—

(1) from the Swiss Humanitarian Fund established by the Government of Switzerland or from any similar fund established by any foreign country, or

(2) as a result of the settlement of the action entitled ‘In re Holocaust Victims’ Asset Litigation’, (E.D. NY), C.A. No. 96-4849, or as a result of any similar action.

(b) EFFECTIVE DATE.—This section shall apply to any amount received before, on, or after the date of the enactment of this Act.

#### SEC. 1114. TAX TREATMENT OF SPECIAL PAY FOR MEMBERS OF THE ARMED FORCES.

(a) IN GENERAL.—Subchapter C of chapter 80 (relating to provisions affecting more than one subtitle) is amended by adding at the end the following:

#### “SEC. 7874. TREATMENT OF SPECIAL PAY FOR MEMBERS OF THE ARMED FORCES.

“(a) GENERAL RULE.—For purposes of the following provisions, a special pay area shall be treated in the same manner as if it were a combat zone (as determined under section 112):

“(1) Section 2(a)(3) (relating to special rule where deceased spouse was in missing status).

“(2) Section 112 (relating to the exclusion of certain combat pay of members of the Armed Forces).

“(3) Section 692 (relating to income taxes of members of Armed Forces on death).

“(4) Section 2201 (relating to members of the Armed Forces dying in combat zone or by reason of combat-zone-incurred wounds, etc.).

“(5) Section 3401(a)(1) (defining wages relating to combat pay for members of the Armed Forces).

“(6) Section 4253(d) (relating to the taxation of phone service originating from a combat zone from members of the Armed Forces).

“(7) Section 6013(f)(1) (relating to joint return where individual is in missing status).

“(8) Section 7508 (relating to time for performing certain acts postponed by reason of service in combat zone).

“(b) SPECIAL PAY AREA.—For purposes of this section, the term ‘special pay area’ means any area in which an individual receives special pay under section 310 of title 37, United States Code, for services performed in such area.”

(b) CONFORMING AMENDMENT.—The table of sections for subchapter C of chapter 80 is amended by adding at the end the following:

“Sec. 7874. Treatment of special pay.”

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to remuneration paid in taxable years ending after the date of the enactment of this Act.

#### **Subtitle B—Provisions Relating to Real Estate Investment Trusts**

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

#### **SEC. 1121. MODIFICATIONS TO ASSET DIVERSIFICATION TEST.**

(a) IN GENERAL.—Subparagraph (B) of section 856(c)(4) is amended to read as follows:

“(B)(i) not more than 25 percent of the value of its total assets is represented by securities (other than those includible under subparagraph (A)), and

“(ii) except with respect to a taxable REIT subsidiary and securities includible under subparagraph (A)—

“(I) not more than 5 percent of the value of its total assets is represented by securities of any 1 issuer,

“(II) the trust does not hold securities possessing more than 10 percent of the total voting power of the outstanding securities of any 1 issuer, and

“(III) the trust does not hold securities having a value of more than 10 percent of the total value of the outstanding securities of any 1 issuer.”

(b) EXCEPTION FOR STRAIGHT DEBT SECURITIES.—Subsection (c) of section 856 is amended by adding at the end the following new paragraph:

“(7) STRAIGHT DEBT SAFE HARBOR IN APPLYING PARAGRAPH (4).—Securities of an issuer which are straight debt (as defined in section 1361(c)(5) without regard to subparagraph (B)(iii) thereof) shall not be taken into account in applying paragraph (4)(B)(ii)(III) if—

“(A) the 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. 1122. TREATMENT OF INCOME AND SERVICES PROVIDED BY TAXABLE REIT SUBSIDIARIES.**

(a) INCOME FROM TAXABLE REIT SUBSIDIARIES NOT TREATED AS IMPERMISSIBLE TENANT SERVICE INCOME.—Clause (i) of section 856(d)(7)(C) (relating to exceptions to impermissible tenant service income) is amended by inserting “or through a taxable REIT subsidiary of such trust” after “income”.

(b) CERTAIN INCOME FROM TAXABLE REIT SUBSIDIARIES NOT EXCLUDED FROM RENTS FROM REAL PROPERTY.—

(1) IN GENERAL.—Subsection (d) of section 856 (relating to rents from real property defined) is amended by adding at the end the following new paragraphs:

“(8) SPECIAL RULE FOR TAXABLE REIT SUBSIDIARIES.—For purposes of this subsection, amounts paid to a real estate investment trust by a taxable REIT subsidiary of such trust shall not be excluded from rents from real property by reason of paragraph (2)(B) if

the requirements of subparagraph (A) or (B) are met.

“(A) LIMITED RENTAL EXCEPTION.—The requirements of this subparagraph are met with respect to any property if at least 90 percent of the leased space of the property is rented to persons other than taxable REIT subsidiaries of such trust and other than persons described in section 856(d)(2)(B). The preceding sentence shall apply only to the extent that the amounts paid to the trust as rents from real property (as defined in paragraph (1) without regard to paragraph (2)(B)) from such property are substantially comparable to such rents made by the other tenants of the trust's property for comparable space.

“(B) EXCEPTION FOR CERTAIN LODGING FACILITIES.—The requirements of this subparagraph are met with respect to an interest in real property which is a qualified lodging facility leased by the trust to a taxable REIT subsidiary of the trust if the property is operated on behalf of such subsidiary by a person who is an eligible independent contractor.

“(9) ELIGIBLE INDEPENDENT CONTRACTOR.—For purposes of paragraph (8)(B)—

“(A) IN GENERAL.—The term ‘eligible independent contractor’ means, with respect to any qualified lodging facility, any independent contractor if, at the time such contractor enters into a management agreement or other similar service contract with the taxable REIT subsidiary to operate the facility, such contractor (or any related person) is actively engaged in the trade or business of operating qualified lodging facilities for any person who is not a related person with respect to the real estate investment trust or the taxable REIT subsidiary.

“(B) SPECIAL RULES.—Solely for purposes of this paragraph and paragraph (8)(B), a person shall not fail to be treated as an independent contractor with respect to any qualified lodging facility by reason of any of the following:

“(i) The taxable REIT subsidiary bears the expenses for the operation of the facility pursuant to the management agreement or other similar service contract.

“(ii) The taxable REIT subsidiary receives the revenues from the operation of such facility, net of expenses for such operation and fees payable to the operator pursuant to such agreement or contract.

“(iii) The real estate investment trust receives income from such person with respect to another property that is attributable to a lease of such other property to such person that was in effect as on the later of—

“(I) January 1, 1999, or

“(II) the earliest date that any taxable REIT subsidiary of such trust entered into a management agreement or other similar service contract with such person with respect to such qualified lodging facility.

“(C) RENEWALS, ETC., OF EXISTING LEASES.—For purposes of subparagraph (B)(iii)—

“(i) a lease shall be treated as in effect on January 1, 1999, without regard to its renewal after such date, so long as such renewal is pursuant to the terms of such lease as in effect on whichever of the dates under subparagraph (B)(iii) is the latest, and

“(ii) a lease of a property entered into after whichever of the dates under subparagraph (B)(iii) is the latest shall be treated as in effect on such date if—

“(I) on such date, a lease of such property from the trust was in effect, and

“(II) under the terms of the new lease, such trust receives a substantially similar or lesser benefit in comparison to the lease referred to in subclause (I).

“(D) QUALIFIED LODGING FACILITY.—For purposes of this paragraph—

“(i) IN GENERAL.—The term ‘qualified lodging facility’ means any lodging facility unless wagering activities are conducted at or in connection with such facility by any person who is engaged in the business of accepting wagers and who is legally authorized to engage in such business at or in connection with such facility.

“(ii) LODGING FACILITY.—The term ‘lodging facility’ means a hotel, motel, or other establishment more than one-half of the dwelling units in which are used on a transient basis.

“(iii) CUSTOMARY AMENITIES AND FACILITIES.—The term ‘lodging facility’ includes customary amenities and facilities operated as part of, or associated with, the lodging facility so long as such amenities and facilities are customary for other properties of a comparable size and class owned by other owners unrelated to such real estate investment trust.

“(E) OPERATE INCLUDES MANAGE.—References in this paragraph to operating a property shall be treated as including a reference to managing the property.

“(F) RELATED PERSON.—Persons shall be treated as related to each other if such persons are treated as a single employer under subsection (a) or (b) of section 52.”

(2) CONFORMING AMENDMENT.—Subparagraph (B) of section 856(d)(2) is amended by inserting “except as provided in paragraph (8),” after “(B)”.

#### **SEC. 1123. 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. 1124. LIMITATION ON EARNINGS STRIPPING.

Paragraph (3) of section 163(j) (relating to limitation on deduction for interest on certain indebtedness) is amended by striking “and” at the end of subparagraph (A), by striking the period at the end of subparagraph (B) and inserting “, and”, and by adding at the end the following new subparagraph:

“(C) any interest paid or accrued (directly or indirectly) by a taxable REIT subsidiary (as defined in section 856(l)) of a real estate investment trust to such trust.”

#### SEC. 1125. 100 PERCENT TAX ON IMPROPERLY ALLOCATED AMOUNTS.

(a) IN GENERAL.—Subsection (b) of section 857 (relating to method of taxation of real estate investment trusts and holders of shares or certificates of beneficial interest) is amended by redesignating paragraphs (7) and (8) as paragraphs (8) and (9), respectively, and by inserting after paragraph (6) the following new paragraph:

“(7) INCOME FROM REDETERMINED RENTS, REDETERMINED DEDUCTIONS, AND EXCESS INTEREST.—

“(A) IMPOSITION OF TAX.—There is hereby imposed for each taxable year of the real estate investment trust a tax equal to 100 percent of redetermined rents, redetermined deductions, and excess interest.

“(B) REDETERMINED RENTS.—

“(i) IN GENERAL.—The term ‘redetermined rents’ means rents from real property (as defined in subsection 856(d)) the amount of which would (but for subparagraph (E)) be reduced on distribution, apportionment, or allocation under section 482 to clearly reflect income as a result of services furnished or rendered by a taxable REIT subsidiary of the real estate investment trust to a tenant of such trust.

“(ii) EXCEPTION FOR CERTAIN SERVICES.—Clause (i) shall not apply to amounts received directly or indirectly by a real estate investment trust for services described in paragraph (1)(B) or (7)(C)(i) of section 856(d).

“(iii) EXCEPTION FOR DE MINIMIS AMOUNTS.—Clause (i) shall not apply to amounts described in section 856(d)(7)(A) with respect to a property to the extent such amounts do not exceed the one percent threshold described in section 856(d)(7)(B) with respect to such property.

“(iv) EXCEPTION FOR COMPARABLY PRICED SERVICES.—Clause (i) shall not apply to any service rendered by a taxable REIT subsidiary of a real estate investment trust to a tenant of such trust if—

“(I) such subsidiary renders a significant amount of similar services to persons other than such trust and tenants of such trust who are unrelated (within the meaning of section 856(d)(8)(F)) to such subsidiary, trust, and tenants, but

“(II) only to the extent the charge for such service so rendered is substantially comparable to the charge for the similar services rendered to persons referred to in subclause (I).

“(v) EXCEPTION FOR CERTAIN SEPARATELY CHARGED SERVICES.—Clause (i) shall not apply to any service rendered by a taxable REIT subsidiary of a real estate investment trust to a tenant of such trust if—

“(I) the rents paid to the trust by tenants (leasing at least 25 percent of the net leasable space in the trust’s property) who are not receiving such service from such subsidiary are substantially comparable to the rents paid by tenants leasing comparable space who are receiving such service from such subsidiary, and

“(II) the charge for such service from such subsidiary is separately stated.

“(vi) EXCEPTION FOR CERTAIN SERVICES BASED ON SUBSIDIARY’S INCOME FROM THE SERVICES.—Clause (i) shall not apply to any service rendered by a taxable REIT subsidiary of a real estate investment trust to a tenant of such trust if the gross income of such subsidiary from such service is not less than 150 percent of such subsidiary’s direct cost in furnishing or rendering the service.

“(vii) EXCEPTIONS GRANTED BY SECRETARY.—The Secretary may waive the tax otherwise imposed by subparagraph (A) if the trust establishes to the satisfaction of the Secretary that rents charged to tenants were established on an arms’ length basis even though a taxable REIT subsidiary of the trust provided services to such tenants.

“(C) REDETERMINED DEDUCTIONS.—The term ‘redetermined deductions’ means deductions (other than redetermined rents) of a taxable REIT subsidiary of a real estate investment trust if the amount of such deductions would (but for subparagraph (E)) be increased on distribution, apportionment, or allocation under section 482 to clearly reflect income as between such subsidiary and such trust.

“(D) EXCESS INTEREST.—The term ‘excess interest’ means any deductions for interest payments by a taxable REIT subsidiary of a real estate investment trust to such trust to the extent that the interest payments are in excess of a rate that is commercially reasonable.

“(E) COORDINATION WITH SECTION 482.—The imposition of tax under subparagraph (A) shall be in lieu of any distribution, apportionment, or allocation under section 482.

“(F) REGULATORY AUTHORITY.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this paragraph. Until the Secretary prescribes such regulations, real estate investment trusts and their taxable REIT subsidiaries may base their allocations on any reasonable method.”

(b) AMOUNT SUBJECT TO TAX NOT REQUIRED TO BE DISTRIBUTED.—Subparagraph (E) of section 857(b)(2) (relating to real estate investment trust taxable income) is amended by striking “paragraph (5)” and inserting “paragraphs (5) and (7)”.

#### SEC. 1126. 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 1121.—

(1) EXISTING ARRANGEMENTS.—

(A) IN GENERAL.—Except as otherwise provided in this paragraph, the amendment made by section 1121 shall not apply to a real estate investment trust with respect to—

(i) securities of a corporation held directly or indirectly by such trust on July 12, 1999,

(ii) securities of a corporation held by an entity on July 12, 1999, if such trust acquires control of such entity pursuant to a written

binding contract in effect on such date and at all times thereafter before such acquisition.

(iii) securities received by such trust (or a successor) in exchange for, or with respect to, securities described in clause (i) or (ii) in a transaction in which gain or loss is not recognized, and

(iv) securities acquired directly or indirectly by such trust as part of a reorganization (as defined in section 368(a)(1) of the Internal Revenue Code of 1986) with respect to such trust if such securities are described in clause (i), (ii), or (iii) with respect to any other real estate investment trust.

(B) NEW TRADE OR BUSINESS OR SUBSTANTIAL NEW ASSETS.—Subparagraph (A) shall cease to apply to securities of a corporation as of the first day after July 12, 1999, on which such corporation engages in a substantial new line of business, or acquires any substantial asset, other than—

(i) pursuant to a binding contract in effect on such date and at all times thereafter before the acquisition of such asset,

(ii) in a transaction in which gain or loss is not recognized by reason of section 1031 or 1033 of the Internal Revenue Code of 1986, or

(iii) in a reorganization (as so defined) with another corporation the securities of which are described in paragraph (1)(A) of this subsection.

(2) TAX-FREE CONVERSION.—If—

(A) at the time of an election for a corporation to become a taxable REIT subsidiary, the amendment made by section 1121 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. 1131. HEALTH CARE REITS.

(a) SPECIAL FORECLOSURE RULE FOR HEALTH CARE PROPERTIES.—Subsection (e) of section 856 (relating to special rules for foreclosure property) is amended by adding at the end the following new paragraph:

“(6) SPECIAL RULE FOR QUALIFIED HEALTH CARE PROPERTIES.—For purposes of this subsection—

“(A) ACQUISITION AT EXPIRATION OF LEASE.—The term ‘foreclosure property’ shall include any qualified health care property acquired by a real estate investment trust as the result of the termination of a lease of such property (other than a termination by reason of a default, or the imminence of a default, on the lease).

“(B) GRACE PERIOD.—In the case of a qualified health care property which is foreclosure property solely by reason of subparagraph (A), in lieu of applying paragraphs (2) and (3)—

“(i) the qualified health care property shall cease to be foreclosure property as of the close of the second taxable year after the taxable year in which such trust acquired such property, and

“(ii) if the real estate investment trust establishes to the satisfaction of the Secretary that an extension of the grace period in clause (i) is necessary to the orderly leasing or liquidation of the trust’s interest in such qualified health care property, the Secretary may grant 1 or more extensions of the grace period for such qualified health care property.

Any such extension shall not extend the grace period beyond the close of the 6th year after the taxable year in which such trust acquired such qualified health care property.

“(C) INCOME FROM INDEPENDENT CONTRACTORS.—For purposes of applying paragraph (4)(C) with respect to qualified health care

property which is foreclosure property by reason of subparagraph (A) or paragraph (1), income derived or received by the trust from an independent contractor shall be disregarded to the extent such income is attributable to—

“(i) any lease of property in effect on the date the real estate investment trust acquired the qualified health care property (without regard to its renewal after such date so long as such renewal is pursuant to the terms of such lease as in effect on such date), or

“(ii) any lease of property entered into after such date if—

“(I) on such date, a lease of such property from the trust was in effect, and

“(II) under the terms of the new lease, such trust receives a substantially similar or lesser benefit in comparison to the lease referred to in subclause (I).

“(D) QUALIFIED HEALTH CARE PROPERTY.—

“(i) IN GENERAL.—The term ‘qualified health care property’ means any real property (including interests therein), and any personal property incident to such real property, which—

“(I) is a health care facility, or

“(II) is necessary or incidental to the use of a health care facility.

“(ii) HEALTH CARE FACILITY.—For purposes of clause (i), the term ‘health care facility’ means a hospital, nursing facility, assisted living facility, congregate care facility, qualified continuing care facility (as defined in section 7872(g)(4)), or other licensed facility which extends medical or nursing or ancillary services to patients and which, immediately before the termination, expiration, default, or breach of the lease of or mortgage secured by such facility, was operated by a provider of such services which was eligible for participation in the medicare program under title XVIII of the Social Security Act with respect to such facility.”

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

### **PART III—CONFORMITY WITH REGULATED INVESTMENT COMPANY RULES**

#### **SEC. 1141. 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. 1151. 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. 1161. MODIFICATION OF EARNINGS AND PROFITS RULES.**

(a) RULES FOR DETERMINING WHETHER REGULATED INVESTMENT COMPANY HAS EARNINGS AND PROFITS FROM NON-RIC YEAR.—Subsection (c) of section 852 is amended by adding at the end the following new paragraph:

“(3) DISTRIBUTIONS TO MEET REQUIREMENTS OF SUBSECTION (a)(2)(B).—Any distribution which is made in order to comply with the requirements of subsection (a)(2)(B)—

“(A) shall be treated for purposes of this subsection and subsection (a)(2)(B) as made from the earliest earnings and profits accumulated in any taxable year to which the provisions of this part did not apply rather than the most recently accumulated earnings and profits, and

“(B) to the extent treated under subparagraph (A) as made from accumulated earnings and profits, shall not be treated as a distribution for purposes of subsection (b)(2)(D) and section 855.”

(b) CLARIFICATION OF APPLICATION OF REIT SPILLOVER DIVIDEND RULES TO DISTRIBUTIONS TO MEET QUALIFICATION REQUIREMENT.—Subparagraph (B) of section 857(d)(3) is amended by inserting before the period “and section 858”.

(c) APPLICATION OF DEFICIENCY DIVIDEND PROCEDURES.—Paragraph (1) of section 852(e) is amended by adding at the end the following new sentence: “If the determination under subparagraph (A) is solely as a result of the failure to meet the requirements of subsection (a)(2), the preceding sentence shall also apply for purposes of applying subsection (a)(2) to the non-RIC year.”

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

### **TITLE XII—REVENUE OFFSETS**

#### **Subtitle A—General Provisions**

#### **SEC. 1201. MODIFICATION TO FOREIGN TAX CREDIT CARRYBACK AND CARRY-OVER PERIODS.**

(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. 1202. LIMITATION ON USE OF NON-ACCRUAL 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.—g 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 requirement 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.

(c) EFFECTIVE DATE.—This section shall apply to taxable years beginning after December 31, 2000.

### **PART IV—CLARIFICATION OF EXCEPTION FROM IMPERMISSIBLE TENANT SERVICE INCOME**

#### **SEC. 1151. 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. 1161. MODIFICATION OF EARNINGS AND PROFITS RULES.**

(a) RULES FOR DETERMINING WHETHER REGULATED INVESTMENT COMPANY HAS EARNINGS AND PROFITS FROM NON-RIC YEAR.—Subsection (c) of section 852 is amended by adding at the end the following new paragraph:

“(3) DISTRIBUTIONS TO MEET REQUIREMENTS OF SUBSECTION (a)(2)(B).—Any distribution which is made in order to comply with the requirements of subsection (a)(2)(B)—

“(A) shall be treated for purposes of this subsection and subsection (a)(2)(B) as made from the earliest earnings and profits accumulated in any taxable year to which the provisions of this part did not apply rather than the most recently accumulated earnings and profits, and

“(B) to the extent treated under subparagraph (A) as made from accumulated earnings and profits, shall not be treated as a distribution for purposes of subsection (b)(2)(D) and section 855.”

(b) CLARIFICATION OF APPLICATION OF REIT SPILLOVER DIVIDEND RULES TO DISTRIBUTIONS TO MEET QUALIFICATION REQUIREMENT.—Subparagraph (B) of section 857(d)(3) is amended by inserting before the period “and section 858”.

(c) APPLICATION OF DEFICIENCY DIVIDEND PROCEDURES.—Paragraph (1) of section 852(e) is amended by adding at the end the following new sentence: “If the determination under subparagraph (A) is solely as a result of the failure to meet the requirements of subsection (a)(2), the preceding sentence shall also apply for purposes of applying subsection (a)(2) to the non-RIC year.”

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

### **TITLE XII—REVENUE OFFSETS**

#### **Subtitle A—General Provisions**

#### **SEC. 1201. MODIFICATION TO FOREIGN TAX CREDIT CARRYBACK AND CARRY-OVER PERIODS.**

(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. 1202. LIMITATION ON USE OF NON-ACCRUAL 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.**—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.**—The amendment made by this section shall apply to distributions made after July 14, 1999.

(C) Section 404(a)(10)(B) is amended by striking “, the exclusion allowance under section 403(b)(2).”

(D) Section 415(a)(2) is amended by striking “, and the amount of the contribution for such portion shall reduce the exclusion allowance as provided in section 403(b)(2).”

(E) Section 415(c)(3) is amended by adding at the end the following new subparagraph:

“(E) **ANNUITY CONTRACTS.**—In the case of an annuity contract described in section 403(b), the term ‘participant’s compensation’ means the participant’s includible compensation determined under section 403(b)(3).”

(F) Section 415(c) is amended by striking paragraph (4) and by redesignating paragraph (6) as paragraph (4).

(G) Section 415(c) is amended by striking paragraph (7) and inserting the following new paragraph:

“(5) **CERTAIN CONTRIBUTIONS BY CHURCH PLANS NOT TREATED AS EXCEEDING LIMIT.**—

“(A) **IN GENERAL.**—Notwithstanding any other provision of this subsection, at the election of a participant who is an employee of a church, a convention or association of churches, including an organization described in section 414(e)(3)(B)(ii), contributions and other additions for an annuity contract or retirement income account described in section 403(b) with respect to such participant, when expressed as an annual addition to such al of deduction for previously deducted amounts.—No deduction shall be allowed for any transfer under this subsection of an amount for which a deduction was allowed when such amount was paid into the nonqualified fund. For purposes of the preceding sentence, a ratable portion of each transfer shall be treated as being from previously deducted amounts to the extent thereof.

“(C) **TRANSFERS OF QUALIFIED FUNDS.**—If—

“(i) any transfer permitted by this subsection is made to any Fund to which this section applies, and

“(ii) such Fund is transferred thereafter, any deduction under this subsection for taxable years ending after the date that such Fund is transferred shall be allowed to the transferee and not to the transferor. The preceding sentence shall not apply if the transferor is an organization exempt from tax imposed by this chapter.

(4) **NEW RULING AMOUNT REQUIRED.**—Paragraph (1) shall not apply to d not to the transferor. The preceding sentence

(1) **IN GENERAL.**—The amendments made by this section shall apply to taxable years end-

ing 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. 1203. RETURNS RELATING TO CANCELLATIONS OF INDEBTEDNESS BY ORGANIZATIONS LENDING MONEY.**

(a) **IN GENERAL.**—Paragraph (2) of section 6050P(c) (relating to definitions and special rules) is amended by striking “and” at the end of subparagraph (B), by striking the period at the end of subparagraph (C) and inserting “, and”, and by inserting after subparagraph (C) the following new subparagraph:

“(D) any organization a significant trade or business of which is the lending of money.”

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall apply to discharges of indebtedness after December 31, 1999.

**SEC. 1204. EXTENSION OF INTERNAL REVENUE SERVICE USER FEES.**

(a) **IN GENERAL.**—Chapter 77 (relating to miscellaneous provisions) is amended by adding at the end the following new section:

**“SEC. 7527. INTERNAL REVENUE SERVICE USER FEES.**

“(a) **GENERAL RULE.**—The Secretary shall establish a program requiring the payment of user fees for—

“(1) requests to the Internal Revenue Service for ruling letters, opinion letters, and determination letters, and

“(2) other similar requests.

“(b) **PROGRAM CRITERIA.**—

“(1) **IN GENERAL.**—The fees charged under the program required by subsection (a)—

“(A) shall vary according to categories (or subcategories) established by the Secretary.

“(B) shall be determined after taking into account the average time for (and difficulty of) complying with requests in each category (and subcategory), and

“(C) shall be payable in advance.

“(2) **EXEMPTIONS, ETC.**—The Secretary shall provide for such exemptions (and reduced fees) under such program as the Secretary determines to be appropriate.

“(3) **AVERAGE FEE REQUIREMENT.**—The average fee charged under the program required by subsection (a) shall not be less than the amount determined under the following table:

Category	Average Fee
Employee plan ruling and opinion .....	\$250
Exempt organization ruling ..	350
Employee plan determination	300
Exempt organization determination .....	275
Chief counsel ruling .....	200.

“(c) **TERMINATION.**—No fee shall be imposed under this section with respect to requests made after September 30, 2009.”

(b) **CONFORMING AMENDMENTS.**—

(1) The table of sections for chapter 77 is amended by adding at the end the following new item:

“Sec. 7527. Internal Revenue Service user fees.”

(2) Section 10511 of the Revenue Act of 1987 is repealed.

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

**SEC. 1205. CHARITABLE SPLIT-DOLLAR LIFE INSURANCE, ANNUITY, AND ENDOWMENT CONTRACTS.**

(a) **IN GENERAL.**—Subsection (f) of section 170 (relating to disallowance of deduction in certain cases and special rules), as amended by section 807, is amended by adding at the end the following new paragraph:

“(11) **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 (B) 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 in direct 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 with out 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 to any premium shall file an annual return which includes—

"(I) the amount of such premium 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 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 the 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 transfer made after February 8, 1999.

(2) EXCISE TAX.—Except as provided in paragraph (3) of this subsection, section 170(f)(1)(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)(1)(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. 1206. TRANSFER OF EXCESS DEFINED BENEFIT PLAN ASSETS 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 "1995" and inserting "2001".

(B) Section 403(c)(1) of such Act (29 U.S.C. 1103(c)(1)) is amended by striking "1995" and inserting "2001".

(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 "1995" and inserting "2001".

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to qualified transfers occurring after December 31, 2000.

#### SEC. 1207. LIMITATIONS ON WELFARE BENEFIT FUNDS OF 10 OR MORE EMPLOYER PLANS.

(a) BENEFITS TO WHICH EXCEPTION APPLIES.—Section 419A(f)(6)(A) (relating to exception for 10 or more employer plans) is amended to read as follows:

"(A) IN GENERAL.—This subpart shall not apply to a welfare benefit fund which is part of a 10 or more employer plan if the only benefits provided through the fund are 1 or more of the following:

"(i) Medical benefits.

"(ii) Disability benefits.

"(iii) Group term life insurance benefits which do not provide directly or indirectly for any cash surrender value of 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 conditions 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. 1208. 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. 1209. INCLUSION OF CERTAIN VACCINES AGAINST STREPTOCOCCUS PNEUMONIAE TO LIST OF TAXABLE VACCINES.

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

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

(b) EFFECTIVE DATE.—

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

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

#### SEC. 1210. RESTORATION OF PHASE-OUT OF UNIFIED CREDIT.

(a) IN GENERAL.—Paragraph (2) of section 2001(c) is amended by striking "\$10,000,000" and all that follows and inserting "\$10,000,000. The amount of the increase under the preceding sentence shall not exceed the sum of the applicable credit amount under section 2010(c) (determined without regard to section 2057(a)(3)) and \$359,200."

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

#### SEC. 1211. REPEAL OF LOWER-OF-COST-OR-MARKET METHOD OF ACCOUNTING FOR INVENTORIES.

(a) IN GENERAL.—Section 471 (relating to general rule for inventories) is amended by redesignating subsection (b) as subsection (c) and by inserting after subsection (a) the following new subsection:

(b) CERTAIN WRITE-DOWNS NOT PERMITTED; USE OR MARK-DOWNS REQUIRED UNDER RETAIL METHOD.—

(1) IN GENERAL.—A taxpayer—

(A) may not use the lower-of-cost-or-market method of accounting for inventories, and

"(B) may not write-down items by reason of being unsalable at normal prices or unusable in the normal way because of damage, imperfections, shop wear, chances of style, odd or broken lots, or other similar causes.

Subparagraph (B) shall not apply to a taxpayer using a mark-to-market method of accounting for both gains and losses in inventory values.

"(2) MARK-DOWNS REQUIRED TO BE TAKEN INTO ACCOUNT UNDER RETAIL METHOD.—The retail method of accounting for inventories



shall be applied by taking into account mark-downs in determining the approximate cost of the inventories.

"(3) EXCEPTION FOR CERTAIN SMALL BUSINESSES.—Paragraph (1) shall not apply to any taxpayer for any taxable year if, for all prior taxable years ending on or after the date of the enactment of this subsection, the taxpayer (or any predecessor) met the \$5,000,000 gross receipts test of section 448(c).

"(4) REGULATIONS.—The Secretary shall prescribe such regulations as may be appropriate to carry out the purposes of this subsection, including regulations relating to wash-sale-type transaction."

(b) CONFORMING AMENDMENTS.—

(1) Clause (iii) of section 312(n)(4)(C) is amended to read as follows:

"(iii) INVENTORY AMOUNT.—The inventory amount of assets under the first-in, first-out method authorized by section 471 shall be determined using the method authorized to be used by the taxpayer under such section."

(2) Subparagraph (C) of section 1363(d)(4) is amended to read as follows:

"(C) INVENTORY AMOUNT.—The inventory amount of assets under a method authorized by section 471 shall be determined using the method authorized to be used by the corporation under such section."

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to taxable years beginning after the date of the enactment of this subsection.

(2) CHANGES IN METHOD OF ACCOUNTING.—In the case of any taxpayer required by this section to change its method of accounting for its first taxable year beginning after the date of the enactment of this subsection—

(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 ratably over the 4-taxable year period beginning with the first taxable year beginning after such date.

#### SEC. 1212. CONSISTENT AMORTIZATION PERIODS FOR INTANGIBLES.

(a) START-UP EXPENDITURES.—

(1) ALLOWANCE OF DEDUCTION.—Subsection (b) of section 195 (relating to start-up expenditures) is amended by striking paragraph (1), by redesignating paragraph (2) as paragraph (3), and by inserting before paragraph (3), as so redesignated, the following new paragraphs:

"(1) ALLOWANCE OF DEDUCTION.—If a taxpayer elects the application of this subsection with respect to any start-up expenditures—

"(A) the taxpayer shall be allowed a deduction for the taxable year in which the active trade or business begins in an amount equal to the lesser of—

"(i) the amount of start-up expenditures with respect to the active trade or business, or

"(ii) \$5,000, reduced (but not below zero) by the amount by which such start-up expenditures exceed \$50,000, and

"(B) the remainder of such start-up expenditures shall be allowed as a deduction ratably over the 180-month period beginning with the month in which the active trade or business begins.

"(2) AGGREGATION RULE.—For purposes of paragraph (1), all persons which are treated as a single employer under subsections (a) and (b) of section 52 shall be treated as a single person."

(2) CONFORMING AMENDMENT.—Subsection (b) of section 195 is amended by striking "AMORTIZE" and inserting "DEDUCT" in the heading.

(b) ORGANIZATIONAL EXPENDITURES.—Subsection (a) of section 248 (relating to organizational expenditures) is amended to read as follows:

"(a) ELECTION TO DEDUCT.—

"(1) IN GENERAL.—If a corporation elects the application of this subsection (in accordance with regulations prescribed by the Sec-

retary) with respect to any organizational expenditures—

"(A) the corporation shall be allowed a deduction for the taxable year in which the corporation begins business in an amount equal to the lesser of—

"(i) the amount of organizational expenditures with respect to the taxpayer, or

"(ii) \$5,000, reduced (but not below zero) by the amount by which such organizational expenditures exceed \$50,000, and

"(B) the remainder of such organizational expenditures shall be allowed as a deduction ratably over the 180-month period beginning with the month in which the corporation begins business.

"(2) AGGREGATION RULE.—For purposes of paragraph (1), all persons which are treated as a single employer under subsection (a) or (b) of section 52 shall be treated as a single person."

(c) TREATMENT OF ORGANIZATIONAL AND SYNDICATION FEES OR PARTNERSHIPS.—Section 709(b) (relating to amortization of organization fees) is amended by redesignating paragraph (2) as paragraph (4) and by amending paragraph (1) to read as follows:

"(1) ALLOWANCE OF DEDUCTION.—If a taxpayer elects the application of this subsection (in accordance with regulations prescribed by the Secretary) with respect to any organizational expenses—

"(A) the taxpayer shall be allowed a deduction for the taxable year in which the partnership begins business in an amount equal to the lesser of—

"(i) the amount of organizational expenses with respect to the partnership, or

"(ii) \$5,000, reduced (but not below zero) by the amount by which such organizational expenses exceed \$50,000, and

"(B) the remainder of such organizational expenses shall be allowed as a deduction ratably over the 180-month period beginning with the month in which the partnership begins business.

"(2) DISPOSITIONS BEFORE CLOSE OF AMORTIZATION PERIOD.—In any case in which a partnership is liquidated before the end of the period to which paragraph (1)(B) applies, any deferred expenses attributable to the partnership which were not allowed as a deduction by reason of this section may be deducted to the extent allowable under section 165.

"(3) AGGREGATION RULE.—For purposes of paragraph (1), all persons which are treated as a single employer under subsection (a) or (b) of section 52 shall be treated as a single person."

(d) CONFORMING AMENDMENT.—Subsection (b) of section 709 is amended by striking "AMORTIZATION" and inserting "DEDUCTION" in the heading.

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to amounts paid or incurred after the date of the enactment of this Act.

#### SEC. 1213. EXTENSION OF HAZARDOUS SUBSTANCE SUPERFUND TAXES.

(a) EXTENSION OF TAXES.—

(1) ENVIRONMENTAL TAX.—Section 59A(e) is amended to read as follows:

"(e) APPLICATION OF TAX.—The tax imposed by this section shall apply to taxable years beginning after December 31, 1986, and before January 1, 1996, and to taxable years beginning after December 31, 1999, and before January 1, 2010."

(2) EXCISE TAXES.—Section 4611(e) is amended to read as follows:

"(e) APPLICATION OF HAZARDOUS SUBSTANCE SUPERFUND FINANCING RATE.—The Hazardous Substance Superfund Financing rate under this section shall apply after December 31, 1986 and before January 1, 1996, and after the date of the enactment of the Taxpayer Relief Act of 1999, and before October 1, 2009."

(b) EFFECTIVE DATES.—

(1) INCOME TAX.—The amendment made by subsection (a)(1) shall apply to taxable years beginning after December 31, 1999.

(2) EXCISE TAX.—The amendment made by subsection (a)(2) shall take effect on the date of the enactment of this Act.

#### SEC. 1214. CONTROLLED ENTITIES INELIGIBLE FOR REIT STATUS.

(a) IN GENERAL.—Subsection (a) of section 856 (relating to definition of real estate in-

vestment 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.

"(B) STAPLED ENTITIES.—A group of entities which are stapled entities (as defined in section 269(c)(2)) shall be treated as 1 person."

(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) EXCEPTIONS 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.

#### SEC. 1215. 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. 1216. TREATMENT OF GAIN FROM CONSTRUCTIVE OWNERSHIP TRANSACTIONS.

(a) IN GENERAL.—Part IV of subchapter P of chapter 1 (relating to special rules for determining capital gains and losses) is amended by inserting after section 1259 the following 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) (compound 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 section 55.

“(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 1 or more other transactions (or acquires 1 or more positions) that have substantially the same effect as a transaction described in any of the preceding subparagraphs.

“(2) EXCEPTION FOR POSITIONS WHICH ARE MARKED TO MARKET.—This section shall not apply to any constructive ownership transaction if all of the positions which are part of such transaction are marked to market under any provision of this title or the regulations thereunder.

“(3) LONG POSITION UNDER NOTIONAL PRINCIPAL CONTRACT.—A person shall be treated as holding a long position under a notional principal contract with respect to any financial asset if such person—

“(A) has the right to be paid (or receive credit for) all or substantially all of the investment yield (including appreciation) on such financial asset for a specified period, and

“(B) is obligated to reimburse (or provide credit for) all or substantially all of any decline in the value of such financial asset.

“(4) FORWARD CONTRACT.—The term ‘forward contract’ means any contract to acquire in the future (or provide or receive credit for the future value of) any financial asset.

“(e) NET UNDERLYING LONG-TERM CAPITAL GAIN.—For purposes of this section, in the case of any constructive ownership transaction with respect to any financial asset, the term ‘net underlying long-term capital gain’ means the aggregate net capital gain that the tax-payer 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 chap-

ter 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. 1217. RESTRICTION ON USE OF REAL ESTATE INVESTMENT TRUSTS TO AVOID ESTIMATED TAX PAYMENT REQUIREMENTS.

(a) IN GENERAL.—Subsection (c) 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 September 15, 1999.

#### SEC. 1218. PROHIBITED ALLOCATIONS OF S CORPORATION STOCK HELD BY AN 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 ALLOCATION 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 individual.

“(2) FAILURE TO MEET REQUIREMENTS.—If a plan fails to meet the requirements of paragraph (1)—

“(A) the plan shall be treated as having distributed to any disqualified individual the amount allocated to the account of such individual in violation of paragraph (1) at the time of such allocation,

“(B) the provisions of section 4979A shall apply, and

“(C) the statutory period for the assessment of any tax imposed by section 4979A shall not expire before the date which is 3 years from the later of—

“(i) the allocation of employer securities resulting in the failure under paragraph (1) giving rise to such tax, or

“(ii) the date on which the Secretary is notified of such failure.

“(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 individuals own at least 50 percent of the number of outstanding shares of stock in such 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), disqualified individuals shall be treated as owning deemed-owned shares.

"(4) **DISQUALIFIED INDIVIDUAL.**—For purposes of this subsection—

"(A) **IN GENERAL.**—The term 'disqualified individual' means any individual who is a participant or beneficiary under the employee stock ownership plan if—

"(i) the aggregate number of deemed-owned shares of such individual and the members of the individual's family is at least 20 percent of the number of outstanding shares of stock in the S corporation constituting employer securities of such plan, or

"(ii) if such individual is not described in clause (i), the number of deemed-owned shares of such individual is at least 10 percent of the number of outstanding shares of stock in such corporation.

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

"(C) **DEEMED-OWNED SHARES.**—For purposes of this paragraph—

"(i) **IN GENERAL.**—The term 'deemed-owned shares' means, with respect to any participant or beneficiary under the employee stock ownership plan—

"(I) the stock in the S corporation constituting employer securities of such plan which is allocated to such participant or beneficiary under the plan, and

"(II) such participants or beneficiary's share of the stock in such corporation which is held by such trust but which is not allocated under the plan to employees.

"(ii) **INDIVIDUAL'S SHARE OF UNALLOCATED STOCK.**—For purposes of clause (i)(II), an individual's share of unallocated S corporation stock held by the trust in the amount of the unallocated stock which would be allocated to such individual if the unallocated stock were allocated to individuals in the same proportions as the most recent stock allocation under the plan.

"(D) **MEMBERS OF FAMILY.**—For purposes of this paragraph, the term 'member of the family' means, with respect of 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 person described in clause (ii) or (iii).

"(5) **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(l).

"(6) **REGULATIONS.**—The Secretary shall prescribe such regulations as may be nec-

essary to carry out the purposes of this subsection, including regulations providing for the treatment of any stock option, restricted stock, sock appreciation right, phantom stock unit, performance unit, or similar instrumental granted by an S corporation as stock or not stock."

(b) **EXCISE TAX.**—

(1) **IN GENERAL.**—Section 4979A(b) (defining prohibited allocation) is amended by striking "and" at the end of paragraph (1), by striking the period at the end of paragraph (2) and inserting ", and ", and by adding at the end the following new paragraph:

"(3) any allocation of employer securities which violate the provisions of section 409(p)."

(2) **LIABILITY.**—Section 4979A(c) (defining liability for tax) is amended by adding at the end the following new sentence: "in the case of a prohibited allocation described in subsection (b)(3), such tax shall be paid by the S corporation the stock in which was allocated in violation of section 409(p)."

(c) **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.

**SEC. 1219. MODIFICATION OF ANTI-ABUSE RULES RELATED TO ASSUMPTION OF LIABILITY.**

(a) **IN GENERAL.**—Section 357(b)(1) (relating to tax avoidance purpose) is amended—

(1) by striking "the principal purpose" and inserting "a principal purpose", and

(2) by striking "on the exchange" in subparagraph (A).

(b) **EFFECTIVE DATE.**—The amendments made by this section shall apply to assumptions of liability after July 14, 1999.

**SEC. 1220. ALLOCATION OF BASIS ON TRANSFERS OF INTANGIBLES IN CERTAIN NON-RECOGNITION TRANSACTIONS**

(a) **TRANSFERS TO CORPORATIONS.**—Section 351 (relating to transfer to corporation controlled by transferor) is amended by redesignating subsection (h) or 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. 1221. DISTRIBUTIONS TO A CORPORATE PARTNER OF STOCK IN ANOTHER CORPORATION.**

(c) **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 corporation 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 a 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.—the amendment made by this section shall apply to distributions made after July 14, 1999.

### TITLE XIII—COMPLIANCE WITH CONGRESSIONAL BUDGET ACT

#### SEC. 1301. SUNSET OF PROVISIONS OF ACT.

All provisions of, and amendments made by, this Act which are in effect on September 30, 2009, shall cease to apply as of the close of September 30, 2009.

#### LINCOLN AMENDMENT NO. 1385

(Ordered to lie on the table.)

Mrs. LINCOLN submitted an amendment intended to be proposed by her to the bill, S. 1429, supra; as follows:

At the appropriate place add the following:

To amend the Internal Revenue Code of 1986 to clarify that any amount allowable as a child tax credit under section 24 or an earned income credit under section 32 shall not be treated as income for purposes of any means-tested Federal program.

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

#### SECTION 1. COORDINATION OF CHILD TAX CREDIT WITH CERTAIN MEANS-TESTED PROGRAMS.

Section 24 of the Internal Revenue Code of 1986 (relating to child tax credit) is amended by adding at the end the following new subsection:

(g) COORDINATION WITH CERTAIN MEANS-TESTED PROGRAMS.—Any refund or credit made to an individual by reason of this section shall not be treated as income or receipts (or taken into account in determining resources) for purposes of determining—

(1) the eligibility of the individual or any other individual for any month for benefits or assistance under any Federal program or any State or local program financed in whole or in part with Federal funds, or

(2) the amount or extent of such benefits or assistance.

#### SEC. 2. COORDINATION OF EARNED INCOME CREDIT WITH CERTAIN MEANS-TESTED PROGRAMS.

Subsection (l) of section 32 of the Internal Revenue Code of 1986 (relating to coordination with certain means-tested programs) is amended to read as follows:

(l) COORDINATION WITH CERTAIN MEANS-TESTED PROGRAMS.—Any refund or credit made to an individual by reason of this section, and any payment made to such indi-

vidual by an employer under section 3507, shall not be treated as income or receipts (or taken into account in determining resources) for purposes of determining—

(1) the eligibility of the individual or any other individual for any month for benefits or assistance under any Federal program or any State or local program financed in whole or in part with Federal funds, or

(2) the amount or extent of such benefits or assistance.

#### SPECTER AMENDMENT NO. 1386

(Ordered to lie on the table.)

Mr. SPECTER submitted an amendment intended to be proposed by him to the bill, S. 1429, supra; as follows:

Strike all after the first word and insert:

#### 1. SHORT TITLE; TABLE OF CONTENTS; AMENDMENT OF 1986 CODE.

(a) SHORT TITLE.—This Act may be cited as the "Flat Tax Act of 1999".

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

Sec. 1. Short title; table of contents; amendment of 1986 Code.

Sec. 2. Flat tax on individual taxable earned income and business taxable income.

Sec. 3. Repeal of estate and gift taxes.

Sec. 4. Additional repeals.

Sec. 5. Effective dates.

(c) 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.

#### SEC. 2. FLAT TAX ON INDIVIDUAL TAXABLE EARNED INCOME AND BUSINESS TAXABLE INCOME.

(a) IN GENERAL.—Subchapter A of chapter 1 of subtitle A is amended to read as follows:

##### "Subchapter A—Determination of Tax Liability

"Part I. Tax on individuals.

"Part II. Tax on business activities.

##### "PART I—TAX ON INDIVIDUALS

"Sec. 1. Tax imposed.

"Sec. 2. Standard deduction.

"Sec. 3. Deduction for cash charitable contributions.

"Sec. 4. Deduction for home acquisition indebtedness.

"Sec. 5. Definitions and special rules.

##### "SECTION 1. TAX IMPOSED.

"(a) IMPOSITION OF TAX.—There is hereby imposed on every individual a tax equal to 20 percent of the taxable earned income of such individual.

"(b) TAXABLE EARNED INCOME.—For purposes of this section, the term 'taxable earned income' means the excess (if any) of—

"(1) the earned income received or accrued during the taxable year, over

"(2) the sum of—

"(A) the standard deduction,

"(B) the deduction for cash charitable contributions, and

"(C) the deduction for home acquisition indebtedness,

for such taxable year.

"(c) EARNED INCOME.—For purposes of this section—

"(1) IN GENERAL.—The term 'earned income' means wages, salaries, or professional fees, and other amounts received from sources within the United States as compensation for personal services actually rendered, but does not include that part of compensation derived by the taxpayer for per-

sonal services rendered by the taxpayer to a corporation which represents a distribution of earnings or profits rather than a reasonable allowance as compensation for the personal services actually rendered.

"(2) TAXPAYER ENGAGED IN TRADE OR BUSINESS.—In the case of a taxpayer engaged in a trade or business in which both personal services and capital are material income-producing factors, under regulations prescribed by the Secretary, a reasonable allowance as compensation for the personal services rendered by the taxpayer, not in excess of 30 percent of the taxpayer's share of the net profits of such trade or business, shall be considered as earned income.

##### "SEC. 2. STANDARD DEDUCTION.

"(a) IN GENERAL.—For purposes of this subtitle, the term 'standard deduction' means the sum of—

"(1) the basic standard deduction, plus

"(2) the additional standard deduction.

"(b) BASIC STANDARD DEDUCTION.—For purposes of subsection (a), the basic standard deduction is—

"(1) \$17,500 in the case of—

"(A) a joint return, and

"(B) a surviving spouse (as defined in section 5(a)),

"(2) \$15,000 in the case of a head of household (as defined in section 5(b)), and

"(3) \$10,000 in the case of an individual—

"(A) who is not married and who is not a surviving spouse or head of household, or

"(B) who is a married individual filing a separate return.

"(c) ADDITIONAL STANDARD DEDUCTION.—For purposes of subsection (a), the additional standard deduction is \$5,000 for each dependent (as defined in section 5(d))—

"(1) whose earned income for the calendar year in which the taxable year of the taxpayer begins is less than the basic standard deduction specified in subsection (b)(3), or

"(2) who is a child of the taxpayer and who—

"(A) has not attained the age of 19 at the close of the calendar year in which the taxable year of the taxpayer begins, or

"(B) is a student who has not attained the age of 24 at the close of such calendar year.

"(d) INFLATION ADJUSTMENT.—

"(1) IN GENERAL.—In the case of any taxable year beginning in a calendar year after 1999, each dollar amount contained in subsections (b) and (c) shall be increased by an amount equal to—

"(A) such dollar amount, multiplied by

"(B) the cost-of-living adjustment under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting 'calendar year 1998' for 'calendar year 1992' in subparagraph (B) of such section.

"(2) ROUNDING.—If any increase determined under paragraph (1) is not a multiple of \$50, such amount shall be rounded to the next lowest multiple of \$50.

##### "SEC. 3. DEDUCTION FOR CASH CHARITABLE CONTRIBUTIONS.

"(a) GENERAL RULE.—For purposes of this part, there shall be allowed as a deduction any charitable contribution (as defined in subsection (b)) not to exceed \$2,500 (\$1,250, in the case of a married individual filing a separate return), payment of which is made within the taxable year.

"(b) CHARITABLE CONTRIBUTION DEFINED.—For purposes of this section, the term 'charitable contribution' means a contribution or gift of cash or its equivalent to or for the use of the following:

"(1) A State, a possession of the United States, or any political subdivision of any of the foregoing, or the United States or the District of Columbia, but only if the contribution or gift is made for exclusively public purposes.

“(2) A corporation, trust, or community chest, fund, or foundation—

“(A) created or organized in the United States or in any possession thereof, or under the law of the United States, any State, the District of Columbia, or any possession of the United States,

“(B) organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes, or to foster national or international amateur sports competition (but only if no part of its activities involve the provision of athletic facilities or equipment), or for the prevention of cruelty to children or animals,

“(C) no part of the net earnings of which inures to the benefit of any private shareholder or individual, and

“(D) which is not disqualified for tax exemption under section 501(c)(3) by reason of attempting to influence legislation, and which does not participate in, or intervene in (including the publishing or distributing of statements), any political campaign on behalf of (or in opposition to) any candidate for public office.

A contribution or gift by a corporation to a trust, chest, fund, or foundation shall be deductible by reason of this paragraph only if it is to be used within the United States or any of its possessions exclusively for purposes specified in subparagraph (B). Rules similar to the rules of section 501(j) shall apply for purposes of this paragraph.

“(3) A post or organization of war veterans, or an auxiliary unit or society of, or trust or foundation for, any such post or organization—

“(A) organized in the United States or any of its possessions, and

“(B) no part of the net earnings of which inures to the benefit of any private shareholder or individual.

“(4) In the case of a contribution or gift by an individual, a domestic fraternal society, order, or association, operating under the lodge system, but only if such contribution or gift is to be used exclusively for religious, charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals.

“(5) A cemetery company owned and operated exclusively for the benefit of its members, or any corporation chartered solely for burial purposes as a cemetery corporation and not permitted by its charter to engage in any business not necessarily incident to that purpose, if such company or corporation is not operated for profit and no part of the net earnings of such company or corporation inures to the benefit of any private shareholder or individual.

For purposes of this section, the term ‘charitable contribution’ also means an amount treated under subsection (d) as paid for the use of an organization described in paragraph (2), (3), or (4).

“(c) DISALLOWANCE OF DEDUCTION IN CERTAIN CASES AND SPECIAL RULES.—

“(1) SUBSTANTIATION REQUIREMENT FOR CERTAIN CONTRIBUTIONS.—

“(A) GENERAL RULE.—No deduction shall be allowed under subsection (a) for any contribution of \$250 or more unless the taxpayer substantiates the contribution by a contemporaneous written acknowledgment of the contribution by the donee organization that meets the requirements of subparagraph (B).

“(B) CONTENT OF ACKNOWLEDGMENT.—An acknowledgment meets the requirements of this subparagraph if it includes the following information:

“(i) The amount of cash contributed.

“(ii) Whether the donee organization provided any goods or services in consideration, in whole or in part, for any contribution described in clause (i).

“(iii) A description and good faith estimate of the value of any goods or services referred to in clause (ii) or, if such goods or services consist solely of intangible religious benefits, a statement to that effect.

For purposes of this subparagraph, the term ‘intangible religious benefit’ means any intangible religious benefit which is provided by an organization organized exclusively for religious purposes and which generally is not sold in a commercial transaction outside the donative context.

“(C) CONTEMPORANEOUS.—For purposes of subparagraph (A), an acknowledgment shall be considered to be contemporaneous if the taxpayer obtains the acknowledgment on or before the earlier of—

“(i) the date on which the taxpayer files a return for the taxable year in which the contribution was made, or

“(ii) the due date (including extensions) for filing such return.

“(D) SUBSTANTIATION NOT REQUIRED FOR CONTRIBUTIONS REPORTED BY THE DONEE ORGANIZATION.—Subparagraph (A) shall not apply to a contribution if the donee organization files a return, on such form and in accordance with such regulations as the Secretary may prescribe, which includes the information described in subparagraph (B) with respect to the contribution.

“(E) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this paragraph, including regulations that may provide that some or all of the requirements of this paragraph do not apply in appropriate cases.

“(2) DENIAL OF DEDUCTION WHERE CONTRIBUTION FOR LOBBYING ACTIVITIES.—No deduction shall be allowed under this section for a contribution to an organization which conducts activities to which section 11(d)(2)(C)(i) applies on matters of direct financial interest to the donor's trade or business, if a principal purpose of the contribution was to avoid Federal income tax by securing a deduction for such activities under this section which would be disallowed by reason of section 11(d)(2)(C) if the donor had conducted such activities directly. No deduction shall be allowed under section 11(d) for any amount for which a deduction is disallowed under the preceding sentence.

“(d) AMOUNTS PAID TO MAINTAIN CERTAIN STUDENTS AS MEMBERS OF TAXPAYER'S HOUSEHOLD.—

“(1) IN GENERAL.—Subject to the limitations provided by paragraph (2), amounts paid by the taxpayer to maintain an individual (other than a dependent, as defined in section 5(d), or a relative of the taxpayer) as a member of such taxpayer's household during the period that such individual is—

“(A) a member of the taxpayer's household under a written agreement between the taxpayer and an organization described in paragraph (2), (3), or (4) of subsection (b) to implement a program of the organization to provide educational opportunities for pupils or students in private homes, and

“(B) a full-time pupil or student in the twelfth or any lower grade at an educational organization located in the United States which normally maintains a regular faculty and curriculum and normally has a regularly enrolled body of pupils or students in attendance at the place where its educational activities are regularly carried on,

shall be treated as amounts paid for the use of the organization.

“(2) LIMITATIONS.—

“(A) AMOUNT.—Paragraph (1) shall apply to amounts paid within the taxable year only to the extent that such amounts do not exceed \$50 multiplied by the number of full calendar months during the taxable year which

fall within the period described in paragraph (1). For purposes of the preceding sentence, if 15 or more days of a calendar month fall within such period such month shall be considered as a full calendar month.

“(B) COMPENSATION OR REIMBURSEMENT.—Paragraph (1) shall not apply to any amount paid by the taxpayer within the taxable year if the taxpayer receives any money or other property as compensation or reimbursement for maintaining the individual in the taxpayer's household during the period described in paragraph (1).

“(3) RELATIVE DEFINED.—For purposes of paragraph (1), the term ‘relative of the taxpayer’ means an individual who, with respect to the taxpayer, bears any of the relationships described in subparagraphs (A) through (H) of section 5(d)(1).

“(4) NO OTHER AMOUNT ALLOWED AS DEDUCTION.—No deduction shall be allowed under subsection (a) for any amount paid by a taxpayer to maintain an individual as a member of the taxpayer's household under a program described in paragraph (1)(A) except as provided in this subsection.

“(e) DENIAL OF DEDUCTION FOR CERTAIN TRAVEL EXPENSES.—No deduction shall be allowed under this section for traveling expenses (including amounts expended for meals and lodging) while away from home, whether paid directly or by reimbursement, unless there is no significant element of personal pleasure, recreation, or vacation in such travel.

“(f) DISALLOWANCE OF DEDUCTIONS IN CERTAIN CASES.—For disallowance of deductions for contributions to or for the use of Communist controlled organizations, see section 11(a) of the Internal Security Act of 1950 (50 U.S.C. 790).

“(g) TREATMENT OF CERTAIN AMOUNTS PAID TO OR FOR THE BENEFIT OF INSTITUTIONS OF HIGHER EDUCATION.—

“(1) IN GENERAL.—For purposes of this section, 80 percent of any amount described in paragraph (2) shall be treated as a charitable contribution.

“(2) AMOUNT DESCRIBED.—For purposes of paragraph (1), an amount is described in this paragraph if—

“(A) the amount is paid by the taxpayer to or for the benefit of an educational organization—

“(i) which is described in subsection (d)(1)(B), and

“(ii) which is an institution of higher education (as defined in section 3304(f)), and

“(B) such amount would be allowable as a deduction under this section but for the fact that the taxpayer receives (directly or indirectly) as a result of paying such amount the right to purchase tickets for seating at an athletic event in an athletic stadium of such institution.

If any portion of a payment is for the purchase of such tickets, such portion and the remaining portion (if any) of such payment shall be treated as separate amounts for purposes of this subsection.

“(h) OTHER CROSS REFERENCES.—

“(1) For treatment of certain organizations providing child care, see section 501(k).

“(2) For charitable contributions of partners, see section 702.

“(3) For treatment of gifts for benefit of or use in connection with the Naval Academy as gifts to or for the use of the United States, see section 6973 of title 10, United States Code.

“(4) For treatment of gifts accepted by the Secretary of State, the Director of the International Communication Agency, or the Director of the United States International Development Cooperation Agency, as gifts to or for the use of the United States, see section 25 of the State Department Basic Authorities Act of 1956.

"(5) For treatment of gifts of money accepted by the Attorney General for credit to the 'Commissary Funds, Federal Prisons' as gifts to or for the use of the United States, see section 4043 of title 18, United States Code.

"(6) For charitable contributions to or for the use of Indian tribal governments (or subdivisions of such governments), see section 7871.

#### "SEC. 4. DEDUCTION FOR HOME ACQUISITION IN DEBTEDNESS.

"(a) GENERAL RULE.—For purposes of this part, there shall be allowed as a deduction all qualified residence interest paid or accrued within the taxable year.

"(b) QUALIFIED RESIDENCE INTEREST DEFINED.—The term 'qualified residence interest' means any interest which is paid or accrued during the taxable year on acquisition indebtedness with respect to any qualified residence of the taxpayer. For purposes of the preceding sentence, the determination of whether any property is a qualified residence of the taxpayer shall be made as of the time the interest is accrued.

"(c) ACQUISITION INDEBTEDNESS.—

"(1) IN GENERAL.—The term 'acquisition indebtedness' means any indebtedness which—  
 "(A) is incurred in acquiring, constructing, or substantially improving any qualified residence of the taxpayer, and

"(B) is secured by such residence.

Such term also includes any indebtedness secured by such residence resulting from the refinancing of indebtedness meeting the requirements of the preceding sentence (or this sentence); but only to the extent the amount of the indebtedness resulting from such refinancing does not exceed the amount of the refinanced indebtedness.

"(2) \$100,000 LIMITATION.—The aggregate amount treated as acquisition indebtedness for any period shall not exceed \$100,000 (\$50,000 in the case of a married individual filing a separate return).

"(d) TREATMENT OF INDEBTEDNESS INCURRED ON OR BEFORE OCTOBER 13, 1987.—

"(1) IN GENERAL.—In the case of any pre-October 13, 1987, indebtedness—

"(A) such indebtedness shall be treated as acquisition indebtedness, and

"(B) the limitation of subsection (c)(2) shall not apply.

"(2) REDUCTION IN \$100,000 LIMITATION.—The limitation of subsection (c)(2) shall be reduced (but not below zero) by the aggregate amount of outstanding pre-October 13, 1987, indebtedness.

"(3) PRE-OCTOBER 13, 1987, INDEBTEDNESS.—The term 'pre-October 13, 1987, indebtedness' means—

"(A) any indebtedness which was incurred on or before October 13, 1987, and which was secured by a qualified residence on October 13, 1987, and at all times thereafter before the interest is paid or accrued, or

"(B) any indebtedness which is secured by the qualified residence and was incurred after October 13, 1987, to refinance indebtedness described in subparagraph (A) (or refinanced indebtedness meeting the requirements of this subparagraph) to the extent (immediately after the refinancing) the principal amount of the indebtedness resulting from the refinancing does not exceed the principal amount of the refinanced indebtedness (immediately before the refinancing).

"(4) LIMITATION ON PERIOD OF REFINANCING.—Subparagraph (B) of paragraph (3) shall not apply to any indebtedness after—

"(A) the expiration of the term of the indebtedness described in paragraph (3)(A), or

"(B) if the principal of the indebtedness described in paragraph (3)(A) is not amortized over its term, the expiration of the term of the first refinancing of such indebtedness (or

if earlier, the date which is 30 years after the date of such first refinancing).

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

"(1) QUALIFIED RESIDENCE.—For purposes of this subsection—

"(A) IN GENERAL.—Except as provided in subparagraph (C), the term 'qualified residence' means the principal residence of the taxpayer.

"(B) MARRIED INDIVIDUALS FILING SEPARATE RETURNS.—If a married couple does not file a joint return for the taxable year—

"(i) such couple shall be treated as 1 taxpayer for purposes of subparagraph (A), and

"(ii) each individual shall be entitled to take into account 1/2 of the principal residence unless both individuals consent in writing to 1 individual taking into account the principal residence.

"(C) PRE-OCTOBER 13, 1987, INDEBTEDNESS.—In the case of any pre-October 13, 1987, indebtedness, the term 'qualified residence' has the meaning given that term in section 163(h)(4), as in effect on the day before the date of enactment of this subparagraph.

"(2) SPECIAL RULE FOR COOPERATIVE HOUSING CORPORATIONS.—Any indebtedness secured by stock held by the taxpayer as a tenant-stockholder in a cooperative housing corporation shall be treated as secured by the house or apartment which the taxpayer is entitled to occupy as such a tenant-stockholder. If stock described in the preceding sentence may not be used to secure indebtedness, indebtedness shall be treated as so secured if the taxpayer establishes to the satisfaction of the Secretary that such indebtedness was incurred to acquire such stock.

"(3) UNENFORCEABLE SECURITY INTERESTS.—Indebtedness shall not fail to be treated as secured by any property solely because, under any applicable State or local homestead or other debtor protection law in effect on August 16, 1986, the security interest is ineffective or the enforceability of the security interest is restricted.

"(4) SPECIAL RULES FOR ESTATES AND TRUSTS.—For purposes of determining whether any interest paid or accrued by an estate or trust is qualified residence interest, any residence held by such estate or trust shall be treated as a qualified residence of such estate or trust if such estate or trust establishes that such residence is a qualified residence of a beneficiary who has a present interest in such estate or trust or an interest in the residuary of such estate or trust.

#### "SEC. 5. DEFINITIONS AND SPECIAL RULES.

"(a) DEFINITION OF SURVIVING SPOUSE.—

"(1) IN GENERAL.—For purposes of this part, the term 'surviving spouse' means a taxpayer—

"(A) whose spouse died during either of the taxpayer's 2 taxable years immediately preceding the taxable year, and

"(B) who maintains as the taxpayer's home a household which constitutes for the taxable year the principal place of abode (as a member of such household) of a dependent—

"(i) who (within the meaning of subsection (d)) is a son, stepson, daughter, or stepdaughter of the taxpayer, and

"(ii) with respect to whom the taxpayer is entitled to a deduction for the taxable year under section 2.

For purposes of this paragraph, an individual shall be considered as maintaining a household only if over one-half of the cost of maintaining the household during the taxable year is furnished by such individual.

"(2) LIMITATIONS.—Notwithstanding paragraph (1), for purposes of this part a taxpayer shall not be considered to be a surviving spouse—

"(A) if the taxpayer has remarried at any time before the close of the taxable year, or

"(B) unless, for the taxpayer's taxable year during which the taxpayer's spouse died, a joint return could have been made under the provisions of section 6013 (without regard to subsection (a)(3) thereof).

"(3) SPECIAL RULE WHERE DECEASED SPOUSE WAS IN MISSING STATUS.—If an individual was in a missing status (within the meaning of section 6013(f)(3)) as a result of service in a combat zone and if such individual remains in such status until the date referred to in subparagraph (A) or (B), then, for purposes of paragraph (1)(A), the date on which such individual dies shall be treated as the earlier of the date determined under subparagraph (A) or the date determined under subparagraph (B):

"(A) The date on which the determination is made under section 556 of title 37 of the United States Code or under section 5566 of title 5 of such Code (whichever is applicable) that such individual died while in such missing status.

"(B) Except in the case of the combat zone designated for purposes of the Vietnam conflict, the date which is 2 years after the date designated as the date of termination of combatant activities in that zone.

"(b) DEFINITION OF HEAD OF HOUSEHOLD.—

"(1) IN GENERAL.—For purposes of this part, an individual shall be considered a head of a household if, and only if, such individual is not married at the close of such individual's taxable year, is not a surviving spouse (as defined in subsection (a)), and either—

"(A) maintains as such individual's home a household which constitutes for more than one-half of such taxable year the principal place of abode, as a member of such household, of—

"(i) a son, stepson, daughter, or stepdaughter of the taxpayer, or a descendant of a son or daughter of the taxpayer, but if such son, stepson, daughter, stepdaughter, or descendant is married at the close of the taxpayer's taxable year, only if the taxpayer is entitled to a deduction for the taxable year for such person under section 2 (or would be so entitled but for subparagraph (B) or (D) of subsection (d)(5)), or

"(ii) any other person who is a dependent of the taxpayer, if the taxpayer is entitled to a deduction for the taxable year for such person under section 2, or

"(B) maintains a household which constitutes for such taxable year the principal place of abode of the father or mother of the taxpayer, if the taxpayer is entitled to a deduction for the taxable year for such father or mother under section 2.

For purposes of this paragraph, an individual shall be considered as maintaining a household only if over one-half of the cost of maintaining the household during the taxable year is furnished by such individual.

"(2) DETERMINATION OF STATUS.—For purposes of this subsection—

"(A) a legally adopted child of a person shall be considered a child of such person by blood.

"(B) an individual who is legally separated from such individual's spouse under a decree of divorce or of separate maintenance shall not be considered as married.

"(C) a taxpayer shall be considered as not married at the close of such taxpayer's taxable year if at any time during the taxable year such taxpayer's spouse is a nonresident alien, and

"(D) a taxpayer shall be considered as married at the close of such taxpayer's taxable year if such taxpayer's spouse (other than a spouse described in subparagraph (C)) died during the taxable year.

"(3) LIMITATIONS.—Notwithstanding paragraph (1), for purposes of this part, a taxpayer shall not be considered to be a head of a household—

"(A) if at any time during the taxable year the taxpayer is a nonresident alien, or

"(B) by reason of an individual who would not be a dependent for the taxable year but for—

"(i) subparagraph (I) of subsection (d)(1), or

"(ii) paragraph (3) of subsection (d).

"(c) CERTAIN MARRIED INDIVIDUALS LIVING APART.—For purposes of this part, an individual shall be treated as not married at the close of the taxable year if such individual is so treated under the provisions of section 7703(b).

"(d) DEPENDENT DEFINED.—

"(1) GENERAL DEFINITION.—For purposes of this part, the term 'dependent' means any of the following individuals over one-half of whose support, for the calendar year in which the taxable year of the taxpayer begins, was received from the taxpayer (or is treated under paragraph (3) or (5) as received from the taxpayer):

"(A) A son or daughter of the taxpayer, or a descendant of either.

"(B) A stepson or stepdaughter of the taxpayer.

"(C) A brother, sister, stepbrother, or step-sister of the taxpayer.

"(D) The father or mother of the taxpayer, or an ancestor of either.

"(E) A stepfather or stepmother of the taxpayer.

"(F) A son or daughter of a brother or sister of the taxpayer.

"(G) A brother or sister of the father or mother of the taxpayer.

"(H) A son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law of the taxpayer.

"(I) An individual (other than an individual who at any time during the taxable year was the spouse, determined without regard to section 7703, of the taxpayer) who, for the taxable year of the taxpayer, has as such individual's principal place of abode the home of the taxpayer and is a member of the taxpayer's household.

"(2) RULES RELATING TO GENERAL DEFINITION.—For purposes of this section—

"(A) BROTHER; SISTER.—The terms 'brother' and 'sister' include a brother or sister by the halfblood.

"(B) CHILD.—In determining whether any of the relationships specified in paragraph (1) or subparagraph (A) of this paragraph exists, a legally adopted child of an individual (and a child who is a member of an individual's household, if placed with such individual by an authorized placement agency for legal adoption by such individual), or a foster child of an individual (if such child satisfies the requirements of paragraph (1)(I) with respect to such individual), shall be treated as a child of such individual by blood.

"(C) CITIZENSHIP.—The term 'dependent' does not include any individual who is not a citizen or national of the United States unless such individual is a resident of the United States or of a country contiguous to the United States. The preceding sentence shall not exclude from the definition of 'dependent' any child of the taxpayer legally adopted by such taxpayer, if, for the taxable year of the taxpayer, the child has as such child's principal place of abode the home of the taxpayer and is a member of the taxpayer's household, and if the taxpayer is a citizen or national of the United States.

"(D) ALIMONY, ETC.—A payment to a wife which is alimony or separate maintenance shall not be treated as a payment by the wife's husband for the support of any dependent.

"(E) UNLAWFUL ARRANGEMENTS.—An individual is not a member of the taxpayer's household if at any time during the taxable year of the taxpayer the relationship be-

tween such individual and the taxpayer is in violation of local law.

"(3) MULTIPLE SUPPORT AGREEMENTS.—For purposes of paragraph (1), over one-half of the support of an individual for a calendar year shall be treated as received from the taxpayer if—

"(A) no one person contributed over one-half of such support,

"(B) over one-half of such support was received from persons each of whom, but for the fact that such person did not contribute over one-half of such support, would have been entitled to claim such individual as a dependent for a taxable year beginning in such calendar year,

"(C) the taxpayer contributed over 10 percent of such support, and

"(D) each person described in subparagraph (B) (other than the taxpayer) who contributed over 10 percent of such support files a written declaration (in such manner and form as the Secretary may by regulations prescribe) that such person will not claim such individual as a dependent for any taxable year beginning in such calendar year.

"(4) SPECIAL SUPPORT TEST IN CASE OF STUDENTS.—For purposes of paragraph (1), in the case of any individual who is—

"(A) a son, stepson, daughter, or stepdaughter of the taxpayer (within the meaning of this subsection), and

"(B) a student,

amounts received as scholarships for study at an educational organization described in section 3(d)(1)(B) shall not be taken into account in determining whether such individual received more than one-half of such individual's support from the taxpayer.

"(5) SUPPORT TEST IN CASE OF CHILD OF DIVORCED PARENTS, ETC.—

"(A) CUSTODIAL PARENT GETS EXEMPTION.—Except as otherwise provided in this paragraph, if—

"(i) a child receives over one-half of such child's support during the calendar year from such child's parents—

"(I) who are divorced or legally separated under a decree of divorce or separate maintenance,

"(II) who are separated under a written separation agreement, or

"(III) who live apart at all times during the last 6 months of the calendar year, and

"(ii) such child is in the custody of 1 or both of such child's parents for more than one-half of the calendar year,

such child shall be treated, for purposes of paragraph (1), as receiving over one-half of such child's support during the calendar year from the parent having custody for a greater portion of the calendar year (hereafter in this paragraph referred to as the 'custodial parent').

"(B) EXCEPTION WHERE CUSTODIAL PARENT RELEASES CLAIM TO EXEMPTION FOR THE YEAR.—A child of parents described in subparagraph (A) shall be treated as having received over one-half of such child's support during a calendar year from the noncustodial parent if—

"(i) the custodial parent signs a written declaration (in such manner and form as the Secretary may by regulations prescribe) that such custodial parent will not claim such child as a dependent for any taxable year beginning in such calendar year, and

"(ii) the noncustodial parent attaches such written declaration to the noncustodial parent's return for the taxable year beginning during such calendar year.

For purposes of this paragraph, the term 'noncustodial parent' means the parent who is not the custodial parent.

"(C) EXCEPTION FOR MULTIPLE-SUPPORT AGREEMENT.—This paragraph shall not apply in any case where over one-half of the sup-

port of the child is treated as having been received from a taxpayer under the provisions of paragraph (3).

"(D) EXCEPTION FOR CERTAIN PRE-1985 INSTRUMENTS.—

"(i) IN GENERAL.—A child of parents described in subparagraph (A) shall be treated as having received over one-half such child's support during a calendar year from the noncustodial parent if—

"(I) a qualified pre-1985 instrument between the parents applicable to the taxable year beginning in such calendar year provides that the noncustodial parent shall be entitled to any deduction allowable under section 2 for such child, and

"(II) the noncustodial parent provides at least \$600 for the support of such child during such calendar year.

For purposes of this clause, amounts expended for the support of a child or children shall be treated as received from the noncustodial parent to the extent that such parent provided amounts for such support.

"(ii) QUALIFIED PRE-1985 INSTRUMENT.—For purposes of this subparagraph, the term 'qualified pre-1985 instrument' means any decree of divorce or separate maintenance or written agreement—

"(I) which is executed before January 1, 1985,

"(II) which on such date contains the provision described in clause (i)(I), and

"(III) which is not modified on or after such date in a modification which expressly provides that this subparagraph shall not apply to such decree or agreement.

"(E) SPECIAL RULE FOR SUPPORT RECEIVED FROM NEW SPOUSE OF PARENT.—For purposes of this paragraph, in the case of the remarriage of a parent, support of a child received from the parent's spouse shall be treated as received from the parent.

## **"PART II—TAX ON BUSINESS ACTIVITIES**

"Sec. 11. Tax imposed on business activities.

### **"SEC. 11. TAX IMPOSED ON BUSINESS ACTIVITIES.**

"(a) TAX IMPOSED.—There is hereby imposed on every person engaged in a business activity located in the United States a tax equal to 20 percent of the business taxable income of such person.

"(b) LIABILITY FOR TAX.—The tax imposed by this section shall be paid by the person engaged in the business activity, whether such person is an individual, partnership, corporation, or otherwise.

"(c) BUSINESS TAXABLE INCOME.—

"(1) IN GENERAL.—For purposes of this section, the term 'business taxable income' means gross active income reduced by the deductions specified in subsection (d).

"(2) GROSS ACTIVE INCOME.—For purposes of paragraph (1), the term 'gross active income' means gross income other than investment income.

"(d) DEDUCTIONS.—

"(1) IN GENERAL.—The deductions specified in this subsection are—

"(A) the cost of business inputs for the business activity,

"(B) the compensation (including contributions to qualified retirement plans but not including other fringe benefits) paid for employees performing services in such activity, and

"(C) the cost of personal and real property used in such activity.

"(2) BUSINESS INPUTS.—

"(A) IN GENERAL.—For purposes of paragraph (1)(A), the term 'cost of business inputs' means—

"(i) the actual cost of goods, services, and materials, whether or not resold during the taxable year, and

"(ii) the actual cost, if reasonable, of travel and entertainment expenses for business purposes.



“(B) PURCHASES OF GOODS AND SERVICES EXCLUDED.—Such term shall not include purchases of goods and services provided to employees or owners.

“(C) CERTAIN LOBBYING AND POLITICAL EXPENDITURES EXCLUDED.—

“(i) IN GENERAL.—Such term shall not include any amount paid or incurred in connection with—

“(I) influencing legislation,

“(II) participation in, or intervention in, any political campaign on behalf of (or in opposition to) any candidate for public office,

“(III) any attempt to influence the general public, or segments thereof, with respect to elections, legislative matters, or referendums, or

“(IV) any direct communication with a covered executive branch official in an attempt to influence the official actions or positions of such official.

“(ii) EXCEPTION FOR LOCAL LEGISLATION.—In the case of any legislation of any local council or similar governing body—

“(I) clause (i) shall not apply, and

“(II) such term shall include all ordinary and necessary expenses (including, but not limited to, traveling expenses described in subparagraph (A)(iii) and the cost of preparing testimony) paid or incurred during the taxable year in carrying on any trade or business—

“(aa) in direct connection with appearances before, submission of statements to, or sending communications to the committees, or individual members, of such council or body with respect to legislation or proposed legislation of direct interest to the taxpayer, or

“(bb) in direct connection with communication of information between the taxpayer and an organization of which the taxpayer is a member with respect to any such legislation or proposed legislation which is of direct interest to the taxpayer and to such organization, and that portion of the dues so paid or incurred with respect to any organization of which the taxpayer is a member which is attributable to the expenses of the activities carried on by such organization.

“(iii) APPLICATION TO DUES OF TAX-EXEMPT ORGANIZATIONS.—Such term shall include the portion of dues or other similar amounts paid by the taxpayer to an organization which is exempt from tax under this subtitle which the organization notifies the taxpayer under section 6033(e)(1)(A)(ii) is allocable to expenditures to which clause (i) applies.

“(iv) INFLUENCING LEGISLATION.—For purposes of this subparagraph—

“(I) IN GENERAL.—The term ‘influencing legislation’ means any attempt to influence any legislation through communication with any member or employee of a legislative body, or with any government official or employee who may participate in the formulation of legislation.

“(II) LEGISLATION.—The term ‘legislation’ has the meaning given that term in section 4911(e)(2).

“(v) OTHER SPECIAL RULES.—

“(I) EXCEPTION FOR CERTAIN TAXPAYERS.—In the case of any taxpayer engaged in the trade or business of conducting activities described in clause (i), clause (i) shall not apply to expenditures of the taxpayer in conducting such activities directly on behalf of another person (but shall apply to payments by such other person to the taxpayer for conducting such activities).

“(II) DE MINIMIS EXCEPTION.—

“(aa) IN GENERAL.—Clause (i) shall not apply to any in-house expenditures for any taxable year if such expenditures do not exceed \$2,000. In determining whether a taxpayer exceeds the \$2,000 limit, there shall not be taken into account overhead costs other-

wise allocable to activities described in subclauses (I) and (IV) of clause (i).

“(bb) IN-HOUSE EXPENDITURES.—For purposes of provision (aa), the term ‘in-house expenditures’ means expenditures described in subclauses (I) and (IV) of clause (i) other than payments by the taxpayer to a person engaged in the trade or business of conducting activities described in clause (i) for the conduct of such activities on behalf of the taxpayer, or dues or other similar amounts paid or incurred by the taxpayer which are allocable to activities described in clause (i).

“(III) EXPENSES INCURRED IN CONNECTION WITH LOBBYING AND POLITICAL ACTIVITIES.—Any amount paid or incurred for research for, or preparation, planning, or coordination of, any activity described in clause (i) shall be treated as paid or incurred in connection with such activity.

“(vi) COVERED EXECUTIVE BRANCH OFFICIAL.—For purposes of this subparagraph, the term ‘covered executive branch official’ means—

“(I) the President,

“(II) the Vice President,

“(III) any officer or employee of the White House Office of the Executive Office of the President, and the 2 most senior level officers of each of the other agencies in such Executive Office, and

“(IV) any individual serving in a position in level I of the Executive Schedule under section 5312 of title 5, United States Code, any other individual designated by the President as having Cabinet level status, and any immediate deputy of such an individual.

“(vii) SPECIAL RULE FOR INDIAN TRIBAL GOVERNMENTS.—For purposes of this subparagraph, an Indian tribal government shall be treated in the same manner as a local council or similar governing body.

“(viii) CROSS REFERENCE.—

“**For reporting requirements and alternative taxes related to this subsection, see section 6033(e).**

“(e) CARRYOVER OF EXCESS DEDUCTIONS.—

“(I) IN GENERAL.—If the aggregate deductions for any taxable year exceed the gross active income for such taxable year, the amount of the deductions specified in subsection (d) for the succeeding taxable year (determined without regard to this subsection) shall be increased by the sum of—

“(A) such excess, plus

“(B) the product of such excess and the 3-month Treasury rate for the last month of such taxable year.

“(2) 3-MONTH TREASURY RATE.—For purposes of paragraph (1), the 3-month Treasury rate is the rate determined by the Secretary based on the average market yield (during any 1-month period selected by the Secretary and ending in the calendar month in which the determination is made) on outstanding marketable obligations of the United States with remaining periods to maturity of 3 months or less.”

(b) CONFORMING REPEALS AND REDESIGNATIONS.—

(1) REPEALS.—The following subchapters of chapter 1 of subtitle A and the items relating to such subchapters in the table of subchapters for such chapter 1 are repealed:

(A) Subchapter B (relating to computation of taxable income).

(B) Subchapter C (relating to corporate distributions and adjustments).

(C) Subchapter D (relating to deferred compensation, etc.).

(D) Subchapter G (relating to corporations used to avoid income tax on shareholders).

(E) Subchapter H (relating to banking institutions).

(F) Subchapter I (relating to natural resources).

(G) Subchapter J (relating to estates, trusts, beneficiaries, and decedents).

(H) Subchapter L (relating to insurance companies).

(I) Subchapter M (relating to regulated investment companies and real estate investment trusts).

(J) Subchapter N (relating to tax based on income from sources within or without the United States).

(K) Subchapter O (relating to gain or loss on disposition of property).

(L) Subchapter P (relating to capital gains and losses).

(M) Subchapter Q (relating to readjustment of tax between years and special limitations).

(N) Subchapter S (relating to tax treatment of S corporations and their shareholders).

(O) Subchapter T (relating to cooperatives and their patrons).

(P) Subchapter U (relating to designation and treatment of empowerment zones, enterprise communities, and rural development investment areas).

(Q) Subchapter V (relating to title 11 cases).

(R) Subchapter W (relating to District of Columbia Enterprise Zone).

(2) REDESIGNATIONS.—The following subchapters of chapter 1 of subtitle A and the items relating to such subchapters in the table of subchapters for such chapter 1 are redesignated:

(A) Subchapter E (relating to accounting periods and methods of accounting) as subchapter B.

(B) Subchapter F (relating to exempt organizations) as subchapter C.

(C) Subchapter K (relating to partners and partnerships) as subchapter D.

### SEC. 3. REPEAL OF ESTATE AND GIFT TAXES.

Subtitle B (relating to estate, gift, and generation-skipping taxes) and the item relating to such subtitle in the table of subtitles is repealed.

### SEC. 4. ADDITIONAL REPEALS.

Subtitles H (relating to financing of presidential election campaigns) and J (relating to coal industry health benefits) and the items relating to such subtitles in the table of subtitles are repealed.

### SEC. 5. EFFECTIVE DATES.

(a) IN GENERAL.—Except as provided in subsection (b), the amendments made by this Act apply to taxable years beginning after December 31, 1999.

(b) REPEAL OF ESTATE AND GIFT TAXES.—The repeal made by section 3 applies to estates of decedents dying, and transfers made, after December 31, 1999.

(c) TECHNICAL AND CONFORMING CHANGES.—The Secretary of the Treasury or the Secretary's delegate shall, as soon as practicable but in any event not later than 90 days after the date of enactment of this Act, submit to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate a draft of any technical and conforming changes in the Internal Revenue Code of 1986 which are necessary to reflect throughout such Code the changes in the substantive provisions of law made by this Act.

### GRASSLEY AMENDMENTS NOS. 1387-1388

(Ordered to be lie on the table.)

Mr. GRASSLEY submitted two amendments intended to be proposed by him to the bill, S. 1429, supra; as follows:

#### AMENDMENT No. 1387

On page 38, after line 24, add the following:

**SEC. \_\_\_\_ DEEMED IRAS UNDER EMPLOYER PLANS.**

(a) IN GENERAL.—Section 408 (relating to individual retirement accounts) is amended by redesignating subsection (q) as subsection (r) and by inserting after subsection (p) the following new subsection:

“(q) DEEMED IRAS UNDER QUALIFIED EMPLOYER PLANS.—

“(1) GENERAL RULE.—If—

“(A) a qualified employer plan elects to allow employees to make voluntary employee contributions to a separate account or annuity established under the plan, and

“(B) under the terms of the qualified employer plan, such account or annuity meets the applicable requirements of this section or section 408A for an individual retirement account or annuity,

then such account or annuity shall be treated for purposes of this title in the same manner as an individual retirement plan and contributions to such account or annuity as contributions to an individual retirement plan. For purposes of subparagraph (B), the requirements of subsection (a)(5) shall not apply.

“(2) SPECIAL RULES FOR QUALIFIED EMPLOYER PLANS.—For purposes of this title—

“(A) a qualified employer plan shall not fail to meet any requirement of this title solely by reason of establishing and maintaining a program described in paragraph (1), and

“(B) any account or annuity described in paragraph (1), and any contribution to the account or annuity, shall not be subject to any requirement of this title applicable to a qualified employer plan or taken into account in applying any such requirement to any other contributions under the plan.

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

“(A) QUALIFIED EMPLOYER PLAN.—The term ‘qualified employer plan’ has the meaning given such term by section 72(p)(4).

“(B) VOLUNTARY EMPLOYEE CONTRIBUTION.—The term ‘voluntary employee contribution’ means any contribution (other than a mandatory contribution within the meaning of section 411(c)(2)(C))—

“(i) which is made by an individual as an employee under a qualified employer plan which allows employees to elect to make contributions described in paragraph (1), and

“(ii) with respect to which the individual has designated the contribution as a contribution to which this subsection applies.”

(b) AMENDMENT OF ERISA.—

(1) IN GENERAL.—Section 4 of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1003) is amended by adding at the end the following new subsection:

“(c) If a pension plan allows an employee to elect to make voluntary employee contributions to accounts and annuities as provided in section 408(q) of the Internal Revenue Code of 1986, such accounts and annuities (and contributions thereto) shall not be treated as part of such plan (or as a separate pension plan) for purposes of any provision of this title other than section 403(c), 404, or 405 (relating to exclusive benefit, and fiduciary and co-fiduciary responsibilities).”

(2) CONFORMING AMENDMENT.—Section 4(a) of such Act (29 U.S.C. 1003(a)) is amended by inserting “or (c)” after “subsection (b)”.

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

**AMENDMENT NO. 1388**

At the end of title XIV, insert:

**SEC. \_\_\_\_ TECHNICAL CORRECTIONS TO SAVER ACT.**

Section 517 of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1147) is amended—

(1) in subsection (a), by striking “2001 and 2005 on or after September 1 of each year involved” and inserting “2001, 2005, and 2009 in the month of September of each year involved”;

(2) in subsection (b), by adding at the end the following new sentence: “To effectuate the purposes of this paragraph, the Secretary may enter into a cooperative agreement, pursuant to the Federal Grant and Cooperative Agreement Act of 1977 (31 U.S.C. 6301 et seq.), with the American Savings Education Council.”;

(3) in subsection (e)(2)—

(A) by striking “Committee on Labor and Human Resources” in subparagraph (B) and inserting “Committee on Health, Education, Labor, and Pensions”;

(B) by striking subparagraph (D) and inserting the following:

“(D) the Chairman and Ranking Member of the Subcommittee on Labor, Health and Human Services, and Education of the Committee on Appropriations of the House of Representatives and the Chairman and Ranking Member of the Subcommittee on Labor, Health and Human Services, and Education of the Committee on Appropriations of the Senate;”;

(C) by redesignating subparagraph (G) as subparagraph (J); and

(D) by inserting after subparagraph (F) the following new subparagraphs:

“(G) the Chairman and Ranking Member of the Committee on Finance of the Senate;

“(H) the Chairman and Ranking Member of the Committee on Ways and Means of the House of Representatives;

“(I) the Chairman and Ranking Member of the Subcommittee on Employer-Employee Relations of the Committee on Education and the Workforce of the House of Representatives; and”;

(4) in subsection (e)(3)(A)—

(A) by striking “There shall be no more than 200 additional participants.” and inserting “The participants in the National Summit shall also include additional participants appointed under this subparagraph.”;

(B) by striking “one-half shall be appointed by the President,” in clause (i) and inserting “not more than 100 participants shall be appointed under this clause by the President,” and by striking “and” at the end of clause (i);

(C) by striking “one-half shall be appointed by the elected leaders of Congress” in clause (ii) and inserting “not more than 100 participants shall be appointed under this clause by the elected leaders of Congress”, and by striking the period at the end of clause (ii) and inserting “; and”; and

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

“(iii) The President, in consultation with the elected leaders of Congress referred to in subsection (a), may appoint under this clause additional participants to the National Summit. The number of such additional participants appointed under this clause may not exceed the lesser of 3 percent of the total number of all additional participants appointed under this paragraph, or 10. Such additional participants shall be appointed from persons nominated by the organization referred to in subsection (b)(2) which is made up of private sector businesses and associations partnered with Government entities to promote long term financial security in retirement through savings and with which the Secretary is required thereunder to consult and cooperate and shall not be Federal, State, or local government employees.”;

(5) in subsection (e)(3)(B), by striking “January 31, 1998” in subparagraph (B) and inserting “May 1, 2001, May 1, 2005, and May 1, 2009, for each of the subsequent summits, respectively”;

(6) in subsection (f)(1)(C), by inserting “, no later than 90 days prior to the date of the commencement of the National Summit,” after “comment” in paragraph (1)(C);

(7) in subsection (g), by inserting “, in consultation with the congressional leaders specified in subsection (e)(2),” after “report”;

(8) in subsection (i)—

(A) by striking “beginning on or after October 1, 1997” in paragraph (1) and inserting “2001, 2005, and 2009”; and

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

“(3) RECEPTION AND REPRESENTATION AUTHORITY.—The Secretary is hereby granted reception and representation authority limited specifically to the events at the National Summit. The Secretary shall use any private contributions received in connection with the National Summit prior to using funds appropriated for purposes of the National Summit pursuant to this paragraph.”; and

(9) in subsection (k)—

(A) by striking “shall enter into a contract on a sole-source basis” and inserting “may enter into a contract on a sole-source basis”; and

(B) by striking “fiscal year 1998” and inserting “fiscal years 2001, 2005, and 2009”.

**DEPARTMENT OF THE INTERIOR  
AND RELATED AGENCIES APPROPRIATIONS ACT, 2000****THOMAS (AND ENZI) AMENDMENT  
NO. 1389**

Mr. THOMAS (for himself and Mr. ENZI) submitted an amendment intended to be proposed by them to the bill, H.R. 2466, supra; as follows:

On page 5, line 13, strike the number “130,000,000” and insert in lieu thereof the number “140,000,000”;

On page 5, line 22, strike the number “17,400,000” and insert in lieu thereof “12,400,000”;

On page 13, line 8, strike the number “55,244,000” and insert in lieu thereof “50,244,000”.

**TAXPAYER REFUND ACT OF 1999****ABRAHAM (AND OTHERS)  
AMENDMENT NO. 1390**

(Ordered to lie on the table.)

Mr. ABRAHAM (for himself and Mr. HATCH, Mr. SHELBY, Mr. DEWINE, Mr. ROBB, and Mr. SESSIONS) submitted an amendment intended to be proposed by them to the bill, S. 1429, supra; as follows:

At the appropriate place in title XI, insert the following:

**SECTION 11. PLACED-IN-SERVICE DEFINITION.**

(a) Section 1205 is amended by redesignating subsection (d) as subsection (e) and inserting the following:

(d) Section 29(g) is amended by adding new paragraph (3):

“(3) COAL BASED SYNTHETIC FUEL FACILITIES.—For purposes of subparagraph (A) of paragraph (1) a facility producing a qualified fuel described in subparagraph (C) of subsection (c)(1) shall be treated as placed in service before July 1, 1998, if such facility produced such qualified fuel on or before such date.”