

Jackson-Lee (TX) Jefferson John Johnson, E. B. Jones (OH) Kanjorski Kaptur Kennedy Kildee Kilpatrick Kind (WI) Kleczka Klink Kucinich LaFalce Lampson Lantos Larson Lee Levin Lewis (GA) Lipinski Lofgren Lowey Lucas (KY) Luther Maloney (CT) Maloney (NY) Markey Mascara Matsui McCarthy (MO) McCarthy (NY) McDermott McGovern McIntyre McKinney McNulty Meehan Meeks (NY)

Menendez Millender-McDonald Miller, George Minge Mink Moakley Mollohan Moore Moran (VA) Murtha Nadler Napolitano Neal Oberstar Olvey Lampson Ortiz Owens Pallone Pascrell Pastor Payne Pelosi Peterson (MN) Phelps Pickett Pomeroy Price (NC) Rahall Rangel Reyes Rivers Rodriguez Roemer Rothman Roybal-Allard Rush Sabo Sanchez Sanders

Sandlin Sawyer Schakowsky Scott Serrano Sherman Shows Sisisky Skelton Slaughter Smith (WA) Snyder Spratt Stabenow Stark Stenholm Strickland Stupak Tanner Tauscher Taylor (MS) Thompson (CA) Thompson (MS) Thurman Tierney Towns Turner Udall (CO) Udall (NM) Velazquez Vislosky Waters Watt (NC) Waxman Weiner Wexler Weygand Wise Woolsey Wu Wynn

NOT VOTING—10

Brown (OH) Cooksey Granger McCollum Meek (FL) Myrick Scarborough Schaffer Spence Vento

1516

Messrs. JEFFERSON, JOHN and POMEROY changed their vote from "yea" to "nay."

Mr. PITTS and Mr. GILMAN changed their vote from "nay" to "yea."

So the previous question was ordered. The result of the vote was announced as above recorded.

The SPEAKER pro tempore (Mr. LAHOOD). The question is on the resolution, as amended.

The question was taken; and the Speaker pro tempore announced that the ayes appeared to have it.

RECORDED VOTE

Mr. MOAKLEY. Mr. Speaker, I demand a recorded vote.

A recorded vote was ordered.

The SPEAKER pro tempore. This is a 5-minute vote.

The vote was taken by electronic device, and there were—ayes 214, noes 211, not voting 10, as follows:

[Roll No. 39]

AYES—214

Aderholt Archer Army Bachus Baker Ballenger Barr Barrett (NE) Bartlett Barton Bass Bateman Bereuter Biggert Bilbray Bilirakis Bliley Blunt Boehlert Boehner Bonilla Bono Brady (TX) Bryant Burr Burton Buyer Callahan Calvert Camp Campbell Canady Cannon Castle Chabot Chambliss Chenoweth-Hage Coble Coburn Collins Combust Cook Cox Crane Cubin Cunningham Davis (VA) Deal DeLay DeMint Diaz-Balart

Doolittle Dreier Duncan Dunn Ehlers Ehrlich Emerson English Everett Ewing Fletcher Foley Fossella Fowler Franks (NJ) Frelinghuysen Gallegly Ganske Gekas Gibbons Gilchrist Gillmor Gilman Goode Goodlatte Goodling Goss Graham Green (WI) Greenwood Hansen Hastert Hastings (WA) Hayes Hayworth Herger Hill (MT) Hilleary Hobson Hoekstra Horn Hostettler Houghton Hulshof Hunter Hutchinson Hyde Isakson Jenkins Johnson (CT) Johnson, Sam Jones (NC) Kasich Kelly

NOES—211

Abercrombie Ackerman Allen Andrews Baca Baird Baldacci Baldwin Barcia Barrett (WI) Becerra Bentsen Berkley Berman Berry Bishop Blagojevich Blumenauer Bonior Borski Boswell Boucher Boyd Brady (PA) Brown (FL) Capps Capuano Carson Clay Clayton Clement Clyburn Condit Conyers Costello Coyne Cramer Crowley Cummings Danner Davis (FL) Davis (IL) DeFazio DeGette Delahunt DeLauro Deutsch Dicks Dingell Dixon Doggett Dooley Doyle Edwards Engel Eshoo Etheridge Evans Farr Fattah Filner Forbes Ford Frank (MA) Frost Gejdenson Gephardt Gonzalez Gordon Green (TX) Gutierrez Gutknecht Hall (OH) Hall (TX) Hastings (FL) Hefley Hill (IN) Hilliard Hinchey Hinojosa Hoeffel Holden Holt

King (NY) Kingston Knollenberg Kolbe Kuykendall LaHood Largent Latham LaTourette Lazio Leach Lewis (CA) Lewis (KY) Linder LoBiondo Lucas (OK) Manullo Martinez McCreery McHugh McInnis McIntosh McKeon Metcalf Mica Miller (FL) Miller, Gary Moran (KS) Morella Nethercutt Ney Northrup Norwood Nussle Ose Oxley Packard Paul Pease Peterson (PA) Petri Pickering Pombo Porter Portman Pryce (OH) Quinn Radanovich Ramstad Reynolds Riley Rogan Rogers

Hooley Hoyer Inslee Istook Jackson (IL) Jackson-Lee (TX) Jefferson John Johnson, E.B. Jones (OH) Kanjorski Kaptur Kennedy Kildee Kilpatrick Kind (WI) Kleczka Klink Kucinich LaFalce Lampson Lantos Larson Lee Levin Lewis (GA) Lipinski Lofgren Lowey Lucas (KY) Luther Maloney (CT) Maloney (NY) Markey Mascara Matsui McCarthy (MO) McCarthy (NY) McDermott McGovern McIntyre

McKinney McNulty Meehan Meek (FL) Meeks (NY) Menendez Millender-McDonald Miller, George Minge Mink Moakley Mollohan Moore Moran (VA) Murtha Nadler Napolitano Neal Oberstar Obey Olver Ortiz Owens Pallone Pascrell Pastor Payne Pelosi Peterson (MN) Phelps Pickett Pomeroy Price (NC) Rahall Rangel Reyes Rivers Rodriguez Roemer Rothman Roybal-Allard Rush Sabo Sanchez Sanders Sandlin Sawyer Schakowsky Scott Serrano Sherman Shows Sisisky Skelton Slaughter Smith (WA) Snyder

NOT VOTING—10

Brown (OH) Cooksey Granger McCollum Myrick Scarborough Schaffer Spence Terry Vento

1527

So the resolution, as amended, was agreed to.

The result of the vote was announced as above recorded.

A motion to reconsider was laid on the table.

Stated for:

Mr. TERRY. Mr. Speaker, on rollcall No. 39, I was inadvertently detained. Had I been present, I would have voted "yes."

WAGE AND EMPLOYMENT GROWTH ACT OF 1999

Mr. ARCHER. Mr. Speaker, pursuant to House Resolution 434, I call up the bill (H.R. 3081) to increase the Federal minimum wage and to amend the Internal Revenue Code of 1986 to provide tax benefits for small businesses, and for other purposes, and ask for its immediate consideration in the House.

The Clerk read the title of the bill.

The SPEAKER pro tempore (Mr. PEASE). Pursuant to House Resolution 434, the bill is considered read for amendment.

The text of H.R. 3081 is as follows:

H.R. 3081

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

SECTION 1. SHORT TITLE; REFERENCES; TABLE OF CONTENTS.

(a) SHORT TITLE.—This Act may be cited as the "Wage and Employment Growth Act of 1999".

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

(c) TABLE OF CONTENTS.—

Sec. 1. Short title; references; table of contents.

TITLE I—AMENDMENTS TO FAIR LABOR STANDARDS ACT OF 1938

Sec. 101. Minimum wage.

- Sec. 102. Exemption for computer professionals.
- Sec. 103. Exemption for certain sales employees.
- Sec. 104. Exemption for funeral directors.
- TITLE II—SMALL BUSINESS PROVISIONS**
- Sec. 201. Deduction for 100 percent of health insurance costs of self-employed individuals.
- Sec. 202. Increase in expense treatment for small businesses.
- Sec. 203. Small businesses allowed increased deduction for meal expenses.
- Sec. 204. Increased deductibility of business meal expenses for individuals subject to Federal limitations on hours of service.
- Sec. 205. Repeal of occupational taxes relating to distilled spirits, wine, and beer.
- TITLE III—PENSION PROVISIONS**
- Subtitle A—Expanding Coverage**
- Sec. 301. Increase in benefit and contribution limits.
- Sec. 302. Plan loans for subchapter S owners, partners, and sole proprietors.
- Sec. 303. Modification of top-heavy rules.
- Sec. 304. Elective deferrals not taken into account for purposes of deduction limits.
- Sec. 305. Repeal of coordination requirements for deferred compensation plans of State and local governments and tax-exempt organizations.
- Sec. 306. Elimination of user fee for requests to IRS regarding pension plans.
- Sec. 307. Deduction limits.
- Sec. 308. Option to treat elective deferrals as after-tax contributions.
- Sec. 309. Reduced PBGC premium for new plans of small employers.
- Sec. 310. Reduction of additional PBGC premium for new and small plans.
- Subtitle B—Enhancing Fairness for Women**
- Sec. 321. Catchup contributions for individuals age 50 or over.
- Sec. 322. Equitable treatment for contributions of employees to defined contribution plans.
- Sec. 323. Faster vesting of certain employer matching contributions.
- Sec. 324. Simplify and update the minimum distribution rules.
- Sec. 325. Clarification of tax treatment of division of section 457 plan benefits upon divorce.
- Sec. 326. Modification of safe harbor relief for hardship withdrawals from cash or deferred arrangements.
- Subtitle C—Increasing Portability for Participants**
- Sec. 331. Rollovers allowed among various types of plans.
- Sec. 332. Rollovers of IRAs into workplace retirement plans.
- Sec. 333. Rollovers of after-tax contributions.
- Sec. 334. Hardship exception to 60-day rule.
- Sec. 335. Treatment of forms of distribution.
- Sec. 336. Rationalization of restrictions on distributions.
- Sec. 337. Purchase of service credit in governmental defined benefit plans.
- Sec. 338. Employers may disregard rollovers for purposes of cash-out amounts.
- Sec. 339. Minimum distribution and inclusion requirements for section 457 plans.
- Subtitle D—Strengthening Pension Security and Enforcement**
- Sec. 341. Repeal of 150 percent of current liability funding limit.
- Sec. 342. Maximum contribution deduction rules modified and applied to all defined benefit plans.
- Sec. 343. Missing participants.
- Sec. 344. Periodic pension benefits statements.
- Sec. 345. Civil penalties for breach of fiduciary responsibility.
- Sec. 346. Excise tax relief for sound pension funding.
- Sec. 347. Excise tax on failure to provide notice by defined benefit plans significantly reducing future benefit accruals.
- Sec. 348. Protection of investment of employee contributions to 401(k) plans.
- Sec. 349. Treatment of multiemployer plans under section 415.
- Sec. 350. Technical corrections to Saver Act.
- Sec. 351. Model spousal consent language and qualified domestic relations order.
- Sec. 352. Elimination of ERISA double jeopardy.
- Subtitle E—Reducing Regulatory Burdens**
- Sec. 361. Modification of timing of plan valuations.
- Sec. 362. ESOP dividends may be reinvested without loss of dividend deduction.
- Sec. 363. Repeal of transition rule relating to certain highly compensated employees.
- Sec. 364. Employees of tax-exempt entities.
- Sec. 365. Clarification of treatment of employer-provided retirement advice.
- Sec. 366. Reporting simplification.
- Sec. 367. Improvement of employee plans compliance resolution system.
- Sec. 368. Substantial owner benefits in terminated plans.
- Sec. 369. Modification of exclusion for employer provided transit passes.
- Sec. 370. Repeal of the multiple use test.
- Sec. 371. Flexibility in nondiscrimination, coverage, and line of business rules.
- Sec. 372. Extension to international organizations of moratorium on application of certain nondiscrimination rules applicable to State and local plans.
- Sec. 373. Notice and consent period regarding distributions.
- Sec. 374. Annual report dissemination.
- Sec. 375. Excess benefit plans.
- Sec. 376. Benefit suspension notice.
- Sec. 377. Clarification of church welfare plan status under State insurance law.
- Subtitle F—Plan Amendments**
- Sec. 381. Provisions relating to plan amendments.
- TITLE IV—EXTENSION OF WORK OPPORTUNITY CREDIT AND WELFARE-TO-WORK CREDIT**
- Sec. 401. Work opportunity credit and welfare-to-work credit.
- TITLE V—ESTATE TAX RELIEF**
- Subtitle A—Reductions of Estate and Gift Tax Rates**
- Sec. 501. Reductions of estate and gift tax rates.
- Subtitle B—Unified Credit Replaced With Unified Exemption Amount**
- Sec. 511. Unified credit against estate and gift taxes replaced with unified exemption amount.
- Subtitle C—Modifications of Generation-skipping Transfer Tax**
- Sec. 521. Deemed allocation of GST exemption to lifetime transfers to trusts; retroactive allocations.
- Sec. 522. Severing of trusts.
- Sec. 523. Modification of certain valuation rules.
- Sec. 524. Relief provisions.
- Subtitle D—Conservation Easements**
- Sec. 531. Expansion of estate tax rule for conservation easements.
- TITLE VI—TAX RELIEF FOR DISTRESSED COMMUNITIES AND INDUSTRIES**
- Subtitle A—American Community Renewal Act of 1999**
- Sec. 601. Short title.
- Sec. 602. Designation of and tax incentives for renewal communities.
- Sec. 603. Extension of expensing of environmental remediation costs to renewal communities.
- Sec. 604. Extension of work opportunity tax credit for renewal communities.
- Sec. 605. Conforming and clerical amendments.
- Subtitle B—Timber Incentives**
- Sec. 611. Temporary suspension of maximum amount of amortizable reforestation expenditures.
- TITLE VII—REAL ESTATE PROVISIONS**
- Subtitle A—Improvements in Low-Income Housing Credit**
- Sec. 701. Modification of State ceiling on low-income housing credit.
- Sec. 702. Modification of criteria for allocating housing credits among projects.
- Sec. 703. Additional responsibilities of housing credit agencies.
- Sec. 704. Modifications to rules relating to basis of building which is eligible for credit.
- Sec. 705. Other modifications.
- Sec. 706. Carryforward rules.
- Sec. 707. Effective date.
- Subtitle B—Provisions Relating to Real Estate Investment Trusts**
- PART I—TREATMENT OF INCOME AND SERVICES PROVIDED BY TAXABLE REIT SUBSIDIARIES**
- Sec. 711. Modifications to asset diversification test.
- Sec. 712. Treatment of income and services provided by taxable REIT subsidiaries.
- Sec. 713. Taxable REIT subsidiary.
- Sec. 714. Limitation on earnings stripping.
- Sec. 715. 100 percent tax on improperly allocated amounts.
- Sec. 716. Effective date.
- PART II—HEALTH CARE REITS**
- Sec. 721. Health care REITs.
- PART III—CONFORMITY WITH REGULATED INVESTMENT COMPANY RULES**
- Sec. 731. Conformity with regulated investment company rules.
- PART IV—CLARIFICATION OF EXCEPTION FROM IMPERMISSIBLE TENANT SERVICE INCOME**
- Sec. 741. Clarification of exception for independent operators.
- PART V—MODIFICATION OF EARNINGS AND PROFITS RULES**
- Sec. 751. Modification of earnings and profits rules.
- Subtitle C—Private Activity Bond Volume Cap**
- Sec. 761. Acceleration of phase-in of increase in volume cap on private activity bonds.
- Subtitle D—Exclusion From Gross Income for Certain Forgiven Mortgage Obligations.**
- Sec. 771. Exclusion from gross income for certain forgiven mortgage obligations.
- TITLE VIII—MISCELLANEOUS PROVISIONS**
- Sec. 801. Credit for modifications to intercity buses required under the Americans with Disabilities Act of 1990.

Sec. 802. Certain educational benefits provided by an employer to children of employees excludable from gross income as a scholarship.

Sec. 803. Tax incentives for qualified United States independent film and television production.

#### TITLE I—AMENDMENTS TO FAIR LABOR STANDARDS ACT OF 1938

##### SEC. 101. MINIMUM WAGE.

(a) INCREASE.—Section 6(a)(1) 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) \$5.15 an hour beginning September 1, 1997,

“(B) \$5.48 an hour during the year beginning April 1, 2000,

“(C) \$5.81 an hour during the year beginning April 1, 2001, and

“(D) \$6.15 an hour during the year beginning April 1, 2002.”.

(b) OVERTIME.—Section 7(e) of such Act (29 U.S.C. 207(e)) is amended by striking paragraph (1).

##### SEC. 102. EXEMPTION FOR COMPUTER PROFESSIONALS.

Section 13(a) of the Fair Labor Standards Act of 1938 (29 U.S.C. 213(a)) is amended by amending paragraph (17) to read as follows:

“(17) any employee who is a computer systems, network, or database analyst, designer, developer, programmer, software engineer, or other similarly skilled worker—

“(A) whose primary duty is—

“(i) the application of systems or network or database analysis techniques and procedures, including consulting with users, to determine hardware, software, systems, network, or database specifications (including functional specifications);

“(ii) the design, configuration, development, integration, documentation, analysis, creation, testing, securing, or modification of, or problem resolution for, computer systems, networks, databases, or programs, including prototypes, based on and related to user, system, network, or database specifications, including design specifications and machine operating systems;

“(iii) the management or training of employees performing duties described in clause (i) or (ii); or

“(iv) a combination of duties described in clauses (i), (ii), or (iii) the performance of which requires the same level of skills; and

“(B) who, in the case of an employee who is compensated on an hourly basis, is compensated at a rate of not less than \$27.63 an hour.

For purposes of paragraph (17), the term ‘network’ includes the Internet and intranet networks and the world wide web. An employee who meets the exemption provided by paragraph (17) shall be considered an employee in a professional capacity pursuant to paragraph (1).”.

##### SEC. 103. EXEMPTION FOR CERTAIN SALES EMPLOYEES.

(a) AMENDMENT.—Section 13(a) of the Fair Labor Standards Act of 1938 (29 U.S.C. 213(a)) is amended by striking the period at the end of paragraph (17) and inserting a semicolon and by adding at the end the following:

“(18) any employee employed in a sales position if—

“(A) the employee has specialized or technical knowledge related to products or services being sold;

“(B) the employee’s—

“(i) sales are predominantly to persons or entities to whom the employee’s position has made previous sales; or

“(ii) position does not involve initiating sales contacts;

“(C) the employee has a detailed understanding of the needs of those to whom the employee is selling;

“(D) the employee exercises discretion in offering a variety of products and services;

“(E) the employee receives—

“(i) base compensation, determined without regard to the number of hours worked by the employee, of not less than an amount equal to one and one-half times the minimum wage in effect under section 6(a)(1) multiplied by 2,080; and

“(ii) in addition to the employee’s base compensation, compensation based upon each sale attributable to the employee;

“(F) the employee’s aggregate compensation based upon sales attributable to the employee is not less than 40 percent of one and one-half times the minimum wage multiplied by 2,080;

“(G) the employee receives a rate of compensation based upon each sale attributable to the employee which is beyond sales required to reach the compensation required by subparagraph (F) which rate is not less than the rate on which the compensation required by subparagraph (F) is determined; and

“(H) the rate of annual compensation or base compensation for any employee who did not work for an employer for an entire calendar year is prorated to reflect annual compensation which would have been earned if the employee had been compensated at the same rate for the entire calendar year.”.

(b) CONSTRUCTION.—The amendment made by subsection (a) may not be construed to apply to individuals who are employed as route sales drivers.

##### SEC. 104. EXEMPTION FOR FUNERAL DIRECTORS.

Section 13(a) of the Fair Labor Standards Act of 1938 (29 U.S.C. 213(a)) is amended by striking the period at the end of paragraph (18) and inserting “; or” and by adding after paragraph (18) the following:

“(19) any employee employed as a licensed funeral director or a licensed embalmer.”.

#### TITLE II—SMALL BUSINESS PROVISIONS

##### 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) CLARIFICATION OF LIMITATIONS ON OTHER COVERAGE.—The first sentence of section 162(l)(2)(B) is amended to read as follows: “Paragraph (1) shall not apply to any taxpayer for any calendar month for which the taxpayer participates in any subsidized health plan maintained by any employer (other than an employer described in section 401(c)(4)) of the taxpayer or the spouse of the taxpayer.”.

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

##### SEC. 202. INCREASE IN EXPENSE TREATMENT FOR SMALL BUSINESSES.

(a) IN GENERAL.—Paragraph (1) of section 179(b) (relating to dollar limitation) is amended to read as follows:

“(1) DOLLAR LIMITATION.—The aggregate cost which may be taken into account under subsection (a) for any taxable year shall not exceed \$30,000.”.

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

##### SEC. 203. SMALL BUSINESSES ALLOWED INCREASED DEDUCTION FOR MEAL EXPENSES.

(a) IN GENERAL.—Subsection (n) of section 274 (relating to only 50 percent of meal and entertainment expenses allowed as deduction) is amended by adding at the end the following new paragraph:

“(4) SPECIAL RULE FOR SMALL BUSINESSES.—

“(A) IN GENERAL.—In the case of any taxpayer which is a small business, paragraph (1) shall be applied by substituting for ‘50 percent’ with respect to expenses for food or beverages—

“(i) ‘55 percent’ in the case of taxable years beginning in 2001, and

“(ii) ‘60 percent’ in the case of taxable years beginning after 2001.

“(B) SMALL BUSINESS.—For purposes of this paragraph, the term ‘small business’ means, with respect to expenses paid or incurred during any taxable year—

“(i) any C corporation which meets the requirements of section 55(e)(1) for such year, and

“(ii) any S corporation, partnership, or sole proprietorship which would meet such requirements if it were a C corporation.”.

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

##### SEC. 204. INCREASED DEDUCTIBILITY OF BUSINESS MEAL EXPENSES FOR INDIVIDUALS SUBJECT TO FEDERAL LIMITATIONS ON HOURS OF SERVICE.

(a) IN GENERAL.—Paragraph (3) of section 274(n) (relating to only 50 percent of meal and entertainment expenses allowed as deduction) is amended to read as follows:

“(3) SPECIAL RULE FOR INDIVIDUALS SUBJECT TO FEDERAL HOURS OF SERVICE.—In the case of any expenses for food or beverages consumed while away from home (within the meaning of section 162(a)(2)) by an individual during, or incident to, the period of duty subject to the hours of service limitations of the Department of Transportation, paragraph (1) shall be applied by substituting ‘80 percent’ for ‘50 percent’.”.

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

##### SEC. 205. REPEAL OF OCCUPATIONAL TAXES RELATING TO DISTILLED SPIRITS, WINE, AND BEER.

(a) REPEAL OF OCCUPATIONAL TAXES.—

(1) IN GENERAL.—The following provisions of part II of subchapter A of chapter 51 of the Internal Revenue Code of 1986 (relating to occupational taxes) are hereby repealed:

(A) Subpart A (relating to rectifier).

(B) Subpart B (relating to brewer).

(C) Subpart D (relating to wholesale dealers) (other than sections 5114 and 5116).

(D) Subpart E (relating to retail dealers) (other than section 5124).

(E) Subpart G (relating to general provisions) (other than sections 5142, 5143, 5145, and 5146).

(2) NONBEVERAGE DOMESTIC DRAWBACK.—Section 5131 is amended by striking “, on payment of a special tax per annum,”.

(3) INDUSTRIAL USE OF DISTILLED SPIRITS.—Section 5276 is hereby repealed.

(b) CONFORMING AMENDMENTS.—

(1)(A) The heading for part II of subchapter A of chapter 51 and the table of subparts for such part are amended to read as follows:

“PART II—MISCELLANEOUS PROVISIONS

“Subpart A. Manufacturers of stills.

“Subpart B. Nonbeverage domestic drawback claimants.

“Subpart C. Recordkeeping by dealers.

“Subpart D. Other provisions.”.

(B) The table of parts for such subchapter A is amended by striking the item relating

to part II and inserting the following new item:

“Part II. Miscellaneous provisions.”

(2) Subpart C of part II of such subchapter (relating to manufacturers of stills) is redesignated as subpart A.

(3)(A) Subpart F of such part II (relating to nonbeverage domestic drawback claimants) is redesignated as subpart B and sections 5131 through 5134 are redesignated as sections 5111 through 5114, respectively.

(B) The table of sections for such subpart B, as so redesignated, is amended—

(i) by redesignating the items relating to sections 5131 through 5134 as relating to sections 5111 through 5114, respectively, and

(ii) by striking “and rate of tax” in the item relating to section 5111, as so redesignated.

(C) Section 5111, as redesignated by subparagraph (A), is amended—

(i) by striking “and rate of tax” in the section heading,

(ii) by striking the subsection heading for subsection (a), and

(iii) by striking subsection (b).

(4) Part II of subchapter A of chapter 51 is amended by adding after subpart B, as redesignated by paragraph (3), the following new subpart:

**“Subpart C. Recordkeeping by Dealers**

“Sec. 5121. Recordkeeping by wholesale dealers.

“Sec. 5122. Recordkeeping by retail dealers.

“Sec. 5123. Preservation and inspection of records, and entry of premises for inspection.”

(5)(A) Section 5114 (relating to records) is moved to subpart C of such part II and inserted after the table of sections for such subpart.

(B) Section 5114 is amended—

(i) by striking the section heading and inserting the following new heading:

**“SEC. 5121. RECORDKEEPING BY WHOLESALE DEALERS.”**

and

(ii) by redesignating subsection (c) as subsection (d) and by inserting after subsection (b) the following new subsection:

“(c) WHOLESALE DEALERS.—For purposes of this part—

“(1) WHOLESALE DEALER IN LIQUORS.—The term ‘wholesale dealer in liquors’ means any dealer (other than a wholesale dealer in beer) who sells, or offers for sale, distilled spirits, wines, or beer, to another dealer.

“(2) WHOLESALE DEALER IN BEER.—The term ‘wholesale dealer in beer’ means any dealer who sells, or offers for sale, beer, but not distilled spirits or wines, to another dealer.

“(3) DEALER.—The term ‘dealer’ means any person who sells, or offers for sale, any distilled spirits, wines, or beer.

“(4) PRESUMPTION IN CASE OF SALE OF 20 WINE GALLONS OR MORE.—The sale, or offer for sale, of distilled spirits, wines, or beer, in quantities of 20 wine gallons or more to the same person at the same time, shall be presumptive evidence that the person making such sale, or offer for sale, is engaged in or carrying on the business of a wholesale dealer in liquors or a wholesale dealer in beer, as the case may be. Such presumption may be overcome by evidence satisfactorily showing that such sale, or offer for sale, was made to a person other than a dealer.”

(C) Paragraph (3) of section 5121(d), as so redesignated, is amended by striking “section 5146” and inserting “section 5123”.

(6)(A) Section 5124 (relating to records) is moved to subpart C of part II of subchapter A of chapter 51 and inserted after section 5121.

(B) Section 5124 is amended—

(i) by striking the section heading and inserting the following new heading:

**“SEC. 5122. RECORDKEEPING BY RETAIL DEALERS.”**

(ii) by striking “section 5146” in subsection (c) and inserting “section 5123”, and

(iii) by redesignating subsection (c) as subsection (d) and inserting after subsection (b) the following new subsection:

“(c) RETAIL DEALERS.—For purposes of this section—

“(1) RETAIL DEALER IN LIQUORS.—The term ‘retail dealer in liquors’ means any dealer (other than a retail dealer in beer) who sells, or offers for sale, distilled spirits, wines, or beer, to any person other than a dealer.

“(2) RETAIL DEALER IN BEER.—The term ‘retail dealer in beer’ means any dealer who sells, or offers for sale, beer, but not distilled spirits or wines, to any person other than a dealer.

“(3) DEALER.—The term ‘dealer’ has the meaning given such term by section 5121(c)(3).”

(7) Section 5146 is moved to subpart C of part II of subchapter A of chapter 51, inserted after section 5122, and redesignated as section 5123.

(8) Part II of subchapter A of chapter 51 is amended by inserting after subpart C the following new subpart:

**“Subpart D. Other Provisions**

“Sec. 5131. Packaging distilled spirits for industrial uses.

“Sec. 5132. Prohibited purchases by dealers.”

(9) Section 5116 is moved to subpart D of part II of subchapter A of chapter 51, inserted after the table of sections, redesignated as section 5131, and amended by inserting “(as defined section 5121(c))” after “dealer” in subsection (a).

(10) Subpart D of part II of subchapter A of chapter 51 is amended by adding at the end thereof the following new section:

**“SEC. 5132. PROHIBITED PURCHASES BY DEALERS.**

“(a) IN GENERAL.—Except as provided in regulations prescribed by the Secretary, it shall be unlawful for a dealer to purchase distilled spirits from any person other than a wholesale dealer in liquors who is required to keep the records prescribed by section 5121.

“(b) PENALTY AND FORFEITURE.—

**“For penalty and forfeiture provisions applicable to violations of subsection (a), see sections 5687 and 7302.”**

(11) Subsection (b) of section 5002 is amended—

(A) by striking “section 5112(a)” and inserting “section 5121(c)(3)”,

(B) by striking “section 5112” and inserting “section 5121(c)”,

(C) by striking “section 5122” and inserting “section 5122(c)”.

(12) Subparagraph (A) of section 5010(c)(2) is amended by striking “section 5134” and inserting “section 5114”.

(13) Subsection (d) of section 5052 is amended to read as follows:

“(d) BREWER.—For purposes of this chapter, the term ‘brewer’ means any person who brews beer or produces beer for sale. Such term shall not include any person who produces only beer exempt from tax under section 5053(e).”

(14) The text of section 5182 is amended to read as follows:

“For provisions requiring recordkeeping by wholesale liquor dealers, see section 5112, and by retail liquor dealers, see section 5122.”

(15) Subsection (b) of section 5402 is amended by striking “section 5092” and inserting “section 5052(d)”.

(16) Section 5671 is amended by striking “or 5091”.

(17)(A) Part V of subchapter J of chapter 51 is hereby repealed.

(B) The table of parts for such subchapter J is amended by striking the item relating to part V.

(18)(A) Sections 5142, 5143, and 5145 are moved to subchapter D of chapter 52, inserted after section 5731, redesignated as sections 5732, 5733, and 5734, respectively, and amended by striking “this part” each place it appears and inserting “this subchapter”.

(B) Section 5732, as redesignated by subparagraph (A), is amended by striking “(except the tax imposed by section 5131)” each place it appears.

(C) Subsection (c) of section 5733, as redesignated by subparagraph (A), is amended by striking paragraph (2) and by redesignating paragraph (3) as paragraph (2).

(D) The table of sections for subchapter D of chapter 52 is amended by adding at the end thereof the following:

“Sec. 5732. Payment of tax.

“Sec. 5733. Provisions relating to liability for occupational taxes.

“Sec. 5734. Application of State laws.”

(E) Section 5731 is amended by striking subsection (c) and by redesignating subsection (d) as subsection (c).

(19) Subsection (c) of section 6071 is amended by striking “section 5142” and inserting “section 5732”.

(20) Paragraph (1) of section 7652(g) is amended—

(A) by striking “subpart F” and inserting “subpart B”, and

(B) by striking “section 5131(a)” and inserting “section 5111(a)”.

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect on the date of the enactment of this Act, but shall not apply to taxes imposed for periods before such date.

**TITLE III—PENSION PROVISIONS**

**Subtitle A—Expanding Coverage**

**SEC. 301. INCREASE IN BENEFIT AND CONTRIBUTION LIMITS.**

(a) DEFINED BENEFIT PLANS.—

(1) DOLLAR LIMIT.—

(A) Subparagraph (A) of section 415(b)(1) (relating to limitation for defined benefit plans) is amended by striking “\$90,000” and inserting “\$160,000”.

(B) Subparagraphs (C) and (D) of section 415(b)(2) are each amended by striking “\$90,000” each place it appears in the headings and the text and inserting “\$160,000”.

(C) Paragraph (7) of section 415(b) (relating to benefits under certain collectively bargained plans) is amended by striking “the greater of \$68,212 or one-half the amount otherwise applicable for such year under paragraph (1)(A) for ‘\$90,000’” and inserting “one-half the amount otherwise applicable for such year under paragraph (1)(A) for ‘\$160,000’”.

(2) LIMIT REDUCED WHEN BENEFIT BEGINS BEFORE AGE 62.—Subparagraph (C) of section 415(b)(2) is amended by striking “the social security retirement age” each place it appears in the heading and text and inserting “age 62”.

(3) LIMIT INCREASED WHEN BENEFIT BEGINS AFTER AGE 65.—Subparagraph (D) of section 415(b)(2) is amended by striking “the social security retirement age” each place it appears in the heading and text and inserting “age 65”.

(4) COST-OF-LIVING ADJUSTMENTS.—Subsection (d) of section 415 (related to cost-of-living adjustments) is amended—

(A) by striking “\$90,000” in paragraph (1)(A) and inserting “\$160,000”, and

(B) in paragraph (3)(A)—

(i) by striking “\$90,000” in the heading and inserting “\$160,000”, and

(ii) by striking “October 1, 1986” and inserting “July 1, 2000”.

(5) CONFORMING AMENDMENT.—Section 415(b)(2) is amended by striking subparagraph (F).

(b) DEFINED CONTRIBUTION PLANS.—

(1) DOLLAR LIMIT.—Subparagraph (A) of section 415(c)(1) (relating to limitation for defined contribution plans) is amended by striking “\$30,000” and inserting “\$40,000”.

(2) COST-OF-LIVING ADJUSTMENTS.—Subsection (d) of section 415 (related to cost-of-living adjustments) is amended—

(A) by striking “\$30,000” in paragraph (1)(C) and inserting “\$40,000”, and

(B) in paragraph (3)(D)—

(i) by striking “\$30,000” in the heading and inserting “\$40,000”, and

(ii) by striking “October 1, 1993” and inserting “July 1, 2000”.

(c) QUALIFIED TRUSTS.—

(1) COMPENSATION LIMIT.—Sections 401(a)(17), 404(l), 408(k), and 505(b)(7) are each amended by striking “\$150,000” each place it appears and inserting “\$200,000”.

(2) BASE PERIOD AND ROUNDING OF COST-OF-LIVING ADJUSTMENT.—Subparagraph (B) of section 401(a)(17) is amended—

(A) by striking “October 1, 1993” and inserting “July 1, 2000”, and

(B) by striking “\$10,000” both places it appears and inserting “\$5,000”.

(d) ELECTIVE DEFERRALS.—

(1) IN GENERAL.—Paragraph (1) of section 402(g) (relating to limitation on exclusion for elective deferrals) is amended to read as follows:

“(1) IN GENERAL.—

“(A) LIMITATION.—Notwithstanding subsections (e)(3) and (h)(1)(B), the elective deferrals of any individual for any taxable year shall be included in such individual’s gross income to the extent the amount of such deferrals for the taxable year exceeds the applicable dollar amount.

“(B) APPLICABLE DOLLAR AMOUNT.—For purposes of subparagraph (A), the applicable dollar amount shall be the amount determined in accordance with the following table:

For taxable years beginning in calendar year:	The applicable dollar amount:
2001 .....	\$11,000
2002 .....	\$12,000
2003 .....	\$13,000
2004 .....	\$14,000
2005 or thereafter .....	\$15,000.”.

(2) COST-OF-LIVING ADJUSTMENT.—Paragraph (5) of section 402(g) is amended to read as follows:

“(5) COST-OF-LIVING ADJUSTMENT.—In the case of taxable years beginning after December 31, 2005, the Secretary shall adjust the \$15,000 amount under paragraph (1)(B) at the same time and in the same manner as under section 415(d), except that the base period shall be the calendar quarter beginning July 1, 2004, and any increase under this paragraph which is not a multiple of \$500 shall be rounded to the next lowest multiple of \$500.”.

(3) CONFORMING AMENDMENTS.—

(A) Section 402(g) (relating to limitation on exclusion for elective deferrals), as amended by paragraphs (1) and (2), is further amended by striking paragraph (4) and redesignating paragraphs (5), (6), (7), (8), and (9) as paragraphs (4), (5), (6), (7), and (8), respectively.

(B) Paragraph (2) of section 457(c) is amended by striking “402(g)(8)(A)(iii)” and inserting “402(g)(7)(A)(iii)”.

(C) Clause (iii) of section 501(c)(18)(D) is amended by striking “(other than paragraph (4) thereof)”.

(e) DEFERRED COMPENSATION PLANS OF STATE AND LOCAL GOVERNMENTS AND TAX-EXEMPT ORGANIZATIONS.—

(1) IN GENERAL.—Section 457 (relating to deferred compensation plans of State and local governments and tax-exempt organizations) is amended—

(A) in subsections (b)(2)(A) and (c)(1) by striking “\$7,500” each place it appears and inserting “the applicable dollar amount”, and

(B) in subsection (b)(3)(A) by striking “\$15,000” and inserting “twice the dollar amount in effect under subsection (b)(2)(A)”.

(2) APPLICABLE DOLLAR AMOUNT; COST-OF-LIVING ADJUSTMENT.—Paragraph (15) of section 457(e) is amended to read as follows:

“(15) APPLICABLE DOLLAR AMOUNT.—

“(A) IN GENERAL.—The applicable dollar amount shall be the amount determined in accordance with the following table:

For taxable years beginning in calendar year:	The applicable dollar amount:
2001 .....	\$11,000
2002 .....	\$12,000
2003 .....	\$13,000
2004 .....	\$14,000
2005 or thereafter .....	\$15,000.

“(B) COST-OF-LIVING ADJUSTMENTS.—In the case of taxable years beginning after December 31, 2005, the Secretary shall adjust the \$15,000 amount specified in the table in subparagraph (A) at the same time and in the same manner as under section 415(d), except that the base period shall be the calendar quarter beginning July 1, 2004, and any increase under this paragraph which is not a multiple of \$500 shall be rounded to the next lowest multiple of \$500.”.

(f) SIMPLE RETIREMENT ACCOUNTS.—

(1) LIMITATION.—Clause (ii) of section 408(p)(2)(A) (relating to general rule for qualified salary reduction arrangement) is amended by striking “\$6,000” and inserting “the applicable dollar amount”.

(2) APPLICABLE DOLLAR AMOUNT.—Subparagraph (E) of 408(p)(2) is amended to read as follows:

“(E) APPLICABLE DOLLAR AMOUNT; COST-OF-LIVING ADJUSTMENT.—

“(i) IN GENERAL.—For purposes of subparagraph (A)(ii), the applicable dollar amount shall be the amount determined in accordance with the following table:

For taxable years beginning in calendar year:	The applicable dollar amount:
2001 .....	\$7,000
2002 .....	\$8,000
2003 .....	\$9,000
2004 or thereafter .....	\$10,000.

“(ii) COST-OF-LIVING ADJUSTMENT.—In the case of a year beginning after December 31, 2004, the Secretary shall adjust the \$10,000 amount under clause (i) at the same time and in the same manner as under section 415(d), except that the base period taken into account shall be the calendar quarter beginning July 1, 2003, and any increase under this subparagraph which is not a multiple of \$500 shall be rounded to the next lower multiple of \$500.”.

(3) CONFORMING AMENDMENTS.—

(A) Clause (I) of section 401(k)(11)(B)(i) is amended by striking “\$6,000” and inserting “the amount in effect under section 408(p)(2)(A)(ii)”.

(B) Section 401(k)(11) is amended by striking subparagraph (E).

(g) ROUNDING RULE RELATING TO DEFINED BENEFIT PLANS AND DEFINED CONTRIBUTION PLANS.—Paragraph (4) of section 415(d) is amended to read as follows:

“(4) ROUNDING.—

“(A) \$160,000 AMOUNT.—Any increase under subparagraph (A) of paragraph (1) which is not a multiple of \$5,000 shall be rounded to the next lowest multiple of \$5,000.

“(B) \$40,000 AMOUNT.—Any increase under subparagraph (C) of paragraph (1) which is

not a multiple of \$1,000 shall be rounded to the next lowest multiple of \$1,000.”.

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

**SEC. 302. 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) 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. 303. MODIFICATION OF TOP-HEAVY RULES.**

(a) SIMPLIFICATION OF DEFINITION OF KEY EMPLOYEE.—

(1) IN GENERAL.—Section 416(i)(1)(A) (defining key employee) is amended—

(A) by striking “or any of the 4 preceding plan years” in the matter preceding clause (i),

(B) by striking clause (i) and inserting the following:

“(i) an officer of the employer having an annual compensation greater than \$150,000.”,

(C) by striking clause (ii) and redesignating clauses (iii) and (iv) as clauses (ii) and (iii), respectively, and

(D) by striking the second sentence in the matter following clause (iii), as redesignated by subparagraph (C).

(2) CONFORMING AMENDMENT.—Section 416(i)(1)(B)(iii) is amended by striking “and subparagraph (A)(ii)”.

(b) MATCHING CONTRIBUTIONS TAKEN INTO ACCOUNT FOR MINIMUM CONTRIBUTION REQUIREMENTS.—Section 416(c)(2)(A) (relating to defined contribution plans) is amended by adding at the end the following: “Employer matching contributions (as defined in section 401(m)(4)(A)) shall be taken into account for purposes of this subparagraph.”.

(c) DISTRIBUTIONS DURING LAST YEAR BEFORE DETERMINATION DATE TAKEN INTO ACCOUNT.—

(1) IN GENERAL.—Paragraph (3) of section 416(g) is amended to read as follows:

“(3) DISTRIBUTIONS DURING LAST YEAR BEFORE DETERMINATION DATE TAKEN INTO ACCOUNT.—

“(A) IN GENERAL.—For purposes of determining—

“(i) the present value of the cumulative accrued benefit for any employee, or

“(ii) the amount of the account of any employee,

such present value or amount shall be increased by the aggregate distributions made with respect to such employee under the plan during the 1-year period ending on the determination date. The preceding sentence shall also apply to distributions under a terminated plan which if it had not been terminated would have been required to be included in an aggregation group.

“(B) 5-YEAR PERIOD IN CASE OF IN-SERVICE DISTRIBUTION.—In the case of any distribution made for a reason other than separation from service, death, or disability, subparagraph (A) shall be applied by substituting ‘5-year period’ for ‘1-year period’.”.

(2) BENEFITS NOT TAKEN INTO ACCOUNT.—Subparagraph (E) of section 416(g)(4) is amended—

(A) by striking “LAST 5 YEARS” in the heading and inserting “LAST YEAR BEFORE DETERMINATION DATE”, and

(B) by striking “5-year period” and inserting “1-year period”.

(d) DEFINITION OF TOP-HEAVY PLANS.—Paragraph (4) of section 416(g) (relating to other special rules for top-heavy plans) is amended by adding at the end the following new subparagraph:

“(H) CASH OR DEFERRED ARRANGEMENTS USING ALTERNATIVE METHODS OF MEETING NON-DISCRIMINATION REQUIREMENTS.—The term ‘top-heavy plan’ shall not include a plan which consists solely of—

“(i) a cash or deferred arrangement which meets the requirements of section 401(k)(12), and

“(ii) matching contributions with respect to which the requirements of section 401(m)(11) are met.

If, but for this subparagraph, a plan would be treated as a top-heavy plan because it is a member of an aggregation group which is a top-heavy group, contributions under the plan may be taken into account in determining whether any other plan in the group meets the requirements of subsection (c)(2).”.

(e) FROZEN PLAN EXEMPT FROM MINIMUM BENEFIT REQUIREMENT.—Subparagraph (C) of section 416(c)(1) (relating to defined benefit plans) is amended—

(A) by striking “clause (ii)” in clause (i) and inserting “clause (ii) or (iii)”, and

(B) by adding at the end the following:

“(iii) EXCEPTION FOR FROZEN PLAN.—For purposes of determining an employee’s years of service with the employer, any service with the employer shall be disregarded to the extent that such service occurs during a plan year when the plan benefits (within the meaning of section 410(b)) no employee or former employee.”.

(f) ELIMINATION OF FAMILY ATTRIBUTION.—Section 416(i)(1)(B) (defining 5-percent owner) is amended by adding at the end the following new clause:

“(iv) FAMILY ATTRIBUTION DISREGARDED.—Solely for purposes of applying this paragraph (and not for purposes of any provision of this title which incorporates by reference the definition of a key employee or 5-percent owner under this paragraph), section 318 shall be applied without regard to subsection (a)(1) thereof in determining whether any person is a 5-percent owner.”.

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

**SEC. 304. ELECTIVE DEFERRALS NOT TAKEN INTO ACCOUNT FOR PURPOSES OF DEDUCTION LIMITS.**

(a) IN GENERAL.—Section 404 (relating to deduction for contributions of an employer to an employees’ trust or annuity plan and compensation under a deferred payment plan) is amended by adding at the end the following new subsection:

“(n) ELECTIVE DEFERRALS NOT TAKEN INTO ACCOUNT FOR PURPOSES OF DEDUCTION LIMITS.—Elective deferrals (as defined in section 402(g)(3)) shall not be subject to any limitation contained in paragraph (3), (7), or (9) of subsection (a), and such elective deferrals shall not be taken into account in applying any such limitation to any other contributions.”.

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

**SEC. 305. REPEAL OF COORDINATION REQUIREMENTS FOR DEFERRED COMPENSATION PLANS OF STATE AND LOCAL GOVERNMENTS AND TAX-EXEMPT ORGANIZATIONS.**

(a) IN GENERAL.—Subsection (c) of section 457 (relating to deferred compensation plans of State and local governments and tax-exempt organizations), as amended by section 211, is amended to read as follows:

“(c) LIMITATION.—The maximum amount of the compensation of any one individual which may be deferred under subsection (a) during any taxable year shall not exceed the amount in effect under subsection (b)(2)(A) (as modified by any adjustment provided under subsection (b)(3)).”.

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

**SEC. 306. ELIMINATION OF USER FEE FOR REQUESTS TO IRS REGARDING PENSION PLANS.**

(a) ELIMINATION OF CERTAIN USER FEES.—The Secretary of the Treasury or the Secretary’s delegate shall not require payment of user fees under the program established under section 7527 of the Internal Revenue Code of 1986 for requests to the Internal Revenue Service for determination letters with respect to the qualified status of a pension benefit plan maintained solely by one or more eligible employers or any trust which is part of the plan. The preceding sentence shall not apply to any request—

(1) made after the 5th plan year the pension benefit plan is in existence, or

(2) made by the sponsor of any prototype or similar plan which the sponsor intends to market to participating employers.

(b) PENSION BENEFIT PLAN.—For purposes of this section, the term “pension benefit plan” means a pension, profit-sharing, stock bonus, annuity, or employee stock ownership plan.

(c) ELIGIBLE EMPLOYER.—For purposes of this section, the term “eligible employer” has the same meaning given such term in section 408(p)(2)(C)(i)(I) of the Internal Revenue Code of 1986. The determination of whether an employer is an eligible employer under this section shall be made as of the date of the request described in subsection (a).

(d) EFFECTIVE DATE.—The provisions of this section shall apply with respect to requests made after December 31, 2000.

**SEC. 307. DEDUCTION LIMITS.**

(a) IN GENERAL.—Section 404(a) (relating to general rule) is amended by adding at the end the following:

“(12) DEFINITION OF COMPENSATION.—For purposes of paragraphs (3), (7), (8), and (9), the term ‘compensation’ shall include amounts treated as participant’s compensation under subparagraph (C) or (D) of section 415(c)(3).”.

(b) CONFORMING AMENDMENT.—Subparagraph (B) of section 404(a)(3) is amended by striking the last sentence thereof.

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

**SEC. 308. OPTION TO TREAT ELECTIVE DEFERRALS AS AFTER-TAX CONTRIBUTIONS.**

(a) IN GENERAL.—Subpart A of part I of subchapter D of chapter 1 (relating to deferred compensation, etc.) is amended by inserting after section 402 the following new section:

**“SEC. 402A. OPTIONAL TREATMENT OF ELECTIVE DEFERRALS AS PLUS CONTRIBUTIONS.**

“(a) GENERAL RULE.—If an applicable retirement plan includes a qualified plus contribution program—

“(1) any designated plus contribution made by an employee pursuant to the program

shall be treated as an elective deferral for purposes of this chapter, except that such contribution shall not be excludable from gross income, and

“(2) such plan (and any arrangement which is part of such plan) shall not be treated as failing to meet any requirement of this chapter solely by reason of including such program.

“(b) QUALIFIED PLUS CONTRIBUTION PROGRAM.—For purposes of this section—

“(1) IN GENERAL.—The term ‘qualified plus contribution program’ means a program under which an employee may elect to make designated plus contributions in lieu of all or a portion of elective deferrals the employee is otherwise eligible to make under the applicable retirement plan.

“(2) SEPARATE ACCOUNTING REQUIRED.—A program shall not be treated as a qualified plus contribution program unless the applicable retirement plan—

“(A) establishes separate accounts (‘designated plus accounts’) for the designated plus contributions of each employee and any earnings properly allocable to the contributions, and

“(B) maintains separate recordkeeping with respect to each account.

“(c) DEFINITIONS AND RULES RELATING TO DESIGNATED PLUS CONTRIBUTIONS.—For purposes of this section—

“(1) DESIGNATED PLUS CONTRIBUTION.—The term ‘designated plus contribution’ means any elective deferral which—

“(A) is excludable from gross income of an employee without regard to this section, and

“(B) the employee designates (at such time and in such manner as the Secretary may prescribe) as not being so excludable.

“(2) DESIGNATION LIMITS.—The amount of elective deferrals which an employee may designate under paragraph (1) shall not exceed the excess (if any) of—

“(A) the maximum amount of elective deferrals excludable from gross income of the employee for the taxable year (without regard to this section), over

“(B) the aggregate amount of elective deferrals of the employee for the taxable year which the employee does not designate under paragraph (1).

“(3) ROLLOVER CONTRIBUTIONS.—

“(A) IN GENERAL.—A rollover contribution of any payment or distribution from a designated plus account which is otherwise allowable under this chapter may be made only if the contribution is to—

“(i) another designated plus account of the individual from whose account the payment or distribution was made, or

“(ii) a Roth IRA of such individual.

“(B) COORDINATION WITH LIMIT.—Any rollover contribution to a designated plus account under subparagraph (A) shall not be taken into account for purposes of paragraph (1).

“(d) DISTRIBUTION RULES.—For purposes of this title—

“(1) EXCLUSION.—Any qualified distribution from a designated plus account shall not be includable in gross income.

“(2) QUALIFIED DISTRIBUTION.—For purposes of this subsection—

“(A) IN GENERAL.—The term ‘qualified distribution’ has the meaning given such term by section 408A(d)(2)(A) (without regard to clause (iv) thereof).

“(B) DISTRIBUTIONS WITHIN NONEXCLUSION PERIOD.—A payment or distribution from a designated plus account shall not be treated as a qualified distribution if such payment or distribution is made within the 5-taxable-year period beginning with the earlier of—

“(i) the first taxable year for which the individual made a designated plus contribution to any designated plus account established

for such individual under the same applicable retirement plan, or

“(ii) if a rollover contribution was made to such designated plus account from a designated plus account previously established for such individual under another applicable retirement plan, the first taxable year for which the individual made a designated plus contribution to such previously established account.

“(C) DISTRIBUTIONS OF EXCESS DEFERRALS AND EARNINGS.—The term ‘qualified distribution’ shall not include any distribution of any excess deferral under section 402(g)(2) and any income on the excess deferral.

“(3) AGGREGATION RULES.—Section 72 shall be applied separately with respect to distributions and payments from a designated plus account and other distributions and payments from the plan.

“(e) OTHER DEFINITIONS.—For purposes of this section—

“(1) APPLICABLE RETIREMENT PLAN.—The term ‘applicable retirement plan’ means—

“(A) an employees’ trust described in section 401(a) which is exempt from tax under section 501(a), and

“(B) a plan under which amounts are contributed by an individual’s employer for an annuity contract described in section 403(b).

“(2) ELECTIVE DEFERRAL.—The term ‘elective deferral’ means any elective deferral described in subparagraph (A) or (C) of section 402(g)(3).”

(b) EXCESS DEFERRALS.—Section 402(g) (relating to limitation on exclusion for elective deferrals) is amended—

(1) by adding at the end of paragraph (1) the following new sentence: “The preceding sentence shall not apply to so much of such excess as does not exceed the designated plus contributions of the individual for the taxable year.”, and

(2) by inserting “(or would be included but for the last sentence thereof)” after “paragraph (1)” in paragraph (2)(A).

(c) ROLLOVERS.—Subparagraph (B) of section 402(c)(8) is amended by adding at the end the following:

“If any portion of an eligible rollover distribution is attributable to payments or distributions from a designated plus account (as defined in section 402A), an eligible retirement plan with respect to such portion shall include only another designated plus account and a Roth IRA.”

(d) REPORTING REQUIREMENTS.—

(1) W-2 INFORMATION.—Section 6051(a)(8) is amended by inserting “, including the amount of designated plus contributions (as defined in section 402A)” before the comma at the end.

(2) INFORMATION.—Section 6047 is amended by redesignating subsection (f) as subsection (g) and by inserting after subsection (e) the following new subsection:

“(f) DESIGNATED PLUS CONTRIBUTIONS.—The Secretary shall require the plan administrator of each applicable retirement plan (as defined in section 402A) to make such returns and reports regarding designated plus contributions (as so defined) to the Secretary, participants and beneficiaries of the plan, and such other persons as the Secretary may prescribe.”

(e) CONFORMING AMENDMENTS.—

(1) Section 408A(e) is amended by adding after the first sentence the following new sentence: “Such term includes a rollover contribution described in section 402A(c)(3)(A).”

(2) The table of sections for subpart A of part I of subchapter D of chapter 1 is amended by inserting after the item relating to section 402 the following new item:

“Sec. 402A. Optional treatment of elective deferrals as plus contributions.”

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

**SEC. 309. REDUCED PBGC PREMIUM FOR NEW PLANS OF SMALL EMPLOYERS.**

(a) IN GENERAL.—Subparagraph (A) of section 4006(a)(3) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1306(a)(3)(A)) is amended—

(1) in clause (i), by inserting “other than a new single-employer plan (as defined in subparagraph (F)) maintained by a small employer (as so defined),” after “single-employer plan.”,

(2) in clause (iii), by striking the period at the end and inserting “, and”, and

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

“(iv) in the case of a new single-employer plan (as defined in subparagraph (F)) maintained by a small employer (as so defined) for the plan year, \$5 for each individual who is a participant in such plan during the plan year.”

(b) DEFINITION OF NEW SINGLE-EMPLOYER PLAN.—Section 4006(a)(3) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1306(a)(3)) is amended by adding at the end the following new subparagraph:

“(F)(i) For purposes of this paragraph, a single-employer plan maintained by a contributing sponsor shall be treated as a new single-employer plan for each of its first 5 plan years if, during the 36-month period ending on the date of the adoption of such plan, the sponsor or any member of such sponsor’s controlled group (or any predecessor of either) had not established or maintained a plan to which this title applies with respect to which benefits were accrued for substantially the same employees as are in the new single-employer plan.

“(ii)(I) For purposes of this paragraph, the term ‘small employer’ means an employer which on the first day of any plan year has, in aggregation with all members of the controlled group of such employer, 100 or fewer employees.

“(II) In the case of a plan maintained by two 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. 310. REDUCTION OF ADDITIONAL PBGC PREMIUM FOR NEW AND SMALL PLANS.**

(a) NEW PLANS.—Subparagraph (E) of section 4006(a)(3) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1306(a)(3)(E)) is amended by adding at the end the following new clause:

“(v) In the case of a new defined benefit plan, the amount determined under clause (ii) for any plan year shall be an amount equal to the product of the amount determined under clause (ii) and the applicable percentage. For purposes of this clause, the term ‘applicable percentage’ means—

- “(I) 0 percent, for the first plan year.
- “(II) 20 percent, for the second plan year.
- “(III) 40 percent, for the third plan year.
- “(IV) 60 percent, for the fourth plan year.
- “(V) 80 percent, for the fifth plan year.

For purposes of this clause, a defined benefit plan (as defined in section 3(35)) maintained by a contributing sponsor shall be treated as a new defined benefit plan for its first 5 plan years if, during the 36-month period ending on the date of the adoption of the plan, the sponsor and each member of any controlled group including the sponsor (or any predecessor of either) did not establish or main-

tain a plan to which this title applies with respect to which benefits were accrued for substantially the same employees as are in the new plan.”

(b) SMALL PLANS.—Paragraph (3) of section 4006(a) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1306(a)) is amended—

(1) by striking “The” in subparagraph (E)(i) and inserting “Except as provided in subparagraph (G), the”, and

(2) by inserting after subparagraph (F) the following new subparagraph:

“(G)(i) In the case of an employer who has 25 or fewer employees on the first day of the plan year, the additional premium determined under subparagraph (E) for each participant shall not exceed \$5 multiplied by the number of participants in the plan as of the close of the preceding plan year.

“(ii) For purposes of clause (i), whether an employer has 25 or fewer employees on the first day of the plan year is determined taking into consideration all of the employees of all members of the contributing sponsor’s controlled group. In the case of a plan maintained by two or more contributing sponsors, the employees of all contributing sponsors and their controlled groups shall be aggregated for purposes of determining whether 25-or-fewer-employees limitation has been satisfied.”

(c) EFFECTIVE DATES.—

(1) SUBSECTION (a).—The amendments made by subsection (a) shall apply to plans established after December 31, 2000.

(2) SUBSECTION (b).—The amendments made by subsection (b) shall apply to plan years beginning after December 31, 2000.

**Subtitle B—Enhancing Fairness for Women**  
**SEC. 321. CATCHUP CONTRIBUTIONS FOR INDIVIDUALS AGE 50 OR OVER.**

(a) IN GENERAL.—Section 414 (relating to definitions and special rules) is amended by adding at the end the following new subsection:

“(v) CATCHUP CONTRIBUTIONS FOR INDIVIDUALS AGE 50 OR OVER.—

“(1) IN GENERAL.—An applicable employer plan shall not be treated as failing to meet any requirement of this title solely because the plan permits an eligible participant to make additional elective deferrals in any plan year.

“(2) LIMITATION ON AMOUNT OF ADDITIONAL DEFERRALS.—

“(A) IN GENERAL.—A plan shall not permit additional elective deferrals under paragraph (1) for any year in an amount greater than the lesser of—

“(i) the applicable percentage of the applicable dollar amount for such elective deferrals for such year, or

“(ii) the excess (if any) of—

“(I) the participant’s compensation for the year, over

“(II) any other elective deferrals of the participant for such year which are made without regard to this subsection.

“(B) APPLICABLE PERCENTAGE.—For purposes of this paragraph, the applicable percentage shall be determined in accordance with the following table:

“For taxable years beginning in:	The applicable percentage is:
2001 .....	10 percent
2002 .....	20 percent
2003 .....	30 percent
2004 .....	40 percent
2005 and thereafter .....	50 percent.

“(3) TREATMENT OF CONTRIBUTIONS.—In the case of any contribution to a plan under paragraph (1)—

“(A) such contribution shall not, with respect to the year in which the contribution is made—

“(i) be subject to any otherwise applicable limitation contained in section 402(g), 402(h), 403(b), 404(a), 404(h), 408, 415, or 457, or

“(ii) be taken into account in applying such limitations to other contributions or benefits under such plan or any other such plan, and

“(B) such plan shall not be treated as failing to meet the requirements of section 401(a)(4), 401(a)(26), 401(k)(3), 401(k)(11), 401(k)(12), 401(m), 403(b)(12), 408(k), 408(p), 408E, 410(b), or 416 by reason of the making of (or the right to make) such contribution.

“(4) ELIGIBLE PARTICIPANT.—For purposes of this subsection, the term ‘eligible participant’ means, with respect to any plan year, a participant in a plan—

“(A) who has attained the age of 50 before the close of the plan year, and

“(B) with respect to whom no other elective deferrals may (without regard to this subsection) be made to the plan for the plan year by reason of the application of any limitation or other restriction described in paragraph (3) or contained in the terms of the plan.

“(5) OTHER DEFINITIONS AND RULES.—For purposes of this subsection—

“(A) APPLICABLE DOLLAR AMOUNT.—The term ‘applicable dollar amount’ means, with respect to any year, the amount in effect under section 402(g)(1)(B), 408(p)(2)(E)(i), or 457(e)(15)(A), whichever is applicable to an applicable employer plan, for such year.

“(B) APPLICABLE EMPLOYER PLAN.—The term ‘applicable employer plan’ means—

“(i) an employees’ trust described in section 401(a) which is exempt from tax under section 501(a),

“(ii) a plan under which amounts are contributed by an individual’s employer for an annuity contract described in section 403(b),

“(iii) an eligible deferred compensation plan under section 457 of an eligible employer as defined in section 457(e)(1)(A), and

“(iv) an arrangement meeting the requirements of section 408 (k) or (p).

“(C) ELECTIVE DEFERRAL.—The term ‘elective deferral’ has the meaning given such term by subsection (u)(2)(C).

“(D) EXCEPTION FOR SECTION 457 PLANS.—This subsection shall not apply to an applicable employer plan described in subparagraph (B)(iii) for any year to which section 457(b)(3) applies.”

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

**SEC. 322. EQUITABLE TREATMENT FOR CONTRIBUTIONS OF EMPLOYEES TO DEFINED CONTRIBUTION PLANS.**

(a) EQUITABLE TREATMENT.—

(1) IN GENERAL.—Subparagraph (B) of section 415(c)(1) (relating to limitation for defined contribution plans) is amended by striking “25 percent” and inserting “100 percent”.

(2) APPLICATION TO SECTION 403(b).—Section 403(b) is amended—

(A) by striking “the exclusion allowance for such taxable year” in paragraph (1) and inserting “the applicable limit under section 415”.

(B) by striking paragraph (2), and

(C) by inserting “or any amount received by a former employee after the 5th taxable year following the taxable year in which such employee was terminated” before the period at the end of the second sentence of paragraph (3).

(3) CONFORMING AMENDMENTS.—

(A) Subsection (f) of section 72 is amended by striking “section 403(b)(2)(D)(iii)” and inserting “section 403(b)(2)(D)(iii), as in effect before the enactment of the Wage and Employment Growth Act of 1999”.

(B) Section 404(a)(10)(B) is amended by striking “, the exclusion allowance under section 403(b)(2),”.

(C) Section 415(a)(2) is amended by striking “, and the amount of the contribution for such portion shall reduce the exclusion allowance as provided in section 403(b)(2)”.

(D) Section 415(c)(3) is amended by adding at the end the following new subparagraph:

“(E) ANNUITY CONTRACTS.—In the case of an annuity contract described in section 403(b), the term ‘participant’s compensation’ means the participant’s includible compensation determined under section 403(b)(3).”

(E) Section 415(c) is amended by striking paragraph (4).

(F) Section 415(c)(7) is amended to read as follows:

“(7) CERTAIN CONTRIBUTIONS BY CHURCH PLANS NOT TREATED AS EXCEEDING LIMIT.—

“(A) IN GENERAL.—Notwithstanding any other provision of this subsection, at the election of a participant who is an employee of a church or a convention or association of churches, including an organization described in section 414(e)(3)(B)(ii), contributions and other additions for an annuity contract or retirement income account described in section 403(b) with respect to such participant, when expressed as an annual addition to such participant’s account, shall be treated as not exceeding the limitation of paragraph (1) if such annual addition is not in excess of \$10,000.

“(B) \$40,000 AGGREGATE LIMITATION.—The total amount of additions with respect to any participant which may be taken into account for purposes of this subparagraph for all years may not exceed \$40,000.

“(C) ANNUAL ADDITION.—For purposes of this paragraph, the term ‘annual addition’ has the meaning given such term by paragraph (2).”

(G) Subparagraph (B) of section 402(g)(7) (as redesignated by section 211) is amended by inserting before the period at the end the following: “(as in effect before the enactment of the Wage and Employment Growth Act of 1999)”.

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

(b) SPECIAL RULES FOR SECTIONS 403(b) AND 408.—

(1) IN GENERAL.—Subsection (k) of section 415 is amended by adding at the end the following new paragraph:

“(4) SPECIAL RULES FOR SECTIONS 403(b) AND 408.—For purposes of this section, any annuity contract described in section 403(b) for the benefit of a participant shall be treated as a defined contribution plan maintained by each employer with respect to which the participant has the control required under subsection (b) or (c) of section 414 (as modified by subsection (h)). For purposes of this section, any contribution by an employer to a simplified employee pension plan for an individual for a taxable year shall be treated as an employer contribution to a defined contribution plan for such individual for such year.”

(2) EFFECTIVE DATE.—

(A) IN GENERAL.—The amendment made by paragraph (1) shall apply to limitation years beginning after December 31, 1999.

(B) EXCLUSION ALLOWANCE.—Effective for limitation years beginning in 2000, in the case of any annuity contract described in section 403(b) of the Internal Revenue Code of 1986, the amount of the contribution disqualified by reason of section 415(g) of such Code shall reduce the exclusion allowance as provided in section 403(b)(2) of such Code.

(3) MODIFICATION OF 403(b) EXCLUSION ALLOWANCE TO CONFORM TO 415 MODIFICATION.—The Secretary of the Treasury shall modify the regulations regarding the exclusion allowance under section 403(b)(2) of the Internal Revenue Code of 1986 to render void the

requirement that contributions to a defined benefit pension plan be treated as previously excluded amounts for purposes of the exclusion allowance. For taxable years beginning after December 31, 1999, such regulations shall be applied as if such requirement were void.

(c) DEFERRED COMPENSATION PLANS OF STATE AND LOCAL GOVERNMENTS AND TAX-EXEMPT ORGANIZATIONS.—

(1) IN GENERAL.—Subparagraph (B) of section 457(b)(2) (relating to salary limitation on eligible deferred compensation plans) is amended by striking “33½ percent” and inserting “100 percent”.

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

**SEC. 323. 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 one or more collective bargaining agreements between employee representatives and one or more employers ratified by the date of the 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 the 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. 324. SIMPLIFY AND UPDATE THE MINIMUM DISTRIBUTION RULES.**

(a) SIMPLIFICATION AND FINALIZATION OF MINIMUM DISTRIBUTION REQUIREMENTS.—

(1) IN GENERAL.—The Secretary of the Treasury shall—

(A) simplify and finalize the regulations relating to minimum distribution requirements under sections 401(a)(9), 408(a)(6) and (b)(3), 403(b)(10), and 457(d)(2) of the Internal Revenue Code of 1986, and

(B) modify such regulations to—

(i) reflect current life expectancy, and  
(ii) revise the required distribution methods so that, under reasonable assumptions, the amount of the required minimum distribution does not decrease over a participant's life expectancy.

(2) FRESH START.—Notwithstanding subparagraph (D) of section 401(a)(9) of such Code, during the first year that regulations are in effect under this subsection, required distributions for future years may be redetermined to reflect changes under such regulations. Such redetermination shall include the opportunity to choose a new designated beneficiary and to elect a new method of calculating life expectancy.

(3) EFFECTIVE DATE FOR REGULATIONS.—Regulations referred to in paragraph (1) shall be effective for years beginning after December 31, 2000, and shall apply in such years without regard to whether an individual had previously begun receiving minimum distributions.

(b) REPEAL OF RULE WHERE DISTRIBUTIONS HAD BEGUN BEFORE DEATH OCCURS.—

(1) IN GENERAL.—Subparagraph (B) of section 401(a)(9) is amended by striking clause (i) and redesignating clauses (ii), (iii), and (iv) as clauses (i), (ii), and (iii), respectively.

(2) CONFORMING CHANGES.—

(A) Clause (i) of section 401(a)(9)(B) (as so redesignated) is amended—

(i) by striking "FOR OTHER CASES" in the heading, and

(ii) by striking "the distribution of the employee's interest has begun in accordance with subparagraph (A)(ii)" and inserting "his entire interest has been distributed to him."

(B) Clause (ii) of section 401(a)(9)(B) (as so redesignated) is amended by striking "clause (ii)" and inserting "clause (i)".

(C) Clause (iii) of section 401(a)(9)(B) (as so redesignated) is amended—

(i) by striking "clause (iii)(I)" and inserting "clause (ii)(I)",

(ii) by striking "clause (iii)(III)" in subclause (I) and inserting "clause (ii)(III)",

(iii) by striking "the date on which the employee would have attained the age 70½," in subclause (I) and inserting "April 1 of the calendar year following the calendar year in which the spouse attains 70½," and

(iv) by striking "the distributions to such spouse begin," in subclause (II) and inserting "his entire interest has been distributed to him."

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

(c) REDUCTION IN EXCISE TAX.—

(1) IN GENERAL.—Subsection (a) of section 4974 is amended by striking "50 percent" and inserting "10 percent".

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

**SEC. 325. 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. 326. MODIFICATION OF SAFE HARBOR RELIEF FOR HARDSHIP WITHDRAWALS FROM CASH OR DEFERRED ARRANGEMENTS.**

(a) IN GENERAL.—The Secretary of the Treasury shall revise the regulations relating to hardship distributions under section 401(k)(2)(B)(i)(IV) of the Internal Revenue Code of 1986 to provide that the period an employee is prohibited from making elective and employee contributions in order for a distribution to be deemed necessary to satisfy financial need shall be equal to 6 months.

(b) EFFECTIVE DATE.—The revised regulations under subsection (a) shall apply to years beginning after December 31, 2000.

**Subtitle C—Increasing Portability for Participants**

**SEC. 331. ROLLOVERS ALLOWED AMONG VARIOUS TYPES OF PLANS.**

(a) ROLLOVERS FROM AND TO SECTION 457 PLANS.—

(1) ROLLOVERS FROM SECTION 457 PLANS.—

(A) IN GENERAL.—Section 457(e) (relating to other definitions and special rules) is amended by adding at the end the following:

"(16) ROLLOVER AMOUNTS.—

"(A) GENERAL RULE.—In the case of an eligible deferred compensation plan established and maintained by an employer described in subsection (e)(1)(A), if—

"(i) any portion of the balance to the credit of an employee in such plan is paid to such employee in an eligible rollover distribution (within the meaning of section 402(c)(4) without regard to subparagraph (C) thereof),

"(ii) the employee transfers any portion of the property such employee receives in such distribution to an eligible retirement plan described in section 402(c)(8)(B), and

"(iii) in the case of a distribution of property other than money, the amount so transferred consists of the property distributed,

then such distribution (to the extent so transferred) shall not be includible in gross income for the taxable year in which paid.

"(B) CERTAIN RULES MADE APPLICABLE.—The rules of paragraphs (2) through (7) (other than paragraph (4)(C)) and (9) of section 402(c) and section 402(f) shall apply for purposes of subparagraph (A).

"(C) REPORTING.—Rollovers under this paragraph shall be reported to the Secretary

in the same manner as rollovers from qualified retirement plans (as defined in section 4974(c))."

(B) DEFERRAL LIMIT DETERMINED WITHOUT REGARD TO ROLLOVER AMOUNTS.—Section 457(b)(2) (defining eligible deferred compensation plan) is amended by inserting "(other than rollover amounts)" after "taxable year".

(C) DIRECT ROLLOVER.—Paragraph (1) of section 457(d) is amended by striking "and" at the end of subparagraph (A), by striking the period at the end of subparagraph (B) and inserting ", and", and by inserting after subparagraph (B) the following:

"(C) in the case of a plan maintained by an employer described in subsection (e)(1)(A), the plan meets requirements similar to the requirements of section 401(a)(31).

Any amount transferred in a direct trustee-to-trustee transfer in accordance with section 401(a)(31) shall not be includible in gross income for the taxable year of transfer."

(D) WITHHOLDING.—

(i) Paragraph (12) of section 3401(a) is amended by adding at the end the following: "(E) under or to an eligible deferred compensation plan which, at the time of such payment, is a plan described in section 457(b) maintained by an employer described in section 457(e)(1)(A); or"

(ii) Paragraph (3) of section 3405(c) is amended to read as follows:

"(3) ELIGIBLE ROLLOVER DISTRIBUTION.—For purposes of this subsection, the term 'eligible rollover distribution' has the meaning given such term by section 402(f)(2)(A)."

(iii) LIABILITY FOR WITHHOLDING.—Subparagraph (B) of section 3405(d)(2) is amended by striking "or" at the end of clause (ii), by striking the period at the end of clause (iii) and inserting ", or", and by adding at the end the following:

"(iv) section 457(b)."

(2) ROLLOVERS TO SECTION 457 PLANS.—

(A) IN GENERAL.—Section 402(c)(8)(B) (defining eligible retirement plan) is amended by striking "and" at the end of clause (iii), by striking the period at the end of clause (iv) and inserting ", and", and by inserting after clause (iv) the following new clause:

"(v) an eligible deferred compensation plan described in section 457(b) of an employer described in section 457(e)(1)(A)."

(B) SEPARATE ACCOUNTING.—Section 402(c) is amended by adding at the end the following new paragraph:

"(11) SEPARATE ACCOUNTING.—Unless a plan described in clause (v) of paragraph (8)(B) agrees to separately account for amounts rolled into such plan from eligible retirement plans not described in such clause, the plan described in such clause may not accept transfers or rollovers from such retirement plans."

(C) 10 PERCENT ADDITIONAL TAX.—Subsection (t) of section 72 (relating to 10-percent additional tax on early distributions from qualified retirement plans) is amended by adding at the end the following new paragraph:

"(9) SPECIAL RULE FOR ROLLOVERS TO SECTION 457 PLANS.—For purposes of this subsection, a distribution from an eligible deferred compensation plan (as defined in section 457(b)) of an employer described in section 457(e)(1)(A) shall be treated as a distribution from a qualified retirement plan described in 4974(c)(1) to the extent that such distribution is attributable to an amount transferred to an eligible deferred compensation plan from a qualified retirement plan (as defined in section 4974(c))."

(b) ALLOWANCE OF ROLLOVERS FROM AND TO 403 (b) PLANS.—

(1) ROLLOVERS FROM SECTION 403 (b) PLANS.—Section 403(b)(8)(A)(ii) (relating to rollover

amounts) is amended by striking "such distribution" and all that follows and inserting "such distribution to an eligible retirement plan described in section 402(c)(8)(B), and".

(2) ROLLOVERS TO SECTION 403 (b) PLANS.—Section 402(c)(8)(B) (defining eligible retirement plan), as amended by subsection (a), is amended by striking "and" at the end of clause (iv), by striking the period at the end of clause (v) and inserting ", and", and by inserting after clause (v) the following new clause:

"(vi) an annuity contract described in section 403(b)."

(c) EXPANDED EXPLANATION TO RECIPIENTS OF ROLLOVER DISTRIBUTIONS.—Paragraph (1) of section 402(f) (relating to written explanation to recipients of distributions eligible for rollover treatment) is amended by striking "and" at the end of subparagraph (C), by striking the period at the end of subparagraph (D) and inserting ", and", and by adding at the end the following new subparagraph:

"(E) of the provisions under which distributions from the eligible retirement plan receiving the distribution may be subject to restrictions and tax consequences which are different from those applicable to distributions from the plan making such distribution."

(d) SPOUSAL ROLLOVERS.—Section 402(c)(9) (relating to rollover where spouse receives distribution after death of employee) is amended by striking "; except that" and all that follows up to the end period.

(e) CONFORMING AMENDMENTS.—

(1) Section 72(o)(4) is amended by striking "and 408(d)(3)" and inserting "403(b)(8), 408(d)(3), and 457(e)(16)".

(2) Section 219(d)(2) is amended by striking "or 408(d)(3)" and inserting "408(d)(3), or 457(e)(16)".

(3) Section 401(a)(31)(B) is amended by striking "and 403(a)(4)" and inserting "403(a)(4), 403(b)(8), and 457(e)(16)".

(4) Subparagraph (A) of section 402(f)(2) is amended by striking "or paragraph (4) of section 403(a)" and inserting ", paragraph (4) of section 403(a), subparagraph (A) of section 403(b)(8), or subparagraph (A) of section 457(e)(16)".

(5) Paragraph (1) of section 402(f) is amended by striking "from an eligible retirement plan".

(6) Subparagraphs (A) and (B) of section 402(f)(1) are amended by striking "another eligible retirement plan" and inserting "an eligible retirement plan".

(7) Subparagraph (B) of section 403(b)(8) is amended to read as follows:

"(B) CERTAIN RULES MADE APPLICABLE.—The rules of paragraphs (2) through (7) and (9) of section 402(c) and section 402(f) shall apply for purposes of subparagraph (A), except that section 402(f) shall be applied to the payor in lieu of the plan administrator."

(8) Section 408(a)(1) is amended by striking "or 403(b)(8)" and inserting "403(b)(8), or 457(e)(16)".

(9) Subparagraphs (A) and (B) of section 415(b)(2) are each amended by striking "and 408(d)(3)" and inserting "403(b)(8), 408(d)(3), and 457(e)(16)".

(10) Section 415(c)(2) is amended by striking "and 408(d)(3)" and inserting "408(d)(3), and 457(e)(16)".

(11) Section 4973(b)(1)(A) is amended by striking "or 408(d)(3)" and inserting "408(d)(3), or 457(e)(16)".

(f) EFFECTIVE DATE; SPECIAL RULE.—

(1) EFFECTIVE DATE.—The amendments made by this section shall apply to distributions after December 31, 2000.

(2) SPECIAL RULE.—Notwithstanding any other provision of law, subsections (h)(3) and (h)(5) of section 1122 of the Tax Reform Act of 1986 shall not apply to any distribution

from an eligible retirement plan (as defined in clause (iii) or (iv) of section 402(c)(8)(B) of the Internal Revenue Code of 1986) on behalf of an individual if there was a rollover to such plan on behalf of such individual which is permitted solely by reason of any amendment made by this section.

#### SEC. 332. 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)."

(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. 333. 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. 334. 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 229, 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. 335. 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

tion 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 clause (iii) to receive any distribution to which the participant or beneficiary is entitled under the transferee plan in the form of a single sum distribution.

“(ii) Clause (i) shall apply to plan mergers and other transactions having the effect of a direct transfer, including consolidations of benefits attributable to different employers within a multiple employer plan.

“(E) ELIMINATION OF FORM OF DISTRIBUTION.—Except to the extent provided in regulations, a defined contribution plan shall not be treated as failing to meet the requirements of this section merely because of the elimination of a form of distribution previously available thereunder. This subparagraph shall not apply to the elimination of a form of distribution with respect to any participant unless—

“(i) a single sum payment is available to such participant at the same time or times as the form of distribution being eliminated, and

“(ii) such single sum payment is based on the same or greater portion of the participant’s account as the form of distribution being eliminated.”.

(2) 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 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 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 205, 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 205(c)(2); and

“(vi) the transferee plan allows the participant or beneficiary described in clause (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.

(5) 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 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 shall 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 shall 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) of the Employee Retirement Income Security Act of 1974, including the regulations required by the amendments made by this subsection. 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. 336. 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. 337. 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 (16) the following new paragraph:

“(17) 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)(17))”.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to trustee-to-trustee transfers after December 31, 2000.

**SEC. 338. 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.

**SEC. 339. MINIMUM DISTRIBUTION AND INCLUSION REQUIREMENTS FOR SECTION 457 PLANS.**

(a) **MINIMUM DISTRIBUTION REQUIREMENTS.**—Paragraph (2) of section 457(d) (relating to distribution requirements) is amended to read as follows:

“(2) **MINIMUM DISTRIBUTION REQUIREMENTS.**—A plan meets the minimum distribution requirements of this paragraph if such plan meets the requirements of section 401(a)(9).”

(b) **INCLUSION IN GROSS INCOME.**—

(1) **YEAR OF INCLUSION.**—Subsection (a) of section 457 (relating to year of inclusion in gross income) is amended to read as follows:

“(a) **YEAR OF INCLUSION IN GROSS INCOME.**—

“(1) **IN GENERAL.**—Any amount of compensation deferred under an eligible deferred compensation plan, and any income attributable to the amounts so deferred, shall be includible in gross income only for the taxable year in which such compensation or other income—

“(A) is paid to the participant or other beneficiary, in the case of a plan of an eligible employer described in subsection (e)(1)(A), and

“(B) is paid or otherwise made available to the participant or other beneficiary, in the case of a plan of an eligible employer described in subsection (e)(1)(B).

“(2) **SPECIAL RULE FOR ROLLOVER AMOUNTS.**—To the extent provided in section 72(t)(9), section 72(t) shall apply to any amount includible in gross income under this subsection.”

(2) **CONFORMING AMENDMENTS.**—

(A) So much of paragraph (9) of section 457(e) as precedes subparagraph (A) is amended to read as follows:

“(9) **BENEFITS OF TAX EXEMPT ORGANIZATION PLANS NOT TREATED AS MADE AVAILABLE BY**

**REASON OF CERTAIN ELECTIONS, ETC.**—In the case of an eligible deferred compensation plan of an employer described in subsection (e)(1)(B)—”

(B) Section 457(d) is amended by adding at the end the following new paragraph:

“(3) **SPECIAL RULE FOR GOVERNMENT PLAN.**—An eligible deferred compensation plan of an employer described in subsection (e)(1)(A) shall not be treated as failing to meet the requirements of this subsection solely by reason of making a distribution described in subsection (e)(9)(A).”

(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. 341. REPEAL OF 150 PERCENT OF CURRENT LIABILITY FUNDING LIMIT.**

(a) **AMENDMENT TO INTERNAL REVENUE CODE OF 1986.**—Section 412(c)(7) (relating to full-funding limitation) is amended—

(1) by striking “the applicable percentage” in subparagraph (A)(i)(I) and inserting “in the case of plan years beginning before January 1, 2004, the applicable percentage”, and

(2) by amending subparagraph (F) to read as follows:

“(F) **APPLICABLE PERCENTAGE.**—For purposes of subparagraph (A)(i)(I), the applicable percentage shall be determined in accordance with the following table:

<b>“In the case of any plan the beginning in—</b>	<b>The applicable percentage is—</b>
2001 .....	160
2002 .....	165
2003 .....	170.”

(b) **AMENDMENT TO ERISA.**—Section 302(c)(7) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1082(c)(7)) is amended—

(1) by striking “the applicable percentage” in subparagraph (A)(i)(I) and inserting “in the case of plan years beginning before January 1, 2004, the applicable percentage”, and

(2) by amending subparagraph (F) to read as follows:

“(F) **APPLICABLE PERCENTAGE.**—For purposes of subparagraph (A)(i)(I), the applicable percentage shall be determined in accordance with the following table:

<b>“In the case of any plan year beginning in—</b>	<b>The applicable percentage is—</b>
2001 .....	160
2002 .....	165
2003 .....	170.”

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

**SEC. 342. MAXIMUM CONTRIBUTION DEDUCTION RULES MODIFIED AND APPLIED TO ALL DEFINED BENEFIT PLANS.**

(a) **IN GENERAL.**—Subparagraph (D) of section 404(a)(1) (relating to special rule in case of certain plans) is amended to read as follows:

“(D) **SPECIAL RULE IN CASE OF CERTAIN PLANS.**—

“(i) **IN GENERAL.**—In the case of any defined benefit plan, except as provided in regulations, the maximum amount deductible under the limitations of this paragraph shall not be less than the unfunded termination liability (determined as if the proposed termination date referred to in section 4041(b)(2)(A)(i)(II) of the Employee Retirement Income Security Act of 1974 were the last day of the plan year).

“(ii) **PLANS WITH LESS THAN 100 PARTICIPANTS.**—For purposes of this subparagraph, in the case of a plan which has less than 100 participants for the plan year, termination liability shall not include the liability attributable to benefit increases for highly compensated employees (as defined in sec-

tion 414(q)) resulting from a plan amendment which is made or becomes effective, whichever is later, within the last 2 years before the termination date.

“(iii) **RULE FOR DETERMINING NUMBER OF PARTICIPANTS.**—For purposes of determining whether a plan has more than 100 participants, all defined benefit plans maintained by the same employer (or any member of such employer’s controlled group (within the meaning of section 412(l)(8)(C))) shall be treated as one plan, but only employees of such member or employer shall be taken into account.

“(iv) **PLANS ESTABLISHED AND MAINTAINED BY PROFESSIONAL SERVICE EMPLOYERS.**—Clause (i) shall not apply to a plan described in section 4021(b)(13) of the Employee Retirement Income Security Act of 1974.”

(b) **CONFORMING AMENDMENT.**—Paragraph (6) of section 4972(c) is amended to read as follows:

“(6) **EXCEPTIONS.**—In determining the amount of nondeductible contributions for any taxable year, there shall not be taken into account so much of the contributions to one or more defined contribution plans which are not deductible when contributed solely because of section 404(a)(7) as does not exceed the greater of—

“(A) the amount of contributions not in excess of 6 percent of compensation (within the meaning of section 404(a)) paid or accrued (during the taxable year for which the contributions were made) to beneficiaries under the plans, or

“(B) the sum of—

“(i) the amount of contributions described in section 401(m)(4)(A), plus

“(ii) the amount of contributions described in section 402(g)(3)(A).

For purposes of this paragraph, the deductible limits under section 404(a)(7) shall first be applied to amounts contributed to a defined benefit plan and then to amounts described in subparagraph (B).”

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

**SEC. 343. MISSING PARTICIPANTS.**

(a) **IN GENERAL.**—Section 4050 of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1350) is amended by redesignating subsection (c) as subsection (e) and by inserting after subsection (b) the following:

“(c) **MULTIEMPLOYER PLANS.**—The corporation shall prescribe rules similar to the rules in subsection (a) for multiemployer plans covered by this title that terminate under section 401A.

“(d) **PLANS NOT OTHERWISE SUBJECT TO TITLE.**—

“(1) **TRANSFER TO CORPORATION.**—The plan administrator of a plan described in paragraph (4) may elect to transfer a missing participant’s benefits to the corporation upon termination of the plan.

“(2) **INFORMATION TO THE CORPORATION.**—To the extent provided in regulations, the plan administrator of a plan described in paragraph (4) shall, upon termination of the plan, provide the corporation information with respect to benefits of a missing participant if the plan transfers such benefits—

“(A) to the corporation, or

“(B) to an entity other than the corporation or a plan described in paragraph (4)(B)(ii).

“(3) **PAYMENT BY THE CORPORATION.**—If benefits of a missing participant were transferred to the corporation under paragraph (1), the corporation shall, upon location of the participant or beneficiary, pay to the participant or beneficiary the amount transferred (or the appropriate survivor benefit) either—

“(A) in a single sum (plus interest), or

“(B) in such other form as is specified in regulations of the corporation.

“(4) PLANS DESCRIBED.—A plan is described in this paragraph if—

“(A) the plan is a pension plan (within the meaning of section 3(2))—

“(i) to which the provisions of this section do not apply (without regard to this subsection), and

“(ii) which is not a plan described in paragraphs (2) through (11) of section 4021(b), and

“(B) at the time the assets are to be distributed upon termination, the plan—

“(i) has missing participants, and

“(ii) has not provided for the transfer of assets to pay the benefits of all missing participants to another pension plan (within the meaning of section 3(2)).

“(5) CERTAIN PROVISIONS NOT TO APPLY.—Subsections (a)(1) and (a)(3) shall not apply to a plan described in paragraph (4).”

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to distributions made after final regulations implementing subsections (c) and (d) of section 4050 of the Employee Retirement Income Security Act of 1974 (as added by subsection (a)), respectively, are prescribed.

**SEC. 344. 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 to read as follows:

“(a)(1) Except as provided in paragraph (2)—

“(A) The administrator of an individual account plan shall furnish a pension benefit statement—

“(i) to a plan participant at least once annually, and

“(ii) to a plan beneficiary upon written request.

“(B) The administrator of a defined benefit plan shall furnish a pension benefit statement—

“(i) at least once every 3 years to each participant with a nonforfeitable accrued benefit who is employed by the employer maintaining the plan at the time the statement is furnished to participants, and

“(ii) to a participant or beneficiary of the plan upon written request.

“(2) Notwithstanding paragraph (1), the administrator of a plan to which more than 1 unaffiliated employer is required to contribute shall only be required to furnish a pension benefit statement under paragraph (1) upon the written request of a participant or beneficiary of the plan.

“(3) A pension benefit statement under paragraph (1)—

“(A) shall indicate, on the basis of the latest available information—

“(i) the total benefits accrued, and

“(ii) the nonforfeitable pension benefits, if any, which have accrued, or the earliest date on which benefits will become nonforfeitable.

“(B) shall be communicated in a manner calculated to be understood by the average plan participant, and

“(C) may be provided in written, electronic, telephonic, or other appropriate form.

“(4) In the case of a defined benefit plan, the requirements of paragraph (1)(B)(i) shall be treated as met with respect to a participant if the administrator provides the participant at least once each year with notice of the availability of the pension benefit statement and the ways in which the participant may obtain such statement. Such notice shall be provided in written, electronic, telephonic, or other appropriate form, and may be included with other communications to the participant if done in a manner reasonably designed to attract the attention of the participant.”

(b) CONFORMING AMENDMENTS.—

(1) Section 105 of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1025) is amended by striking subsection (d).

(2) Section 105(b) of such Act (29 U.S.C. 1025(b)) is amended to read as follows:

“(b) In no case shall a participant or beneficiary of a plan be entitled to more than one statement described in subsection (a)(1)(A) or (a)(1)(B)(ii), whichever is applicable, in any 12-month period.”

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

**SEC. 345. CIVIL PENALTIES FOR BREACH OF FIDUCIARY RESPONSIBILITY.**

(a) IMPOSITION AND AMOUNT OF PENALTY MADE DISCRETIONARY.—Section 502(l)(1) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1132(l)(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(l)(2) of such Act (29 U.S.C. 1132(l)(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 any fiduciary or other person (or from any other person on behalf of any such fiduciary or other person) with respect to a breach or violation described in paragraph (1) on or after the 30th 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 30-day period described in the preceding sentence.”

(c) OTHER RULES.—Section 502(l) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1132(l)) 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 DATES.—

(1) IN GENERAL.—The amendments made by this section shall apply to any breach of fiduciary responsibility or other violation of part 4 of subtitle B of title I of the Employee Retirement Income Security Act of 1974 occurring on or after the date of enactment of this Act.

(2) TRANSITION RULE.—In applying the amendment made by subsection (b) (relating to applicable recovery amount), a breach or other violation occurring before the date of enactment of this Act which continues after the 180th day after such date (and which may have been discontinued at any time during its existence) shall be treated as having occurred after such date of enactment.

**SEC. 346. EXCISE TAX RELIEF FOR SOUND PENSION FUNDING.**

(a) IN GENERAL.—Subsection (c) of section 4972 (relating to nondeductible contributions) is amended by adding at the end the following new paragraph:

“(7) DEFINED BENEFIT PLAN EXCEPTION.—In determining the amount of nondeductible contributions for any taxable year, an employer may elect for such year not to take into account any contributions to a defined benefit plan except to the extent that such

contributions exceed the full-funding limitation (as defined in section 412(c)(7)), determined without regard to subparagraph (A)(i)(I) thereof). For purposes of this paragraph, the deductible limits under section 404(a)(7) shall first be applied to amounts contributed to defined contribution plans and then to amounts described in this paragraph. If an employer makes an election under this paragraph for a taxable year, paragraph (6) shall not apply to such employer for such taxable year.”

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

**SEC. 347. EXCISE TAX ON FAILURE TO PROVIDE NOTICE BY DEFINED BENEFIT PLANS SIGNIFICANTLY REDUCING FUTURE BENEFIT ACCRUALS.**

(a) AMENDMENT TO 1986 CODE.—Chapter 43 (relating to qualified pension, etc., plans) is amended by adding at the end the following new section:

**“SEC. 4980F. FAILURE OF APPLICABLE PLANS REDUCING BENEFIT ACCRUALS TO SATISFY NOTICE REQUIREMENTS.**

“(a) IMPOSITION OF TAX.—There is hereby imposed a tax on the failure of any applicable pension plan to meet the requirements of subsection (e) with respect to any applicable individual.

“(b) AMOUNT OF TAX.—

“(1) IN GENERAL.—The amount of the tax imposed by subsection (a) on any failure with respect to any applicable individual shall be \$100 for each day in the noncompliance period with respect to such failure.

“(2) NONCOMPLIANCE PERIOD.—For purposes of this section, the term ‘noncompliance period’ means, with respect to any failure, the period beginning on the date the failure first occurs and ending on the date the failure is corrected.

“(c) LIMITATIONS ON AMOUNT OF TAX.—

“(1) OVERALL LIMITATION FOR UNINTENTIONAL FAILURES.—In the case of failures that are due to reasonable cause and not to willful neglect, the tax imposed by subsection (a) for failures during the taxable year of the employer (or, in the case of a multiemployer plan, the taxable year of the trust forming part of the plan) shall not exceed \$500,000. For purposes of the preceding sentence, all multiemployer plans of which the same trust forms a part shall be treated as one plan. For purposes of this paragraph, if not all persons who are treated as a single employer for purposes of this section have the same taxable year, the taxable years taken into account shall be determined under principles similar to the principles of section 1561.

“(2) WAIVER BY SECRETARY.—In the case of a failure which is due to reasonable cause and not to willful neglect, the Secretary may waive part or all of the tax imposed by subsection (a) to the extent that the payment of such tax would be excessive relative to the failure involved.

“(d) LIABILITY FOR TAX.—The following shall be liable for the tax imposed by subsection (a):

“(1) In the case of a plan other than a multiemployer plan, the employer.

“(2) In the case of a multiemployer plan, the plan.

“(e) NOTICE REQUIREMENTS FOR PLANS SIGNIFICANTLY REDUCING BENEFIT ACCRUALS.—

“(1) IN GENERAL.—If an applicable pension plan is amended to provide for a significant reduction in the rate of future benefit accrual, the plan administrator shall provide written notice to each applicable individual (and to each employee organization representing applicable individuals).

“(2) NOTICE.—The notice required by paragraph (1) shall be written in a manner calculated to be understood by the average plan

participant and shall provide sufficient information (as determined in accordance with regulations prescribed by the Secretary) to allow applicable individuals to understand the effect of the plan amendment.

"(3) TIMING OF NOTICE.—Except as provided in regulations, the notice required by paragraph (1) shall be provided within a reasonable time before the effective date of the plan amendment.

"(4) DESIGNEES.—Any notice under paragraph (1) may be provided to a person designated, in writing, by the person to which it would otherwise be provided.

"(5) NOTICE BEFORE ADOPTION OF AMENDMENT.—A plan shall not be treated as failing to meet the requirements of paragraph (1) merely because notice is provided before the adoption of the plan amendment if no material modification of the amendment occurs before the amendment is adopted.

"(f) APPLICABLE INDIVIDUAL; APPLICABLE PENSION PLAN.—For purposes of this section—

"(1) APPLICABLE INDIVIDUAL.—The term 'applicable individual' means, with respect to any plan amendment—

"(A) any participant in the plan, and  
 "(B) any beneficiary who is an alternate payee (within the meaning of section 414(p)(8)) under an applicable qualified domestic relations order (within the meaning of section 414(p)(1)(A)),

who may reasonably be expected to be affected by such plan amendment.

"(2) APPLICABLE PENSION PLAN.—The term 'applicable pension plan' means—

"(A) any defined benefit plan, or  
 "(B) an individual account plan which is subject to the funding standards of section 412,

which had 100 or more participants who had accrued a benefit, or with respect to whom contributions were made, under the plan (whether or not vested) as of the last day of the plan year preceding the plan year in which the plan amendment becomes effective. 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)) with respect to which the election provided by section 410(d) has not been made."

(b) AMENDMENT TO ERISA.—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 paragraph:

"(3)(A) A plan to which paragraph (1) applies shall not be treated as meeting the requirements of such paragraph unless, in addition to any notice required to be provided to an individual or organization under such paragraph, the plan administrator provides the notice described in subparagraph (B).

"(B) The notice required by subparagraph (A) shall be written in a manner calculated to be understood by the average plan participant and shall provide sufficient information (as determined in accordance with regulations prescribed by the Secretary of the Treasury) to allow individuals to understand the effect of the plan amendment.

"(C) Except as provided in regulations prescribed by the Secretary of the Treasury, the notice required by subparagraph (A) shall be provided within a reasonable time before the effective date of the plan amendment.

"(D) A plan shall not be treated as failing to meet the requirements of subparagraph (A) merely because notice is provided before the adoption of the plan amendment if no material modification of the amendment occurs before the amendment is adopted."

(c) CLERICAL AMENDMENT.—The table of sections for chapter 43 is amended by adding at the end the following new item:

"Sec. 4980F. Failure of applicable plans reducing benefit accruals to satisfy notice requirements."

(d) EFFECTIVE DATES.—

(1) IN GENERAL.—The amendments made by this section shall apply to plan amendments taking effect on or after the date of the enactment of this Act.

(2) TRANSITION.—Until such time as the Secretary of the Treasury issues regulations under sections 4980F(e)(2) and (3) of the Internal Revenue Code of 1986 and section 204(h)(3) of the Employee Retirement Income Security Act of 1974 (as added by the amendments made by this section), a plan shall be treated as meeting the requirements of such sections if it makes a good faith effort to comply with such requirements.

(3) SPECIAL RULE.—The period for providing any notice required by the amendments made by this section shall not end before the date which is 3 months after the date of the enactment of this Act.

**SEC. 348. PROTECTION OF INVESTMENT OF EMPLOYEE CONTRIBUTIONS TO 401(K) PLANS.**

(a) IN GENERAL.—Section 1524(b) of the Taxpayer Relief Act of 1997 is amended to read as follows:

"(b) EFFECTIVE DATE.—

"(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to elective deferrals for plan years beginning after December 31, 1998.

"(2) NONAPPLICATION TO PREVIOUSLY ACQUIRED PROPERTY.—The amendments made by this section shall not apply to any elective deferral which is invested in assets consisting of qualifying employer securities, qualifying employer real property, or both, if such assets were acquired before January 1, 1999."

(b) EFFECTIVE DATE.—The amendment made by this section shall apply as if included in the provision of the Taxpayer Relief Act of 1997 to which it relates.

**SEC. 349. 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) EFFECTIVE DATE.—The amendment made by this section shall apply to years beginning after December 31, 2000.

**SEC. 350. 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 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.;"

(B) by redesignating subparagraph (G) as subparagraph (J); and

(C) 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.;"

(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".

**SEC. 351. MODEL SPOUSAL CONSENT LANGUAGE AND QUALIFIED DOMESTIC RELATIONS ORDER.**

(a) MODEL SPOUSAL CONSENT LANGUAGE.—Section 205(c) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1055(c)) is amended by adding at the end the following new paragraph:

"(9) Not later than January 1, 2001, the Secretary of Labor shall develop model language for the spousal consent required under paragraph (2) which—

"(A) is written in a manner calculated to be understood by the average person, and

"(B) discloses in plain terms whether—

"(i) the waiver is irrevocable, and

"(ii) the waiver may be revoked by a qualified domestic relations order."

(b) MODEL QUALIFIED DOMESTIC RELATIONS ORDER.—Section 206(d)(3) of such Act (29 U.S.C. 1056(d)(3)) is amended by adding at the end the following new subparagraph:

"(O) Not later than January 1, 2001, the Secretary shall develop language for a qualified domestic relations order which meets—

"(i) the requirements of subparagraph (B)(i), and

"(ii) the requirements of this Act related to the need to consider the treatment of any lump sum payment, qualified joint and survivor annuity, or qualified preretirement survivor annuity."

(c) PUBLICITY.—The Secretary of Labor shall include publicity for the model language required by the amendments made by this section in the pension outreach efforts undertaken by each Secretary.

**SEC. 352. ELIMINATION OF ERISA DOUBLE JEOPARDY.**

(a) ELIMINATION OF SECOND LAWSUITS BY THE SECRETARY.—Section 502(h) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1132(h)) is amended—

(1) by inserting "(1)" after "(h)", and

(2) by adding at the end the following:

"(2) In any case in which—

"(A) a complaint in an action brought against a person under subsection (a)(2) is served in accordance with paragraph (1), and

"(B) the action is maintained as a class action or derivative action under the Federal Rules of Civil Procedure,

"(C) the action is resolved by a court-approved settlement agreement,

"(D) the complaint is served upon the Secretary at least 90 days prior to final court approval of the settlement agreement, and

"(E) the Secretary receives a fully executed copy of the settlement agreement within the time established by the court for notifying the plan's participants of the proposed compromise pursuant to Rule 23 or 23.1 of the Federal Rules of Civil Procedure,

the Secretary shall be barred from litigating any claim against such person under subsection (a)(2) that was, or could have been, brought in that action with respect to the same plan. Notwithstanding this paragraph, the Secretary shall not be barred from litigating any claim against such person under subsection (a)(2) if the Secretary filed a complaint under subsection (a)(2) prior to the final court approval of the settlement agreement."

(b) EFFECTIVE DATE.—The amendments made by this section are effective with respect to all actions or claims commenced by the Secretary that are pending on or after the date of the enactment of this Act.

**Subtitle E—Reducing Regulatory Burdens**

**SEC. 361. MODIFICATION OF TIMING OF PLAN VALUATIONS.**

(a) IN GENERAL.—Section 412(c)(9) (relating to annual valuation) is amended—

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

"(A) IN GENERAL.—For purposes", and

(2) by adding at the end the following:

"(B) ELECTION TO USE PRIOR YEAR VALUATION.—

"(i) IN GENERAL.—Except as provided in clause (ii), if, for any plan year—

"(I) an election is in effect under this subparagraph with respect to a plan, and

"(II) the assets of the plan are not less than 125 percent of the plan's current liability (as defined in paragraph (7)(B)), determined as of the valuation date for the preceding plan year,

then this section shall be applied using the information available as of such valuation date.

"(ii) EXCEPTIONS.—

"(I) ACTUAL VALUATION EVERY 3 YEARS.—Clause (i) shall not apply for more than 2 consecutive plan years and valuation shall be under subparagraph (A) with respect to any plan year to which clause (i) does not apply by reason of this subclause.

"(II) REGULATIONS.—Clause (i) shall not apply to the extent that more frequent valuations are required under the regulations under subparagraph (A).

"(iii) ADJUSTMENTS.—Information under clause (i) shall, in accordance with regulations, be actuarially adjusted to reflect significant differences in participants.

"(iv) ELECTION.—An election under this subparagraph, once made, shall be irrevocable without the consent of the Secretary."

(b) AMENDMENTS TO ERISA.—Paragraph (9) of section 302(c) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1053(c)) is amended—

(1) by inserting "(A)" after "(9)", and

(2) by adding at the end the following:

"(B)(i) Except as provided in clause (ii), if, for any plan year—

"(I) an election is in effect under this subparagraph with respect to a plan, and

"(II) the assets of the plan are not less than 125 percent of the plan's current liability (as defined in paragraph (7)(B)), determined as of the valuation date for the preceding plan year,

then this section shall be applied using the information available as of such valuation date.

"(ii)(I) Clause (i) shall not apply for more than 2 consecutive plan years and valuation shall be under subparagraph (A) with respect to any plan year to which clause (i) does not apply by reason of this subclause.

"(II) Clause (i) shall not apply to the extent that more frequent valuations are required under the regulations under subparagraph (A).

"(iii) Information under clause (i) shall, in accordance with regulations, be actuarially adjusted to reflect significant differences in participants.

"(iv) An election under this subparagraph, once made, shall be irrevocable without the consent of the Secretary of the Treasury."

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

**SEC. 362. ESOP DIVIDENDS MAY BE REINVESTED WITHOUT LOSS OF DIVIDEND DEDUCTION.**

(a) IN GENERAL.—Section 404(k)(2)(A) (defining applicable dividends) is amended by striking "or" at the end of clause (ii), by redesignating clause (iii) as clause (iv), and by inserting after clause (ii) the following new clause:

"(iii) is, at the election of such participants or their beneficiaries—

"(I) payable as provided in clause (i) or (ii), or

"(II) paid to the plan and reinvested in qualifying employer securities, or".

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

**SEC. 363. REPEAL OF TRANSITION RULE RELATING TO CERTAIN HIGHLY COMPENSATED EMPLOYEES.**

(a) IN GENERAL.—Paragraph (4) of section 1114(c) of the Tax Reform Act of 1986 is hereby repealed.

(b) EFFECTIVE DATE.—The repeal made by subsection (a) shall apply to plan years beginning after December 31, 1999.

**SEC. 364. EMPLOYEES OF TAX-EXEMPT ENTITIES.**

(a) IN GENERAL.—The Secretary of the Treasury shall modify Treasury Regulations section 1.410(b)-6(g) to provide that employees of an organization described in section 403(b)(1)(A)(i) of the Internal Revenue Code of 1986 who are eligible to make contributions under section 403(b) of such Code pursuant to a salary reduction agreement may be treated as excludable with respect to a plan under section 401(k) or (m) of such Code that is provided under the same general arrangement as a plan under such section 401(k), if—

(1) no employee of an organization described in section 403(b)(1)(A)(i) of such Code is eligible to participate in such section 401(k) plan or section 401(m) plan, and

(2) 95 percent of the employees who are not employees of an organization described in section 403(b)(1)(A)(i) of such Code are eligible to participate in such plan under such section 401(k) or (m).

(b) EFFECTIVE DATE.—The modification required by subsection (a) shall apply as of the same date set forth in section 1426(b) of the Small Business Job Protection Act of 1996.

**SEC. 365. CLARIFICATION OF TREATMENT OF EMPLOYER-PROVIDED RETIREMENT ADVICE.**

(a) IN GENERAL.—Subsection (a) of section 132 (relating to exclusion from gross income) is amended by striking "or" at the end of paragraph (5), by striking the period at the end of paragraph (6) and inserting ", or", and by adding at the end the following new paragraph:

"(7) qualified retirement planning services."

(b) QUALIFIED RETIREMENT PLANNING SERVICES DEFINED.—Section 132 is amended by redesignating subsection (m) as subsection (n) and by inserting after subsection (l) the following:

"(m) QUALIFIED RETIREMENT PLANNING SERVICES.—

"(1) IN GENERAL.—For purposes of this section, the term 'qualified retirement planning services' means any retirement planning service provided to an employee and his spouse by an employer maintaining a qualified employer plan.

"(2) NONDISCRIMINATION RULE.—Subsection (a)(7) shall apply in the case of highly compensated employees only if such services are available on substantially the same terms to each member of the group of employees normally provided education and information regarding the employer's 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.

**SEC. 366. REPORTING SIMPLIFICATION.**

(a) SIMPLIFIED ANNUAL FILING REQUIREMENT FOR OWNERS AND THEIR SPOUSES.—

(1) IN GENERAL.—The Secretary of the Treasury shall modify the requirements for filing annual returns with respect to one-participant retirement plans to ensure that such plans with assets of \$250,000 or less as of the close of the plan year need not file a return for that year.

(2) ONE-PARTICIPANT RETIREMENT PLAN DEFINED.—For purposes of this subsection, the term “one-participant retirement plan” means a retirement plan that—

(A) on the first day of the plan year—

(i) covered only the employer (and the employer's spouse) and the employer owned the entire business (whether or not incorporated), or

(ii) covered only one or more partners (and their spouses) in a business partnership (including partners in an S or C corporation),

(B) meets the minimum coverage requirements of section 410(b) of the Internal Revenue Code of 1986 without being combined with any other plan of the business that covers the employees of the business,

(C) does not provide benefits to anyone except the employer (and the employer's spouse) or the partners (and their spouses),

(D) does not cover a business that is a member of an affiliated service group, a controlled group of corporations, or a group of businesses under common control, and

(E) does not cover a business that leases employees.

(3) OTHER DEFINITIONS.—Terms used in paragraph (2) which are also used in section 414 of the Internal Revenue Code of 1986 shall have the respective meanings given such terms by such section.

(b) SIMPLIFIED ANNUAL FILING REQUIREMENT FOR PLANS WITH FEWER THAN 25 EMPLOYEES.—In the case of a retirement plan which covers less than 25 employees on the first day of the plan year and meets the requirements described in subparagraphs (B), (D), and (E) of subsection (a)(2), the Secretary of the Treasury shall provide for the filing of a simplified annual return that is substantially similar to the annual return required to be filed by a one-participant retirement plan.

(c) EFFECTIVE DATE.—The provisions of this section shall take effect on January 1, 2001.

#### SEC. 367. IMPROVEMENT OF EMPLOYEE PLANS COMPLIANCE RESOLUTION SYSTEM.

The Secretary of the Treasury shall continue to update and improve the Employee Plans Compliance Resolution System (or any successor program) giving special attention to—

(1) increasing the awareness and knowledge of small employers concerning the availability and use of the program,

(2) taking into account special concerns and circumstances that small employers face with respect to compliance and correction of compliance failures,

(3) extending the duration of the self-correction period under the Administrative Policy Regarding Self-Correction for significant compliance failures,

(4) expanding the availability to correct insignificant compliance failures under the Administrative Policy Regarding Self-Correction during audit, and

(5) assuring that any tax, penalty, or sanction that is imposed by reason of a compliance failure is not excessive and bears a reasonable relationship to the nature, extent, and severity of the failure.

#### SEC. 368. SUBSTANTIAL OWNER BENEFITS IN TERMINATED PLANS.

(a) MODIFICATION OF PHASE-IN OF GUARANTEE.—Section 4022(b)(5) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1322(b)(5)) is amended to read as follows:

“(5)(A) For purposes of this paragraph, the term ‘majority owner’ means an individual who, at any time during the 60-month period ending on the date the determination is being made—

“(i) owns the entire interest in an unincorporated trade or business,

“(ii) in the case of a partnership, is a partner who owns, directly or indirectly, 50 percent or more of either the capital interest or the profits interest in such partnership, or

“(iii) in the case of a corporation, owns, directly or indirectly, 50 percent or more in value of either the voting stock of that corporation or all the stock of that corporation. For purposes of clause (iii), the constructive ownership rules of section 1563(e) of the Internal Revenue Code of 1986 shall apply (determined without regard to section 1563(e)(3)(C)).

“(B) In the case of a participant who is a majority owner, the amount of benefits guaranteed under this section shall equal the product of—

“(i) a fraction (not to exceed 1) the numerator of which is the number of years from the later of the effective date or the adoption date of the plan to the termination date, and the denominator of which is 10, and

“(ii) the amount of benefits that would be guaranteed under this section if the participant were not a majority owner.”.

(b) MODIFICATION OF ALLOCATION OF ASSETS.—

(1) Section 4044(a)(4)(B) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1344(a)(4)(B)) is amended by striking “section 4022(b)(5)” and inserting “section 4022(b)(5)(B)”.

(2) Section 4044(b) of such Act (29 U.S.C. 1344(b)) is amended—

(A) by striking “(5)” in paragraph (2) and inserting “(4), (5),” and

(B) by redesignating paragraphs (3) through (6) as paragraphs (4) through (7), respectively, and by inserting after paragraph (2) the following:

“(3) If assets available for allocation under paragraph (4) of subsection (a) are insufficient to satisfy in full the benefits of all individuals who are described in that paragraph, the assets shall be allocated first to benefits described in subparagraph (A) of that paragraph. Any remaining assets shall then be allocated to benefits described in subparagraph (B) of that paragraph. If assets allocated to such subparagraph (B) are insufficient to satisfy in full the benefits described in that subparagraph, the assets shall be allocated pro rata among individuals on the basis of the present value (as of the termination date) of their respective benefits described in that subparagraph.”.

(c) CONFORMING AMENDMENTS.—

(1) Section 4021 of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1321) is amended—

(A) in subsection (b)(9), by striking “as defined in section 4022(b)(6)”, and

(B) by adding at the end the following:

“(d) For purposes of subsection (b)(9), the term ‘substantial owner’ means an individual who, at any time during the 60-month period ending on the date the determination is being made—

“(1) owns the entire interest in an unincorporated trade or business,

“(2) in the case of a partnership, is a partner who owns, directly or indirectly, more than 10 percent of either the capital interest or the profits interest in such partnership, or

“(3) in the case of a corporation, owns, directly or indirectly, more than 10 percent in value of either the voting stock of that corporation or all the stock of that corporation. For purposes of paragraph (3), the constructive ownership rules of section 1563(e) of the

Internal Revenue Code of 1986 shall apply (determined without regard to section 1563(e)(3)(C)).”.

(2) Section 4043(c)(7) of such Act (29 U.S.C. 1343(c)(7)) is amended by striking “section 4022(b)(6)” and inserting “section 4021(d)”.

(d) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to plan terminations—

(A) under section 4041(c) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1341(c)) with respect to which notices of intent to terminate are provided under section 4041(a)(2) of such Act (29 U.S.C. 1341(a)(2)) after December 31, 2000, and

(B) under section 4042 of such Act (29 U.S.C. 1342) with respect to which proceedings are instituted by the corporation after such date.

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

#### SEC. 369. MODIFICATION OF EXCLUSION FOR EMPLOYER PROVIDED TRANSIT PASSES.

(a) IN GENERAL.—Section 132(f)(3) (relating to cash reimbursements) is amended by striking the last sentence.

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

#### SEC. 370. REPEAL OF THE MULTIPLE USE TEST.

(a) IN GENERAL.—Paragraph (9) of section 401(m) is amended to read as follows:

“(9) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary to carry out the purposes of this subsection and subsection (k), including regulations permitting appropriate aggregation of plans and contributions.”.

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

#### SEC. 371. FLEXIBILITY IN NONDISCRIMINATION, COVERAGE, AND LINE OF BUSINESS RULES.

(a) NONDISCRIMINATION.—

(1) IN GENERAL.—The Secretary of the Treasury shall, by regulation, provide that a plan shall be deemed to satisfy the requirements of section 401(a)(4) of the Internal Revenue Code of 1986 if such plan satisfies the facts and circumstances test under section 401(a)(4) of such Code, as in effect before January 1, 1994, but only if—

(A) the plan satisfies conditions prescribed by the Secretary to appropriately limit the availability of such test, and

(B) the plan is submitted to the Secretary for a determination of whether it satisfies such test.

Subparagraph (B) shall only apply to the extent provided by the Secretary.

(2) EFFECTIVE DATES.—

(A) REGULATIONS.—The regulation required by paragraph (1) shall apply to years beginning after December 31, 2000.

(B) CONDITIONS OF AVAILABILITY.—Any condition of availability prescribed by the Secretary under paragraph (1)(A) shall not apply before the first year beginning not less than 120 days after the date on which such condition is prescribed.

(b) COVERAGE TEST.—

(1) IN GENERAL.—Section 410(b)(1) (relating to minimum coverage requirements) is amended by adding at the end the following:

“(D) In the case that the plan fails to meet the requirements of subparagraphs (A), (B) and (C), the plan—

“(i) satisfies subparagraph (B), as in effect immediately before the enactment of the Tax Reform Act of 1986,

“(ii) is submitted to the Secretary for a determination of whether it satisfies the requirement described in clause (i), and



“(iii) satisfies conditions prescribed by the Secretary by regulation that appropriately limit the availability of this subparagraph.

Clause (ii) shall apply only to the extent provided by the Secretary.”.

(2) EFFECTIVE DATES.—

(A) IN GENERAL.—The amendment made by paragraph (1) shall apply to years beginning after December 31, 2000.

(B) CONDITIONS OF AVAILABILITY.—Any condition of availability prescribed by the Secretary under regulations prescribed by the Secretary under section 410(b)(1)(D) of the Internal Revenue Code of 1986 shall not apply before the first year beginning not less than 120 days after the date on which such condition is prescribed.

(C) LINE OF BUSINESS RULES.—The Secretary of the Treasury shall, on or before December 31, 2000, modify the existing regulations issued under section 414(r) of the Internal Revenue Code of 1986 in order to expand (to the extent that the Secretary determines appropriate) the ability of a pension plan to demonstrate compliance with the line of business requirements based upon the facts and circumstances surrounding the design and operation of the plan, even though the plan is unable to satisfy the mechanical tests currently used to determine compliance.

**SEC. 372. EXTENSION TO INTERNATIONAL ORGANIZATIONS OF MORATORIUM ON APPLICATION OF CERTAIN NON-DISCRIMINATION RULES APPLICABLE TO STATE AND LOCAL PLANS.**

(a) IN GENERAL.—Subparagraph (G) of section 401(a)(5), subparagraph (H) of section 401(a)(26), subparagraph (G) of section 401(k)(3), and paragraph (2) of section 1505(d) of the Taxpayer Relief Act of 1997 are each amended by inserting “or by an international organization which is described in section 414(d)” after “or instrumentality thereof”.

(b) CONFORMING AMENDMENTS.—

(1) The headings for subparagraph (G) of section 401(a)(5) and subparagraph (H) of section 401(a)(26) are each amended by inserting “AND INTERNATIONAL ORGANIZATION” after “GOVERNMENTAL”.

(2) Subparagraph (G) of section 401(k)(3) is amended by inserting “STATE AND LOCAL GOVERNMENTAL AND INTERNATIONAL ORGANIZATION PLANS.” after “(G)”.

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

**SEC. 373. NOTICE AND CONSENT PERIOD REGARDING DISTRIBUTIONS.**

(a) EXPANSION OF PERIOD.—

(1) IN GENERAL.—Subparagraph (A) of section 205(c)(7) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1055) is amended by striking “90-day” and inserting “180-day”.

(2) MODIFICATION OF REGULATIONS.—The Secretary of the Treasury shall modify the regulations of such Secretary under part 2 of subtitle B of title I of the Employee Retirement Income Security Act of 1974 to the extent that they relate to sections 203(e) and 205 of such Act to substitute “180 days” for “90 days” each place it appears.

(3) EFFECTIVE DATE.—The amendments made by paragraph (1) and the modifications required by paragraph (2) shall apply to years beginning after December 31, 2000.

(b) CONSENT REGULATION INAPPLICABLE TO CERTAIN DISTRIBUTIONS.—

(1) IN GENERAL.—The Secretary of the Treasury shall modify the regulations under section 205 of the Employee Retirement Income Security Act of 1974 to provide that the description of a participant's right, if any, to defer receipt of a distribution shall also describe the consequences of failing to defer such receipt.

(2) EFFECTIVE DATE.—The modifications required by paragraph (1) shall apply to years beginning after December 31, 2000.

**SEC. 374. ANNUAL REPORT DISSEMINATION.**

(a) IN GENERAL.—Section 104(b)(3) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1024(b)(3)) is amended by striking “shall furnish” and inserting “shall make available for examination (and, upon request, shall furnish)”.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to reports for years beginning after December 31, 1998.

**SEC. 375. EXCESS BENEFIT PLANS.**

(a) IN GENERAL.—Section 3(36) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1002(36)) is amended to read as follows:

“(36) The term ‘excess benefit plan’ means a plan, without regard to whether such plan is funded, maintained by an employer solely for the purpose of providing benefits to employees in excess of any limitation imposed by section 401(a)(17) or 415 of the Internal Revenue Code of 1986 or any other limitation on contributions or benefits in such Code on plans to which any of such sections apply. To the extent that a separable part of a plan (as determined by the Secretary of Labor) maintained by an employer is maintained for such purpose, that part shall be treated as a separate plan which is an excess benefit plan.”.

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

**SEC. 376. BENEFIT SUSPENSION NOTICE.**

(a) MODIFICATION OF REGULATION.—The Secretary of Labor shall modify the regulation under section 203(a)(3)(B) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1053(a)(3)(B)) to provide that, except in the case of employment, subsequent to the commencement of payment of benefits, with a former employer, the notification required by such regulation—

(1) may be included in the summary plan description for the plan furnished in accordance with section 104(b) of such Act (29 U.S.C. 1024(b)), rather than in a separate notice, and

(2) need not include a copy of the relevant plan provisions.

(c) EFFECTIVE DATE.—The modification made under this section shall apply to plan years beginning after December 31, 1999.

**SEC. 377. CLARIFICATION OF CHURCH WELFARE PLAN STATUS UNDER STATE INSURANCE LAW.**

For purposes of determining the status under State insurance law of a church plan (as defined in section 414(e) of the Internal Revenue Code and section 3(33) of the Employee Retirement Income Security Act that is a welfare plan (as defined in section 3(1)), such church plan (and any trust under such plan) shall be deemed a single-employer plan that—

(1) reimburses costs from general church assets;

(2) purchases insurance coverage with general church assets; or

(3) both.

For purposes of this paragraph, the term “reimbursing costs from general church assets” means engaging in a practice that does not have the effect of transferring or spreading risk. The scope of this paragraph is limited to determining the status of a church welfare plan under State insurance law, and does not otherwise recharacterized the status, or modify or affect the rights, of any plan participant, including those who make plan contributions.

**Subtitle F—Plan Amendments**

**SEC. 381. PROVISIONS RELATING TO PLAN AMENDMENTS.**

(a) IN GENERAL.—If this section applies to any plan or contract amendment—

(1) such plan or contract shall be treated as being operated in accordance with the terms of the plan during the period described in subsection (b)(2)(A), and

(2) such plan shall not fail to meet the requirements of section 411(d)(6) of the Internal Revenue Code of 1986 by reason of such amendment.

(b) AMENDMENTS TO WHICH SECTION APPLIES.—

(1) IN GENERAL.—This section shall apply to any amendment to any plan or annuity contract which is made—

(A) pursuant to any amendment made by this title, or pursuant to any regulation issued under this title, and

(B) on or before the last day of the first plan year beginning on or after January 1, 2003.

In the case of a government plan (as defined in section 414(d) of the Internal Revenue Code of 1986), this paragraph shall be applied by substituting “2005” for “2003”.

(2) CONDITIONS.—This section shall not apply to any amendment unless—

(A) during the period—

(i) beginning on the date the legislative or regulatory amendment described in paragraph (1)(A) takes effect (or in the case of a plan or contract amendment not required by such legislative or regulatory amendment, the effective date specified by the plan), and

(ii) ending on the date described in paragraph (1)(B) (or, if earlier, the date the plan or contract amendment is adopted),

the plan or contract is operated as if such plan or contract amendment were in effect, and

(B) such plan or contract amendment applies retroactively for such period.

**TITLE IV—EXTENSION OF WORK OPPORTUNITY CREDIT AND WELFARE-TO-WORK CREDIT**

**SEC. 401. WORK OPPORTUNITY CREDIT AND WELFARE-TO-WORK CREDIT.**

(a) TEMPORARY EXTENSION.—Sections 51(c)(4)(B) and 51A(f) (relating to termination) are each amended by striking “June 30, 1999” and inserting “December 31, 2001”.

(b) CLARIFICATION OF FIRST YEAR OF EMPLOYMENT.—Paragraph (2) of section 51(i) is amended by striking “during which he was not a member of a targeted group”.

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

**TITLE V—ESTATE TAX RELIEF**

**Subtitle A—Reductions of Estate and Gift Tax Rates**

**SEC. 501. REDUCTIONS OF ESTATE AND GIFT TAX RATES.**

(a) MAXIMUM RATE OF TAX REDUCED TO 50 PERCENT.—

(1) IN GENERAL.—The table contained in section 2001(c)(1) is amended by striking the two highest brackets and inserting the following:

“Over \$2,500,000 .....	\$1,025,800, plus 50% of the excess over \$2,500,000.”.
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(2) PHASE-IN OF REDUCED RATE.—Subsection (c) of section 2001 is amended by adding at the end the following new paragraph:

“(3) PHASE-IN OF REDUCED RATE.—In the case of decedents dying, and gifts made, during 2001, the last item in the table contained in paragraph (1) shall be applied by substituting ‘53%’ for ‘50%.’.”.

(b) REPEAL OF PHASEOUT OF GRADUATED RATES.—Subsection (c) of section 2001 is amended by striking paragraph (2) and redesignating paragraph (3), as added by subsection (a), as paragraph (2).

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

“(3) PHASEDOWN OF TAX.—In the case of estates of decedents dying, and gifts made, during any calendar year after 2002—

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

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

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

“(B) PERCENTAGE POINTS OF REDUCTION.—

**The number of**

**“For calendar year: percentage points is:**

2003 .....	1.0
2004 and thereafter .....	2.0.

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

(d) EFFECTIVE DATES.—

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

(2) SUBSECTION (c).—The amendment made by subsection (c) shall apply to estates of decedents dying, and gifts made, after December 31, 2002.

**Subtitle B—Unified Credit Replaced With Unified Exemption Amount**

**SEC. 511. UNIFIED CREDIT AGAINST ESTATE AND GIFT TAXES REPLACED WITH UNIFIED EXEMPTION AMOUNT.**

(a) IN GENERAL.—

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

**“SEC. 2052. EXEMPTION.**

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

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

“(2) the sum of—

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

“(B) the aggregate amount of gifts made by the decedent for which credit was allowed by section 2505 (as in effect on the day before the date of the enactment of the Wage and Employment Growth Act of 1999).

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

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

<b>“In the case of calendar year:</b>	<b>The exemption amount is:</b>
2001 .....	\$675,000
2002 and 2003 .....	\$700,000
2004 .....	\$850,000
2005 .....	\$950,000
2006 or thereafter .....	\$1,000,000.”.

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

**“SEC. 2521. EXEMPTION.**

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

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

“(2) the sum of—

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

“(B) the aggregate amount of gifts for which credit was allowed by section 2505 (as in effect on the day before the date of the enactment of the Wage and Employment Growth Act of 1999).”.

(b) REPEAL OF UNIFIED CREDITS.—

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

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

(c) CONFORMING AMENDMENTS.—

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

(2)(A) Subsection (b) of section 2011 is amended—

(i) by striking “adjusted” in the table, and

(ii) by striking the last sentence.

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

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

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

(B) Subparagraph (A) of section 2013(c)(1) is amended by striking “2010.”.

(5) Paragraph (2) of section 2014(b) is amended by striking “2010.”.

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

“(ii) to treat any reduction in the tax imposed by paragraph (1)(A) by reason of the credit allowable under section 2010 (as in effect on the day before the date of the enactment of the Wage and Employment Growth Act of 1999) or the exemption allowable under section 2052 with respect to the decedent as a credit under section 2505 (as so in effect) or exemption under section 2521 (as the case may be) allowable to such surviving spouse for purposes of determining the amount of the exemption allowable under section 2521 with respect to taxable gifts made by the surviving spouse during the year in which the spouse becomes a citizen or any subsequent year.”.

(7) Paragraph (3) of section 2057(a) is amended to read as follows:

“(3) COORDINATION WITH EXEMPTION AMOUNT.—

“(A) IN GENERAL.—Except as provided in subparagraph (B), if this section applies to an estate, the exemption amount under section 2052 shall be \$625,000.

“(B) INCREASE IN EXEMPTION AMOUNT IF DEDUCTION IS LESS THAN \$675,000.—If the deduction allowed by this section is less than \$675,000, the amount of the exemption amount under section 2052 shall be increased (but not above the amount which would apply to the estate without regard to this section) by the excess of \$675,000 over the amount of the deduction allowed.”.

(8)(A) Subparagraph (B) of section 2101(b)(1) is amended by inserting before the comma “reduced by the aggregate amount of

gifts for which credit was allowed by section 2505 (as in effect on the day before the date of the enactment of the Wage and Employment Growth Act of 1999)”

(B) Subsection (b) of section 2101 is amended by striking the last sentence.

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

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

“(4) EXEMPTION.—

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

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

“(i) \$60,000, or

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

“(C) SPECIAL RULES.—

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

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

(11)(A) Subsection (a) of section 2107 is amended by adding at the end the following new paragraph:

“(3) LIMITATION ON EXEMPTION AMOUNT.—Subparagraphs (B) and (C) of section 2106(a)(4) shall not apply in applying section 2106 for purposes of this section.”.

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

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

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

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

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

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

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

(15) Subsection (a) of section 2503 is amended by striking “section 2522” and inserting “section 2521”.

(16) Paragraph (1) of section 6018(a) is amended by striking “the applicable exclusion amount in effect under section 2010(c)” and inserting “the exemption amount under section 2052”.

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

“(A) the amount of the tax which would be imposed by chapter 11 on an amount of taxable estate equal to \$1,000,000, or”.

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

(19) The table of sections for part IV of subchapter A of chapter 11 is amended by inserting after the item relating to section 2051 the following new item:

“Sec. 2052. Exemption.”.

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

(21) The table of sections for subchapter C of chapter 12 is amended by inserting before the item relating to section 2522 the following new item:

“Sec. 2521. Exemption.”.

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

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

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

#### Subtitle C—Modifications of Generation-Skipping Transfer Tax

#### SEC. 521. DEEMED ALLOCATION OF GST EXEMPTION TO LIFETIME TRANSFERS TO TRUSTS; RETROACTIVE ALLOCATIONS.

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

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

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

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

“(A) allocated by such individual,

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

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

“(3) DEFINITIONS.—

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

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

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

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

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

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

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

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

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

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

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

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

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

“(5) APPLICABILITY AND EFFECT.—

“(A) IN GENERAL.—An individual—

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

“(I) an indirect skip, or

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

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

“(B) ELECTIONS.—

“(i) ELECTIONS WITH RESPECT TO INDIRECT SKIPS.—An election under subparagraph (A)(i)(I) shall be deemed to be timely if filed

on a timely filed gift tax return for the calendar year in which the transfer was made or deemed to have been made pursuant to paragraph (4) or on such later date or dates as may be prescribed by the Secretary.

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

“(d) RETROACTIVE ALLOCATIONS.—

“(1) IN GENERAL.—If—

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

“(B) such person—

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

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

“(C) such person predeceases the transferor,

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

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

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

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

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

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

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

(c) EFFECTIVE DATES.—

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

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

#### SEC. 522. SEVERING OF TRUSTS.

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

“(3) SEVERING OF TRUSTS.—

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

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

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

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

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

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

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

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

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

#### SEC. 523. MODIFICATION OF CERTAIN VALUATION RULES.

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

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

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

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

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

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

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

#### SEC. 524. RELIEF PROVISIONS.

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

“(g) RELIEF PROVISIONS.—

“(1) RELIEF FOR LATE ELECTIONS.—

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

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

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

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

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

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

(b) EFFECTIVE DATES.—

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

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

#### Subtitle D—Conservation Easements

#### SEC. 531. EXPANSION OF ESTATE TAX RULE FOR CONSERVATION EASEMENTS.

(a) WHERE LAND IS LOCATED.—

(1) IN GENERAL.—Clause (i) of section 2031(c)(8)(A) (defining land subject to a conservation easement) is amended—

(A) by striking “25 miles” both places it appears and inserting “50 miles”, and

(B) striking “10 miles” and inserting “25 miles”.

(2) EFFECTIVE DATE.—The amendments made by this subsection shall apply to estates of decedents dying after December 31, 1999.

(b) CLARIFICATION OF DATE FOR DETERMINING VALUE OF LAND AND EASEMENT.—

(1) IN GENERAL.—Section 2031(c)(2) (defining applicable percentage) is amended by adding at the end the following new sentence: “The values taken into account under the preceding sentence shall be such values as of the date of the contribution referred to in paragraph (8)(B).”

(2) EFFECTIVE DATE.—The amendment made by this subsection shall apply to estates of decedents dying after December 31, 1997.

#### TITLE VI—TAX RELIEF FOR DISTRESSED COMMUNITIES AND INDUSTRIES

#### Subtitle A—American Community Renewal Act of 1999

#### SEC. 601. SHORT TITLE.

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

#### SEC. 602. DESIGNATION OF AND TAX INCENTIVES FOR RENEWAL COMMUNITIES.

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

#### “Subchapter X—Renewal Communities

“Part I. Designation.

“Part II. Renewal community capital gain; renewal community business.

“Part III. Family development accounts.

“Part IV. Additional incentives.

#### “PART I—DESIGNATION

“Sec. 1400E. Designation of renewal communities.

#### “SEC. 1400E. DESIGNATION OF RENEWAL COMMUNITIES.

“(a) DESIGNATION.—

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

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

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

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

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

“(2) NUMBER OF DESIGNATIONS.—

“(A) IN GENERAL.—The Secretary of Housing and Urban Development may designate not more than 15 nominated areas as renewal communities of which—

“(i) only 5 may be designated during the first 12 months of the period referred to in paragraph (4)(B),

“(ii) an additional 5 may be designated during the second 12 months of such period, and

“(iii) the remaining 5 may be designated during the last 12 months of such period.

“(B) MINIMUM DESIGNATION IN RURAL AREAS.—Of the areas designated under paragraph (1), at least 3 must be areas—

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

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

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

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

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

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

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

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

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

“(4) LIMITATION ON DESIGNATIONS.—

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

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

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

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

“(B) TIME LIMITATIONS.—The Secretary of Housing and Urban Development may designate nominated areas as renewal communities only during the 36-month period beginning on the first day of the first month following the month in which the regulations described in subparagraph (A) are prescribed.

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

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

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

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

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

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

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

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

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

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

“(A) December 31, 2007,

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

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

“(2) REVOCATION OF DESIGNATION.—The Secretary of Housing and Urban Development

may revoke the designation under this section of an area if such Secretary determines that the local government or the State in which the area is located—

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

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

“(c) AREA AND ELIGIBILITY REQUIREMENTS.—

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

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

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

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

“(C) the area—

“(i) has a population, of at least—

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

“(II) 1,000 in any other case; or

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

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

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

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

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

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

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

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

“(d) REQUIRED STATE AND LOCAL COMMITMENTS.—

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

“(A) the local government and the State in which the area is located agree in writing

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

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

“(2) COURSE OF ACTION.—

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

except to the extent that such regulation of businesses and occupations is necessary for

and well-tailored to the protection of health and safety.

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

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

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

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

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

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

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

“(3) LOCAL GOVERNMENT.—The term ‘local government’ means—

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

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

“(C) the District of Columbia.

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

**“PART II—RENEWAL COMMUNITY CAPITAL GAIN; RENEWAL COMMUNITY BUSINESS**

“Sec. 1400F. Renewal community capital gain.

“Sec. 1400G. Renewal community business defined.

**“SEC. 1400F. RENEWAL COMMUNITY CAPITAL GAIN.**

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

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

“(1) IN GENERAL.—The term ‘qualified community asset’ means—

“(A) any qualified community stock;

“(B) any qualified community partnership interest; and

“(C) any qualified community business property.

“(2) QUALIFIED COMMUNITY STOCK.—

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

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

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

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

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

“(3) QUALIFIED COMMUNITY PARTNERSHIP INTEREST.—The term ‘qualified community partnership interest’ means any capital or

profits interest in a domestic partnership if—

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

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

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

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

“(4) QUALIFIED COMMUNITY BUSINESS PROPERTY.—

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

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

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

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

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

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

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

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

**“SEC. 1400G. RENEWAL COMMUNITY BUSINESS DEFINED.**

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

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

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

**“PART III—FAMILY DEVELOPMENT ACCOUNTS**

“Sec. 1400H. Family development accounts for renewal community EITC recipients.

“Sec. 1400I. Designation of earned income tax credit payments for deposit to family development account.

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

“(a) ALLOWANCE OF DEDUCTION.—

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

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

“(B) in the case of any person other than a qualified individual, the amount paid in cash for the taxable year by such person to any family development account for the benefit of a qualified individual but only if the

amount so paid is designated for purposes of this section by such individual.

“(2) LIMITATION.—

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

“(i) \$2,000, or

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

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

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

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

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

“(b) TAX TREATMENT OF DISTRIBUTIONS.—

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

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

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

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

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

“(A) Qualified higher education expenses.

“(B) Qualified first-time homebuyer costs.

“(C) Qualified business capitalization costs.

“(D) Qualified medical expenses.

“(E) Qualified rollovers.

“(3) QUALIFIED HIGHER EDUCATION EXPENSES.—

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

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

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

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

“(5) QUALIFIED BUSINESS CAPITALIZATION COSTS.—

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

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

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

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

“(ii) which contravenes any law.

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

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

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

“(A) such taxpayer, or

“(B) any qualified individual who is—

“(i) the spouse of such taxpayer, or

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

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

“(d) TAX TREATMENT OF ACCOUNTS.—

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

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

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

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

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

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

“(B) contributions will not be accepted for the taxable year in excess of \$3,000.

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

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

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

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

“(g) OTHER DEFINITIONS AND SPECIAL RULES.—

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

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

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

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

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

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

“(B) shall be furnished to individuals—

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

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

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

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

“(1) IN GENERAL.—If any amount is distributed from a family development account and is not used exclusively to pay qualified family development expenses for the holder of the account or the spouse or dependent (as defined in section 152) of such holder, the tax imposed by this chapter for the taxable year of such distribution shall be increased by 10 percent of the portion of such amount which is includible in gross income.

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

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

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

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

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

“SEC. 1400L. DESIGNATION OF EARNED INCOME TAX CREDIT PAYMENTS FOR DEPOSIT TO FAMILY DEVELOPMENT ACCOUNT.

“(a) IN GENERAL.—With respect to the return of any qualified individual (as defined in section 1400H(f)) for the taxable year of the tax imposed by this chapter, such individual may designate that a specified portion (not less than \$1) of any overpayment of tax for such taxable year which is attributable to the earned income tax credit shall be deposited by the Secretary into a family development account of such individual. The Secretary shall so deposit such portion designated under this subsection.

“(b) MANNER AND TIME OF DESIGNATION.—A designation under subsection (a) may be made with respect to any taxable year—

“(1) at the time of filing the return of the tax imposed by this chapter for such taxable year, or

“(2) at any other time (after the time of filing the return of the tax imposed by this chapter for such taxable year) specified in regulations prescribed by the Secretary.

Such designation shall be made in such manner as the Secretary prescribes by regulations.

“(c) PORTION ATTRIBUTABLE TO EARNED INCOME TAX CREDIT.—For purposes of subsection (a), an overpayment for any taxable year shall be treated as attributable to the earned income tax credit to the extent that such overpayment does not exceed the credit allowed to the taxpayer under section 32 for such taxable year.

“(d) OVERPAYMENTS TREATED AS REFUNDED.—For purposes of this title, any portion of an overpayment of tax designated under subsection (a) shall be treated as being refunded to the taxpayer as of the last date prescribed for filing the return of tax imposed by this chapter (determined without regard to extensions) or, if later, the date the return is filed.

“(e) TERMINATION.—This section shall not apply to any taxable year beginning after December 31, 2007.

#### “PART IV—ADDITIONAL INCENTIVES

“Sec. 1400K. Commercial revitalization deduction.

“Sec. 1400L. Increase in expensing under section 179.

“SEC. 1400K. COMMERCIAL REVITALIZATION DEDUCTION.

“(a) GENERAL RULE.—At the election of the taxpayer, either—

“(1) one-half of any qualified revitalization expenditures chargeable to capital account with respect to any qualified revitalization building shall be allowable as a deduction for the taxable year in which the building is placed in service, or

“(2) a deduction for all such expenditures shall be allowable ratably over the 120-month period beginning with the month in which the building is placed in service. The deduction provided by this section with respect to such expenditure shall be in lieu of any depreciation deduction otherwise allowable on account of such expenditure.

“(b) QUALIFIED REVITALIZATION BUILDINGS AND EXPENDITURES.—For purposes of this section—

“(1) QUALIFIED REVITALIZATION BUILDING.—The term ‘qualified revitalization building’ means any building (and its structural components) if—

“(A) such building is located in a renewal community and is placed in service after December 31, 2000;

“(B) a commercial revitalization deduction amount is allocated to the building under subsection (d); and

“(C) depreciation (or amortization in lieu of depreciation) is allowable with respect to the building (without regard to this section).

“(2) QUALIFIED REVITALIZATION EXPENDITURE.—

“(A) IN GENERAL.—The term ‘qualified revitalization expenditure’ means any amount properly chargeable to capital account—

“(i) for property for which depreciation is allowable under section 168 (without regard to this section) and which is—

“(I) nonresidential real property; or

“(II) an addition or improvement to property described in subclause (I);

“(ii) in connection with the construction of any qualified revitalization building which was not previously placed in service or in connection with the substantial rehabilitation (within the meaning of section 47(c)(1)(C)) of a building which was placed in service before the beginning of such rehabilitation; and

“(iii) for land (including land which is functionally related to such property and subordinate thereto).

“(B) DOLLAR LIMITATION.—The aggregate amount which may be treated as qualified revitalization expenditures with respect to any qualified revitalization building for any taxable year shall not exceed the excess of—

“(i) \$10,000,000, reduced by

“(ii) any such expenditures with respect to the building taken into account by the taxpayer or any predecessor in determining the amount of the deduction under this section for all preceding taxable years.

“(C) CERTAIN EXPENDITURES NOT INCLUDED.—The term ‘qualified revitalization expenditure’ does not include—

“(i) ACQUISITION COSTS.—The costs of acquiring any building or interest therein and any land in connection with such building to the extent that such costs exceed 30 percent of the qualified revitalization expenditures determined without regard to this clause.

“(ii) CREDITS.—Any expenditure which the taxpayer may take into account in computing any credit allowable under this title unless the taxpayer elects to take the expenditure into account only for purposes of this section.

“(c) WHEN EXPENDITURES TAKEN INTO ACCOUNT.—Qualified revitalization expenditures with respect to any qualified revitalization building shall be taken into account for the taxable year in which the qualified revitalization building is placed in service. For purposes of the preceding sentence, a substantial rehabilitation of a building shall be treated as a separate building.

“(d) LIMITATION ON AGGREGATE DEDUCTIONS ALLOWABLE WITH RESPECT TO BUILDINGS LOCATED IN A STATE.—

“(1) IN GENERAL.—The amount of the deduction determined under this section for any taxable year with respect to any building shall not exceed the commercial revitalization deduction amount (in the case of an amount determined under subsection (a)(2), the present value of such amount as determined under the rules of section 42(b)(2)(C) by substituting ‘100 percent’ for ‘72 percent’ in clause (ii) thereof) allocated to such building under this subsection by the commercial revitalization agency. Such allocation shall be made at the same time and in the same manner as under paragraphs (1) and (7) of section 42(h).

“(2) COMMERCIAL REVITALIZATION DEDUCTION AMOUNT FOR AGENCIES.—

“(A) IN GENERAL.—The aggregate commercial revitalization deduction amount which a commercial revitalization agency may allocate for any calendar year is the amount of the State commercial revitalization deduction ceiling determined under this paragraph for such calendar year for such agency.

“(B) STATE COMMERCIAL REVITALIZATION DEDUCTION CEILING.—The State commercial revitalization deduction ceiling applicable to any State—

“(i) for each calendar year after 2000 and before 2008 is \$6,000,000 for each renewal community in the State; and

“(ii) zero for each calendar year thereafter.

“(C) COMMERCIAL REVITALIZATION AGENCY.—For purposes of this section, the term ‘commercial revitalization agency’ means any agency authorized by a State to carry out this section.

“(e) RESPONSIBILITIES OF COMMERCIAL REVITALIZATION AGENCIES.—

“(1) PLANS FOR ALLOCATION.—Notwithstanding any other provision of this section, the commercial revitalization deduction amount with respect to any building shall be zero unless—

“(A) such amount was allocated pursuant to a qualified allocation plan of the commercial revitalization agency which is approved (in accordance with rules similar to the rules of section 147(f)(2) (other than subparagraph (B)(ii) thereof)) by the governmental unit of which such agency is a part; and

“(B) such agency notifies the chief executive officer (or its equivalent) of the local jurisdiction within which the building is located of such allocation and provides such individual a reasonable opportunity to comment on the allocation.

“(2) QUALIFIED ALLOCATION PLAN.—For purposes of this subsection, the term ‘qualified allocation plan’ means any plan—

“(A) which sets forth selection criteria to be used to determine priorities of the commercial revitalization agency which are appropriate to local conditions;

“(B) which considers—

“(i) the degree to which a project contributes to the implementation of a strategic plan that is devised for a renewal community through a citizen participation process;

“(ii) the amount of any increase in permanent, full-time employment by reason of any project; and

“(iii) the active involvement of residents and nonprofit groups within the renewal community; and

“(C) which provides a procedure that the agency (or its agent) will follow in monitoring compliance with this section.

“(f) REGULATIONS.—For purposes of this section, the Secretary shall, by regulations, provide for the application of rules similar to the rules of section 49 and subsections (a) and (b) of section 50.

“(g) TERMINATION.—This section shall not apply to any building placed in service after December 31, 2007.

**“SEC. 1400L. INCREASE IN EXPENSING UNDER SECTION 179.**

“(a) GENERAL RULE.—In the case of a renewal community business (as defined in section 1400G), for purposes of section 179—

“(1) the limitation under section 179(b)(1) shall be increased by the lesser of—

“(A) \$35,000; or

“(B) the cost of section 179 property which is qualified renewal property placed in service during the taxable year; and

“(2) the amount taken into account under section 179(b)(2) with respect to any section 179 property which is qualified renewal property shall be 50 percent of the cost thereof.

“(b) RECAPTURE.—Rules similar to the rules under section 179(d)(10) shall apply with respect to any qualified renewal property which ceases to be used in a renewal community by a renewal community business.

“(c) QUALIFIED RENEWAL PROPERTY.—For purposes of this section—

“(1) IN GENERAL.—The term ‘qualified renewal property’ means any property to which section 168 applies (or would apply but for section 179) if—

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

“(B) such property would be qualified zone property (as defined in section 1397C) if references to renewal communities were substituted for references to empowerment zones in section 1397C.

“(2) CERTAIN RULES TO APPLY.—The rules of subsections (a)(2) and (b) of section 1397C shall apply for purposes of this section.”.

**SEC. 603. EXTENSION OF EXPENSING OF ENVIRONMENTAL REMEDIATION COSTS TO RENEWAL COMMUNITIES.**

(a) EXTENSION.—Paragraph (2) of section 198(c) (defining targeted area) is amended by redesignating subparagraph (C) as subparagraph (D) and by inserting after subparagraph (B) the following new subparagraph:

“(C) RENEWAL COMMUNITIES INCLUDED.—Except as provided in subparagraph (B), such term shall include a renewal community (as defined in section 1400E) with respect to expenditures paid or incurred after December 31, 2000.”.

(b) EXTENSION OF TERMINATION DATE FOR RENEWAL COMMUNITIES.—Subsection (h) of section 198 is amended by inserting before the period “(December 31, 2007, in the case of a renewal community, as defined in section 1400E)”.

**SEC. 604. EXTENSION OF WORK OPPORTUNITY TAX CREDIT FOR RENEWAL COMMUNITIES.**

(a) EXTENSION.—Subsection (c) of section 51 (relating to termination) is amended by adding at the end the following new paragraph:

“(5) EXTENSION OF CREDIT FOR RENEWAL COMMUNITIES.—

“(A) IN GENERAL.—In the case of an individual who begins work for the employer after the date contained in paragraph (4)(B), for purposes of section 38—

“(i) in lieu of applying subsection (a), the amount of the work opportunity credit determined under this section for the taxable year shall be equal to—

“(I) 15 percent of the qualified first-year wages for such year; and

“(II) 30 percent of the qualified second-year wages for such year;

“(ii) subsection (b)(3) shall be applied by substituting ‘\$10,000’ for ‘\$6,000’;

“(iii) paragraph (4)(B) shall be applied by substituting for the date contained therein the last day for which the designation under section 1400E of the renewal community referred to in subparagraph (B)(i) is in effect; and

“(iv) rules similar to the rules of section 51A(b)(5)(C) shall apply.

“(B) QUALIFIED FIRST- AND SECOND-YEAR WAGES.—For purposes of subparagraph (A)—

“(i) IN GENERAL.—The term ‘qualified wages’ means, with respect to each 1-year period referred to in clause (ii) or (iii), as the case may be, the wages paid or incurred by the employer during the taxable year to any individual but only if—

“(I) the employer is engaged in a trade or business in a renewal community throughout such 1-year period;

“(II) the principal place of abode of such individual is in such renewal community throughout such 1-year period; and

“(III) substantially all of the services which such individual performs for the employer during such 1-year period are performed in such renewal community.

“(ii) QUALIFIED FIRST-YEAR WAGES.—The term ‘qualified first-year wages’ means, with respect to any individual, qualified wages attributable to service rendered during the 1-year period beginning with the day the individual begins work for the employer.

“(iii) QUALIFIED SECOND-YEAR WAGES.—The term ‘qualified second-year wages’ means, with respect to any individual, qualified wages attributable to service rendered during the 1-year period beginning on the day after the last day of the 1-year period with



respect to such individual determined under clause (ii)."

(b) CONGRUENT TREATMENT OF RENEWAL COMMUNITIES AND ENTERPRISE ZONES FOR PURPOSES OF YOUTH RESIDENCE REQUIREMENTS.—

(1) HIGH-RISK YOUTH.—Subparagraphs (A)(ii) and (B) of section 51(d)(5) are each amended by striking "empowerment zone or enterprise community" and inserting "empowerment zone, enterprise community, or renewal community".

(2) QUALIFIED SUMMER YOUTH EMPLOYEE.—Clause (iv) of section 51(d)(7)(A) is amended by striking "empowerment zone or enterprise community" and inserting "empowerment zone, enterprise community, or renewal community".

(3) HEADINGS.—Paragraphs (5)(B) and (7)(C) of section 51(d) are each amended by inserting "OR COMMUNITY" in the heading after "ZONE".

(4) EFFECTIVE DATE.—The amendments made by this subsection shall apply to individuals who begin work for the employer after December 31, 2000.

**SEC. 605. CONFORMING AND CLERICAL AMENDMENTS.**

(a) DEDUCTION FOR CONTRIBUTIONS TO FAMILY DEVELOPMENT ACCOUNTS ALLOWABLE WHETHER OR NOT TAXPAYER ITEMIZES.—Subsection (a) of section 62 (relating to adjusted gross income defined) is amended by inserting after paragraph (19) the following new paragraph:

"(20) FAMILY DEVELOPMENT ACCOUNTS.—The deduction allowed by section 1400H(a)(1)."

(b) TAX ON EXCESS CONTRIBUTIONS.—

(1) TAX IMPOSED.—Subsection (a) of section 4973 is amended by striking "or" at the end of paragraph (3), adding "or" at the end of paragraph (4), and inserting after paragraph (4) the following new paragraph:

"(5) a family development account (within the meaning of section 1400H(e))."

(2) EXCESS CONTRIBUTIONS.—Section 4973 is amended by adding at the end the following new subsection:

"(g) FAMILY DEVELOPMENT ACCOUNTS.—For purposes of this section, in the case of family development accounts, the term 'excess contributions' means the sum of—

"(1) the excess (if any) of—

"(A) the amount contributed for the taxable year to the accounts (other than a qualified rollover, as defined in section 1400H(c)(7)), over

"(B) the amount allowable as a deduction under section 1400H for such contributions; and

"(2) the amount determined under this subsection for the preceding taxable year reduced by the sum of—

"(A) the distributions out of the accounts for the taxable year which were included in the gross income of the payee under section 1400H(b)(1);

"(B) the distributions out of the accounts for the taxable year to which rules similar to the rules of section 408(d)(5) apply by reason of section 1400H(d)(3); and

"(C) the excess (if any) of the maximum amount allowable as a deduction under section 1400H for the taxable year over the amount contributed to the account for the taxable year.

For purposes of this subsection, any contribution which is distributed from the family development account in a distribution to which rules similar to the rules of section 408(d)(4) apply by reason of section 1400H(d)(3) shall be treated as an amount not contributed."

(c) TAX ON PROHIBITED TRANSACTIONS.—Section 4975 is amended—

(1) by adding at the end of subsection (c) the following new paragraph:

"(6) SPECIAL RULE FOR FAMILY DEVELOPMENT ACCOUNTS.—An individual for whose benefit a family development account is established and any contributor to such account shall be exempt from the tax imposed by this section with respect to any transaction concerning such account (which would otherwise be taxable under this section) if, with respect to such transaction, the account ceases to be a family development account by reason of the application of section 1400H(d)(2) to such account."; and

(2) in subsection (e)(1), by striking "or" at the end of subparagraph (E), by redesignating subparagraph (F) as subparagraph (G), and by inserting after subparagraph (E) the following new subparagraph:

"(F) a family development account described in section 1400H(e), or"

(d) INFORMATION RELATING TO CERTAIN TRUSTS AND ANNUITY PLANS.—Subsection (c) of section 6047 is amended—

(1) by inserting "or section 1400H" after "section 219"; and

(2) by inserting ", of any family development account described in section 1400H(e)", after "section 408(a)".

(e) INSPECTION OF APPLICATIONS FOR TAX EXEMPTION.—Clause (i) of section 6104(a)(1)(B) is amended by inserting "a family development account described in section 1400H(e)," after "section 408(a)."

(f) FAILURE TO PROVIDE REPORTS ON FAMILY DEVELOPMENT ACCOUNTS.—Paragraph (2) of section 6693(a) is amended by striking "and" at the end of subparagraph (C), by striking the period and inserting ", and" at the end of subparagraph (D), and by adding at the end the following new subparagraph:

"(E) section 1400H(g)(6) (relating to family development accounts)."

(g) CONFORMING AMENDMENTS REGARDING COMMERCIAL REVITALIZATION DEDUCTION.—

(1) Section 172 is amended by redesignating subsection (j) as subsection (k) and by inserting after subsection (i) the following new subsection:

"(j) NO CARRYBACK OF SECTION 1400K DEDUCTION BEFORE DATE OF THE ENACTMENT.—No portion of the net operating loss for any taxable year which is attributable to any commercial revitalization deduction determined under section 1400K may be carried back to a taxable year ending before the date of the enactment of section 1400K."

(2) Subparagraph (B) of section 48(a)(2) is amended by inserting "or commercial revitalization" after "rehabilitation" each place it appears in the text and heading.

(3) Subparagraph (C) of section 469(i)(3) is amended—

(A) by inserting "or section 1400K" after "section 42"; and

(B) by inserting "AND COMMERCIAL REVITALIZATION DEDUCTION" after "CREDIT" in the heading.

(h) CLERICAL AMENDMENTS.—The table of subchapters for chapter 1 is amended by adding at the end the following new item:

"Subchapter X. Renewal Communities."

**Subtitle B—Timber Incentives**

**SEC. 611. TEMPORARY SUSPENSION OF MAXIMUM AMOUNT OF AMORTIZABLE REFORESTATION EXPENDITURES.**

(a) INCREASE IN DOLLAR LIMITATION.—Paragraph (1) of section 194(b) (relating to amortization of reforestation expenditures) is amended by striking "\$10,000 (\$5,000)" and inserting "\$25,000 (\$12,500)".

(b) TEMPORARY SUSPENSION OF INCREASED DOLLAR LIMITATION.—Subsection (b) of section 194(b) (relating to amortization of reforestation expenditures) is amended by adding at the end the following new paragraph:

"(5) SUSPENSION OF DOLLAR LIMITATION.—Paragraph (1) shall not apply to taxable

years beginning after December 31, 1999, and before January 1, 2004.

(c) CONFORMING AMENDMENT.—Paragraph (1) of section 48(b) is amended by striking "section 194(b)(1)" and inserting "section 194(b)(1) and without regard to section 194(b)(5)".

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

**TITLE VII—REAL ESTATE PROVISIONS**  
**Subtitle A—Improvements in Low-Income Housing Credit**

**SEC. 701. MODIFICATION OF STATE CEILING ON LOW-INCOME HOUSING CREDIT.**

(a) IN GENERAL.—Clauses (i) and (ii) of section 42(h)(3)(C) (relating to State housing credit ceiling) are amended to read as follows:

"(i) the unused State housing credit ceiling (if any) of such State for the preceding calendar year,

"(ii) the greater of—

"(I) the applicable amount under subparagraph (H) multiplied by the State population, or

"(II) \$2,000,000."

(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)(ii), the applicable amount shall be determined under the following table:

"For calendar year:	The applicable amount is:
2000 .....	\$1.35
2001 .....	1.45
2002 .....	1.55
2003 .....	1.65
2004 and thereafter .....	1.75."

(c) ADJUSTMENT OF STATE CEILING FOR INCREASES IN COST-OF-LIVING.—Paragraph (3) of section 42(h) (relating to housing credit dollar amount for agencies), as amended by subsection (c), is amended by adding at the end the following new subparagraph:

"(I) COST-OF-LIVING ADJUSTMENT.—

"(i) IN GENERAL.—In the case of a calendar year after 2004, the \$2,000,000 in subparagraph (C) and the \$1.75 amount in subparagraph (H) shall each be increased by an amount equal to—

"(I) such dollar amount, multiplied by

"(II) the cost-of-living adjustment determined under section 1(f)(3) for such calendar year by substituting 'calendar year 2003' for 'calendar year 1992' in subparagraph (B) thereof.

"(ii) ROUNDING.—

"(I) In the case of the amount in subparagraph (C), any increase under clause (i) which is not a multiple of \$5,000 shall be rounded to the next lowest multiple of \$5,000.

"(II) In the case of the amount in subparagraph (H), any increase under clause (i) which is not a multiple of 5 cents shall be rounded to the next lowest multiple of 5 cents."

(d) CONFORMING AMENDMENTS.—

(1) Section 42(h)(3)(C), as amended by subsection (a), is amended—

(A) by striking "clause (ii)" in the matter following clause (iv) and inserting "clause (i)", and

(B) by striking "clauses (i)" in the matter following clause (iv) and inserting "clauses (ii)".

(2) Section 42(h)(3)(D)(ii) is amended—

(A) by striking "subparagraph (C)(ii)" and inserting "subparagraph (C)(i)", and

(B) by striking "clauses (i)" in subclause (II) and inserting "clauses (ii)".

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to calendar years after 2000.

**SEC. 702. MODIFICATION OF CRITERIA FOR ALLOCATING HOUSING CREDITS AMONG PROJECTS.**

(a) SELECTION CRITERIA.—Subparagraph (C) of section 42(m)(1) (relating to certain selection criteria must be used) is amended—

(1) by inserting “, including whether the project includes the use of existing housing as part of a community revitalization plan” before the comma at the end of clause (iii), and

(2) by striking clauses (v), (vi), and (vii) and inserting the following new clauses:

“(v) tenant populations with special housing needs,

“(vi) public housing waiting lists,

“(vii) tenant populations of individuals with children, and

“(viii) projects intended for eventual tenant ownership.”

(b) PREFERENCE FOR COMMUNITY REVITALIZATION PROJECTS LOCATED IN QUALIFIED CENSUS TRACTS.—Clause (ii) of section 42(m)(1)(B) is amended by striking “and” at the end of subclause (I), by adding “and” at the end of subclause (II), and by inserting after subclause (II) the following new subclause:

“(III) projects which are located in qualified census tracts (as defined in subsection (d)(5)(C)) and the development of which contributes to a concerted community revitalization plan.”

**SEC. 703. ADDITIONAL RESPONSIBILITIES OF HOUSING CREDIT AGENCIES.**

(a) MARKET STUDY; PUBLIC DISCLOSURE OF RATIONALE FOR NOT FOLLOWING CREDIT ALLOCATION PRIORITIES.—Subparagraph (A) of section 42(m)(1) (relating to responsibilities of housing credit agencies) is amended by striking “and” at the end of clause (i), by striking the period at the end of clause (ii) and inserting a comma, and by adding at the end the following new clauses:

“(iii) a comprehensive market study of the housing needs of low-income individuals in the area to be served by the project is conducted before the credit allocation is made and at the developer’s expense by a disinterested party who is approved by such agency, and

“(iv) a written explanation is available to the general public for any allocation of a housing credit dollar amount which is not made in accordance with established priorities and selection criteria of the housing credit agency.”

(b) SITE VISITS.—Clause (iii) of section 42(m)(1)(B) (relating to qualified allocation plan) is amended by inserting before the period “and in monitoring for noncompliance with habitability standards through regular site visits”.

**SEC. 704. MODIFICATIONS TO RULES RELATING TO BASIS OF BUILDING WHICH IS ELIGIBLE FOR CREDIT.**

(a) ADJUSTED BASIS TO INCLUDE PORTION OF CERTAIN BUILDINGS USED BY LOW-INCOME INDIVIDUALS WHO ARE NOT TENANTS AND BY PROJECT EMPLOYEES.—Paragraph (4) of section 42(d) (relating to special rules relating to determination of adjusted basis) is amended—

(1) by striking “subparagraph (B)” in subparagraph (A) and inserting “subparagraphs (B) and (C)”.

(2) by redesignating subparagraph (C) as subparagraph (D), and

(3) by inserting after subparagraph (B) the following new subparagraph:

“(C) INCLUSION OF BASIS OF PROPERTY USED TO PROVIDE SERVICES FOR CERTAIN NONTENANTS.—

“(i) IN GENERAL.—The adjusted basis of any building located in a qualified census tract (as defined in paragraph (5)(C)) shall be determined by taking into account the adjusted basis of property (of a character sub-

ject to the allowance for depreciation and not otherwise taken into account) used throughout the taxable year in providing any community service facility.

“(ii) LIMITATION.—The increase in the adjusted basis of any building which is taken into account by reason of clause (i) shall not exceed 10 percent of the eligible basis of the qualified low-income housing project of which it is a part. For purposes of the preceding sentence, all community service facilities which are part of the same qualified low-income housing project shall be treated as one facility.

“(iii) COMMUNITY SERVICE FACILITY.—For purposes of this subparagraph, the term ‘community service facility’ means any facility designed to serve primarily individuals whose income is 60 percent or less of area median income (within the meaning of subsection (g)(1)(B)).”

(b) CERTAIN NATIVE AMERICAN HOUSING ASSISTANCE DISREGARDED IN DETERMINING WHETHER BUILDING IS FEDERALLY SUBSIDIZED FOR PURPOSES OF THE LOW-INCOME HOUSING CREDIT.—Subparagraph (E) of section 42(i)(2) (relating to determination of whether building is federally subsidized) is amended—

(1) in clause (i), by inserting “or the Native American Housing Assistance and Self-Determination Act of 1996 (25 U.S.C. 4101 et seq.) (as in effect on October 1, 1997)” after “this subparagraph”); and

(2) in the subparagraph heading, by inserting “OR NATIVE AMERICAN HOUSING ASSISTANCE” after “HOME ASSISTANCE”.

**SEC. 705. OTHER MODIFICATIONS.**

(a) ALLOCATION OF CREDIT LIMIT TO CERTAIN BUILDINGS.—

(1) The first sentence of section 42(h)(1)(E)(ii) is amended by striking “(as of the first place it appears and inserting “(as of the later of the date which is 6 months after the date that the allocation was made or”.

(2) The last sentence of section 42(h)(3)(C) is amended by striking “project which” and inserting “project which fails to meet the 10 percent test under paragraph (1)(E)(ii) on a date after the close of the calendar year in which the allocation was made or which”.

(b) DETERMINATION OF WHETHER BUILDINGS ARE LOCATED IN HIGH COST AREAS.—The first sentence of section 42(d)(5)(C)(ii)(I) is amended—

(1) by inserting “either” before “in which 50 percent”, and

(2) by inserting before the period “or which has a poverty rate of at least 25 percent”.

**SEC. 706. CARRYFORWARD RULES.**

(a) IN GENERAL.—Clause (ii) of section 42(h)(3)(D) (relating to unused housing credit carryovers allocated among certain States) is amended by striking “the excess” and all that follows it and inserting “the excess (if any) of—

“(I) the unused State housing credit ceiling for the year preceding such year, over

“(II) the aggregate housing credit dollar amount allocated for such year.”

(b) CONFORMING AMENDMENT.—The second sentence of section 42(h)(3)(C) (relating to State housing credit ceiling) is amended by striking “clauses (i) and (iii)” and inserting “clauses (i) through (iv)”.

**SEC. 707. EFFECTIVE DATE.**

Except as otherwise provided in this subtitle, the amendments made by this subtitle shall apply to—

(1) housing credit dollar amounts allocated after December 31, 1999, and

(2) buildings placed in service after such date to the extent paragraph (1) of section 42(h) of the Internal Revenue Code of 1986 does not apply to any building by reason of paragraph (4) thereof, but only with respect to bonds issued after such date.

**Subtitle B—Provisions Relating to Real Estate Investment Trusts****PART I—TREATMENT OF INCOME AND SERVICES PROVIDED BY TAXABLE REIT SUBSIDIARIES****SEC. 711. 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 one issuer,

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

“(III) the trust does not hold securities having a value of more than 10 percent of the total value of the outstanding securities of any one issuer.”

(b) EXCEPTION FOR STRAIGHT DEBT SECURITIES.—Subsection (c) of section 856 is amended by adding at the end the following new paragraph:

“(7) STRAIGHT DEBT SAFE HARBOR IN APPLYING PARAGRAPH (4).—Securities of an issuer which are straight debt (as defined in section 1361(c)(5) without regard to subparagraph (B)(iii) thereof) shall not be taken into 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. 712. TREATMENT OF INCOME AND SERVICES PROVIDED BY TAXABLE REIT SUBSIDIARIES.**

(a) INCOME FROM TAXABLE REIT SUBSIDIARIES NOT TREATED AS IMPERMISSIBLE TENANT SERVICE INCOME.—Clause (i) of section 856(d)(7)(C) (relating to exceptions to impermissible tenant service income) is amended by inserting “or through a taxable REIT subsidiary of such trust” after “income”.

(b) CERTAIN INCOME FROM TAXABLE REIT SUBSIDIARIES NOT EXCLUDED FROM RENTS FROM REAL PROPERTY.—

(1) IN GENERAL.—Subsection (d) of section 856 (relating to rents from real property defined) is amended by adding at the end the following new paragraphs:

“(8) SPECIAL RULE FOR TAXABLE REIT SUBSIDIARIES.—For purposes of this subsection, amounts paid to a real estate investment trust by a taxable REIT subsidiary of such trust shall not be excluded from rents from real property by reason of paragraph (2)(B) if the requirements of either of the following subparagraphs are met:

“(A) LIMITED RENTAL EXCEPTION.—The requirements of this subparagraph are met with respect to any property if at least 90 percent of the leased space of the property is rented to persons other than taxable REIT subsidiaries of such trust and other than persons described in section 856(d)(2)(B). The preceding sentence shall apply only to the extent that the amounts paid to the trust as rents from real property (as defined in paragraph (1) without regard to paragraph (2)(B)) from such property are substantially comparable to such rents made by the other tenants of the trust’s property for comparable space.

“(B) EXCEPTION FOR CERTAIN LODGING FACILITIES.—The requirements of this subparagraph are met with respect to an interest in real property which is a qualified lodging facility leased by the trust to a taxable REIT subsidiary of the trust if the property is operated on behalf of such subsidiary by a person who is an eligible independent contractor.

“(9) ELIGIBLE INDEPENDENT CONTRACTOR.—For purposes of paragraph (8)(B)—

“(A) IN GENERAL.—The term ‘eligible independent contractor’ means, with respect to any qualified lodging facility, any independent contractor if, at the time such contractor enters into a management agreement or other similar service contract with the taxable REIT subsidiary to operate the facility, such contractor (or any related person) is actively engaged in the trade or business of operating qualified lodging facilities for any person who is not a related person with respect to the real estate investment trust or the taxable REIT subsidiary.

“(B) SPECIAL RULES.—Solely for purposes of this paragraph and paragraph (8)(B), a person shall not fail to be treated as an independent contractor with respect to any qualified lodging facility by reason of any of the following:

“(i) The taxable REIT subsidiary bears the expenses for the operation of the facility pursuant to the management agreement or other similar service contract.

“(ii) The taxable REIT subsidiary receives the revenues from the operation of such facility, net of expenses for such operation and fees payable to the operator pursuant to such agreement or contract.

“(iii) The real estate investment trust receives income from such person with respect to another property that is attributable to a lease of such other property to such person that was in effect as of the later of—

“(I) January 1, 1999, or

“(II) the earliest date that any taxable REIT subsidiary of such trust entered into a management agreement or other similar service contract with such person with respect to such qualified lodging facility.

“(C) RENEWALS, ETC., OF EXISTING LEASES.—For purposes of subparagraph (B)(iii)—

“(i) a lease shall be treated as in effect on January 1, 1999, without regard to its renewal after such date, so long as such renewal is pursuant to the terms of such lease as in effect on whichever of the dates under subparagraph (B)(iii) is the latest, and

“(ii) a lease of a property entered into after whichever of the dates under subparagraph (B)(iii) is the latest shall be treated as in effect on such date if—

“(I) on such date, a lease of such property from the trust was in effect, and

“(II) under the terms of the new lease, such trust receives a substantially similar or lesser benefit in comparison to the lease referred to in subclause (I).

“(D) QUALIFIED LODGING FACILITY.—For purposes of this paragraph—

“(i) IN GENERAL.—The term ‘qualified lodging facility’ means any lodging facility unless wagering activities are conducted at or in connection with such facility by any person who is engaged in the business of accepting wagers and who is legally authorized to engage in such business at or in connection with such facility.

“(ii) LODGING FACILITY.—The term ‘lodging facility’ means a hotel, motel, or other establishment more than one-half of the dwelling units in which are used on a transient basis.

“(iii) CUSTOMARY AMENITIES AND FACILITIES.—The term ‘lodging facility’ includes customary amenities and facilities operated as part of, or associated with, the lodging facility so long as such amenities and facilities

are customary for other properties of a comparable size and class owned by other owners unrelated to such real estate investment trust.

“(E) OPERATE INCLUDES MANAGE.—References in this paragraph to operating a property shall be treated as including a reference to managing the property.

“(F) RELATED PERSON.—Persons shall be treated as related to each other if such persons are treated as a single employer under subsection (a) or (b) of section 52.”

(2) CONFORMING AMENDMENT.—Subparagraph (B) of section 856(d)(2) is amended by inserting “except as provided in paragraph (8),” after “(B)”.

(3) DETERMINING RENTS FROM REAL PROPERTY.—

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

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

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

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

#### SEC. 713. 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—

“(I) 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 facil-

ity 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. 714. 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. 715. 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 decreased on distribution, apportionment, or allocation under section 482 to clearly reflect income as between such subsidiary and such trust.

“(D) EXCESS INTEREST.—The term ‘excess interest’ means any deductions for interest payments by a taxable REIT subsidiary of a real estate investment trust to such trust to the extent that the interest payments are in excess of a rate that is commercially reasonable.

“(E) COORDINATION WITH SECTION 482.—The imposition of tax under subparagraph (A) shall be in lieu of any distribution, apportionment, or allocation under section 482.

“(F) REGULATORY AUTHORITY.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this paragraph. Until the Secretary prescribes such regulations, real estate investment trusts and their taxable REIT subsidiaries may base their allocations on any reasonable method.”

(b) AMOUNT SUBJECT TO TAX NOT REQUIRED TO BE DISTRIBUTED.—Subparagraph (E) of section 857(b)(2) (relating to real estate investment trust taxable income) is amended by striking “paragraph (5)” and inserting “paragraphs (5) and (7)”.

#### SEC. 716. 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 711.—

(1) EXISTING ARRANGEMENTS.—

(A) IN GENERAL.—Except as otherwise provided in this paragraph, the amendment made by section 711 shall not apply to a real estate investment trust with respect to—

(i) securities of a corporation held directly or indirectly by such trust on July 12, 1999,

(ii) securities of a corporation held by an entity on July 12, 1999, if such trust acquires control of such entity pursuant to a written binding contract in effect on such date and at all times thereafter before such acquisition,

(iii) securities received by such trust (or a successor) in exchange for, or with respect to, securities described in clause (i) or (ii) in a transaction in which gain or loss is not recognized, and

(iv) securities acquired directly or indirectly by such trust as part of a reorganization (as defined in section 368(a)(1) of the Internal Revenue Code of 1986) with respect to such trust if such securities are described in clause (i), (ii), or (iii) with respect to any other real estate investment trust.

(B) NEW TRADE OR BUSINESS OR SUBSTANTIAL NEW ASSETS.—Subparagraph (A) shall cease to apply to securities of a corporation as of the first day after July 12, 1999, on which such corporation engages in a substantial new line of business, or acquires any substantial asset, other than—

(i) pursuant to a binding contract in effect on such date and at all times thereafter before the acquisition of such asset,

(ii) in a transaction in which gain or loss is not recognized by reason of section 1031 or 1033 of the Internal Revenue Code of 1986, or

(iii) in a reorganization (as so defined) with another corporation the securities of which are described in paragraph (1)(A) of this subsection.

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

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

(ii) in a reorganization (as so defined) with another corporation the securities of which are described in paragraph (1)(A) of this subsection.

(2) TAX-FREE CONVERSION.—If—

(A) at the time of an election for a corporation to become a taxable REIT subsidiary, the amendment made by section 1021 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. 721. HEALTH CARE REITS.

(a) SPECIAL FORECLOSURE RULE FOR HEALTH CARE PROPERTIES.—Subsection (e) of section 856 (relating to special rules for foreclosure property) is amended by adding at the end the following new paragraph:

“(6) SPECIAL RULE FOR QUALIFIED HEALTH CARE PROPERTIES.—For purposes of this subsection—

“(A) ACQUISITION AT EXPIRATION OF LEASE.—The term ‘foreclosure property’ shall include any qualified health care property acquired by a real estate investment trust as the result of the termination of a lease of such property (other than a termination by reason of a default, or the imminence of a default, on the lease).

“(B) GRACE PERIOD.—In the case of a qualified health care property which is foreclosure property solely by reason of subparagraph (A), in lieu of applying paragraphs (2) and (3)—

“(i) the qualified health care property shall cease to be foreclosure property as of the close of the second taxable year after the taxable year in which such trust acquired such property, and

“(ii) if the real estate investment trust establishes to the satisfaction of the Secretary that an extension of the grace period in clause (i) is necessary to the orderly leasing

or liquidation of the trust’s interest in such qualified health care property, the Secretary may grant one or more extensions of the grace period for such qualified health care property.

Any such extension shall not extend the grace period beyond the close of the 6th year after the taxable year in which such trust acquired such qualified health care property.

“(C) INCOME FROM INDEPENDENT CONTRACTORS.—For purposes of applying paragraph (4)(C) with respect to qualified health care property which is foreclosure property by reason of subparagraph (A) or paragraph (1), income derived or received by the trust from an independent contractor shall be disregarded to the extent such income is attributable to—

“(i) any lease of property in effect on the date the real estate investment trust acquired the qualified health care property (without regard to its renewal after such date so long as such renewal is pursuant to the terms of such lease as in effect on such date), or

“(ii) any lease of property entered into after such date if—

“(I) on such date, a lease of such property from the trust was in effect, and

“(II) under the terms of the new lease, such trust receives a substantially similar or lesser benefit in comparison to the lease referred to in subclause (I).

“(D) QUALIFIED HEALTH CARE PROPERTY.—

“(i) IN GENERAL.—The term ‘qualified health care property’ means any real property (including interests therein), and any personal property incident to such real property, which—

“(I) is a health care facility, or

“(II) is necessary or incidental to the use of a health care facility.

“(ii) HEALTH CARE FACILITY.—For purposes of clause (i), the term ‘health care facility’ means a hospital, nursing facility, assisted living facility, congregate care facility, qualified continuing care facility (as defined in section 7872(g)(4)), or other licensed facility which extends medical or nursing or ancillary services to patients and which, immediately before the termination, expiration, default, or breach of the lease of or mortgage secured by such facility, was operated by a provider of such services which was eligible for participation in the medicare program under title XVIII of the Social Security Act with respect to such facility.”

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

### PART III—CONFORMITY WITH REGULATED INVESTMENT COMPANY RULES

#### SEC. 731. 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. 741. 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. 751. 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.

**Subtitle C—Private Activity Bond Volume Cap**

**SEC. 761. ACCELERATION OF PHASE-IN OF 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 to read as follows:

“Calendar Year	Per Capita Limit	Aggregate Limit
2000 .....	\$55.00	165,000,000
2001 .....	60.00	180,000,000
2002 .....	65.00	195,000,000

“Calendar Year	Per Capita Limit	Aggregate Limit
2003 .....	70.00	210,000,000
2004 and there-after.	75.00	225,000,000.”

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

**Subtitle D—Exclusion from gross income for certain forgiven mortgage obligations**

**SEC. 771. EXCLUSION FROM GROSS INCOME FOR CERTAIN FORGIVEN MORTGAGE OBLIGATIONS.**

(a) IN GENERAL.—Paragraph (1) of section 108(a) of the Internal Revenue Code of 1986 (relating to exclusion from gross income) is amended by striking “or” at the end of both subparagraphs (A) and (C), by striking the period at the end of subparagraph (D) and inserting “, or”, and by inserting after subparagraph (D) the following new subparagraph:

“(E) in the case of an individual, the indebtedness discharged is qualified residential indebtedness.”

(b) QUALIFIED RESIDENTIAL INDEBTEDNESS SHORTFALL.—Section 108 of such Code (relating to discharge of indebtedness) is amended by adding at the end the following new subsection:

“(h) QUALIFIED RESIDENTIAL INDEBTEDNESS.—

“(1) LIMITATIONS.—The amount excluded under subparagraph (E) of subsection (a)(1) with respect to any qualified residential indebtedness shall not exceed the excess (if any) of—

“(A) the outstanding principal amount of such indebtedness (immediately before the discharge), over

“(B) the sum of—

“(i) the amount realized from the sale of the real property securing such indebtedness reduced by the cost of such sale, and

“(ii) the outstanding principal amount of any other indebtedness secured by such property.

“(2) QUALIFIED RESIDENTIAL INDEBTEDNESS.—

“(A) IN GENERAL.—The term ‘qualified residential indebtedness’ means indebtedness which—

“(i) was incurred or assumed by the taxpayer in connection with real property used as a residence and is secured by such real property,

“(ii) is incurred or assumed to acquire, construct, reconstruct, or substantially improve such real property, and

“(iii) with respect to which such taxpayer makes an election to have this paragraph apply.

“(B) REFINANCED INDEBTEDNESS.—Such term shall include indebtedness resulting from the refinancing of indebtedness under subparagraph (A)(ii), but only to the extent the refinanced indebtedness does not exceed the amount of the indebtedness being refinanced.

“(C) EXCEPTIONS.—Such term shall not include qualified farm indebtedness or qualified real property business indebtedness.”

(c) CONFORMING AMENDMENTS.—

(1) Paragraph (2) of section 108(a) of such Code is amended—

(A) in subparagraph (A) by striking “and (D)” and inserting “(D), and (E)”, and

(B) by amending subparagraph (B) to read as follows:

“(B) INSOLVENCY EXCLUSION TAKES PRECEDENCE OVER QUALIFIED FARM EXCLUSION; QUALIFIED REAL PROPERTY BUSINESS EXCLUSION; AND QUALIFIED RESIDENTIAL SHORTFALL EXCLUSION.—Subparagraphs (C), (D), and (E)

of paragraph (1) shall not apply to a discharge to the extent the taxpayer is insolvent.”

(2) Paragraph (1) of section 108(b) of such Code is amended by striking “or (C)” and inserting “(C), or (E)”.

(3) Subsection (c) of section 121 of such Code is amended by adding at the end the following new paragraph:

“(4) SPECIAL RULE RELATING TO DISCHARGE OF INDEBTEDNESS.—The amount of gain which (but for this paragraph) would be excluded from gross income under subsection (a) with respect to a principal residence shall be reduced by the amount excluded from gross income under section 108(a)(1)(E) with respect to such residence.”

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

**TITLE VIII—MISCELLANEOUS PROVISIONS**

**SEC. 801. CREDIT FOR MODIFICATIONS TO INTERCITY BUSES REQUIRED UNDER THE AMERICANS WITH DISABILITIES ACT OF 1990.**

(a) IN GENERAL.—Subsection (a) of section 44 (relating to expenditures to provide access to disabled individuals) is amended to read as follows:

“(a) GENERAL RULE.—For purposes of section 38, the amount of the disabled access credit determined under this section for any taxable year shall be an amount equal to the sum of—

“(1) in the case of an eligible small business, 50 percent of so much of the eligible access expenditures for the taxable year as exceed \$250 but do not exceed \$10,250, and

“(2) 50 percent of so much of the eligible bus access expenditures for the taxable year with respect to each eligible bus as exceed \$250 but do not exceed \$30,250.”

(b) ELIGIBLE BUS ACCESS EXPENDITURES.—Section 44 is amended by redesignating subsections (d) and (e) as subsections (e) and (f), respectively, and by inserting after subsection (c) the following new subsection:

“(d) ELIGIBLE BUS ACCESS EXPENDITURES.—For purposes of this section—

“(1) IN GENERAL.—The term ‘eligible bus access expenditures’ means amounts paid or incurred by the taxpayer for the purpose of enabling the taxpayer’s eligible bus to comply with applicable requirements under the Americans With Disabilities Act of 1990 (as in effect on the date of the enactment of this subsection).

“(2) CERTAIN EXPENDITURES NOT INCLUDED.—The amount of eligible bus access expenditures otherwise taken into account under subsection (a)(2) shall be reduced to the extent that funds for such expenditures are received under any Federal, State, or local program.

“(3) ELIGIBLE BUS.—The term ‘eligible bus’ means any automobile bus eligible for a refund under section 6427(b) by reason of transportation described in section 6427(b)(1)(A).”

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 1999, and before January 1, 2012.

**SEC. 802. CERTAIN EDUCATIONAL BENEFITS PROVIDED BY AN EMPLOYER TO CHILDREN OF EMPLOYEES EXCLUDABLE FROM GROSS INCOME AS A SCHOLARSHIP.**

(a) IN GENERAL.—Section 117 (relating to qualified scholarships) is amended by adding at the end the following new subsection:

“(e) EMPLOYER-PROVIDED EDUCATIONAL BENEFITS PROVIDED TO CHILDREN OF EMPLOYEES.—

“(1) IN GENERAL.—In determining whether any amount is a qualified scholarship for purposes of subsection (a), the fact that such amount is provided in connection with an

employment relationship shall be disregarded if—

“(A) such amount is provided by the employer to a child (as defined in section 151(c)(3)) of an employee of such employer,

“(B) such amount is provided pursuant to a plan which meets the nondiscrimination requirements of subsection (d)(3), and

“(C) amounts provided under such plan are in addition to any other compensation payable to employees and such plan does not provide employees with a choice between such amounts and any other benefit.

For purposes of subparagraph (C), the business practices of the employer (as well as such plan) shall be taken into account.

“(2) DOLLAR LIMITATIONS.—

“(A) PER CHILD.—The amount excluded from the gross income of the employee by reason of paragraph (1) for a taxable year with respect to amounts provided to each child of such employee shall not exceed \$2,000.

“(B) AGGREGATE LIMIT.—The amount excluded from the gross income of the employee by reason of paragraph (1) for a taxable year (after the application of subparagraph (A)) shall not exceed the excess of the dollar amount contained in section 127(a)(2) over the amount excluded from the employee's gross income under section 127 for such year.

“(3) PRINCIPAL SHAREHOLDERS AND OWNERS.—Paragraph (1) shall not apply to any amount provided to any child of any individual if such individual (or such individual's spouse) owns (on any day of the year) more than 5 percent of the stock or of the capital or profits interest in the employer.

“(4) DEGREE REQUIREMENT NOT TO APPLY.—In the case of an amount which is treated as a qualified scholarship by reason of this subsection, subsection (a) shall be applied without regard to the requirement that the recipient be a candidate for a degree.

“(5) CERTAIN OTHER RULES TO APPLY.—Rules similar to the rules of paragraphs (4), (5), and (7) of section 127(c) shall apply for purposes of this subsection.”

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

**SEC. 803. TAX INCENTIVES FOR QUALIFIED UNITED STATES INDEPENDENT FILM AND TELEVISION PRODUCTION.**

(a) IN GENERAL.—Subpart C of part IV of subchapter A of chapter 1 (relating to refundable credits) is amended by redesignating section 35 as section 36 and by inserting after section 34 the following new section:

**“SEC. 35. UNITED STATES INDEPENDENT FILM AND TELEVISION PRODUCTION WAGE CREDIT.**

“(a) AMOUNT OF CREDIT.—There shall be allowed as a credit against the tax imposed by this subtitle for the taxable year an amount equal to 20 percent of the qualified wages paid or incurred during the calendar year which ends with or within the taxable year.

“(b) ONLY FIRST \$20,000 OF WAGES PER YEAR TAKEN INTO ACCOUNT.—With respect to each qualified United States independent film and television production, the amount of qualified wages paid or incurred to each qualified United States independent film and television production employee which may be taken into account for a calendar year shall not exceed \$20,000.

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

“(1) IN GENERAL.—The term ‘qualified wages’ means any wages paid or incurred by an employer for services performed by an employee while such employee is a qualified United States independent film and television production employee.

“(2) QUALIFIED UNITED STATES INDEPENDENT FILM AND TELEVISION PRODUCTION EMPLOYEE.—

“(A) IN GENERAL.—The term ‘qualified United States independent film and television production employee’ means, with respect to any period, any employee of an employer if substantially all of the services performed during such period by such employee for such employer are performed in an activity related to any qualified United States independent film and television production in a trade or business of the employer.

“(B) CERTAIN INDIVIDUALS NOT ELIGIBLE.—Such term shall not include—

“(i) any individual described in subparagraph (A), (B), or (C) of section 51(i)(1), and

“(ii) any 5-percent owner (as defined in section 416(i)(1)(B)).

“(3) COORDINATION WITH OTHER WAGE CREDITS.—No credit shall be allowed under any other provision of this chapter for wages paid to any employee during any calendar year if the employer is allowed a credit under this section for any of such wages.

“(4) WAGES.—The term ‘wages’ has the same meaning as when used in section 51.

“(d) QUALIFIED UNITED STATES INDEPENDENT FILM AND TELEVISION PRODUCTION.—For purposes of this section—

“(1) IN GENERAL.—The term ‘qualified United States independent film and television production’ means any production of any motion picture (whether released theatrically or directly to video cassette or any other format), a mini series, or a pilot production for a dramatic series if—

“(A) the production is produced in whole or in substantial part within the United States (determined on the basis of proportion of the qualified United States independent film and television production employees with respect to such production to total employee performing services related to such production),

“(B) the production is created primarily for use as public entertainment or for educational purposes, and

“(C) the total production cost of the production is less than \$10,000,000.

“(2) PUBLIC ENTERTAINMENT.—The term ‘public entertainment’ includes a motion picture film, video tape, or television program intended for initial broadcast via the public broadcast spectrum or delivered via cable distribution, or productions that are submitted to a national organization that rates films for violent or adult content. Such term does not include any film or tape the market for which is primarily topical, is otherwise essentially transitory in nature, or is produced for private noncommercial use.

“(3) TOTAL PRODUCTION COST.—The term ‘total production cost’ includes costs incurred in the delivery of the final master copy but does not include development, acquisition, and marketing costs of the qualified United States independent film and television production.

“(e) CONTROLLED GROUPS.—For purposes of this section—

“(1) all employers treated as a single employer under subsection (a) or (b) of section 52 shall be treated as a single employer for purposes of this subpart, and

“(2) the credit (if any) determined under this section with respect to each such employer shall be its proportionate share of the wages giving rise to such credit.

“(f) CERTAIN OTHER RULES MADE APPLICABLE.—Rules similar to the rules of section 51(k) and subsections (c) and (d) of section 52 shall apply for purposes of this section.”

(b) DENIAL OF DOUBLE BENEFIT.—Subsection (a) of section 280C is amended by inserting “35,” before “45A(a).”

(c) CONFORMING AMENDMENTS.—

(1) Paragraph (2) of section 1324(b) of title 31, United States Code, is amended by insert-

ing before the period “, or from section 35 of such Code”.

(2) 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. United States independent film and television production wage credit.

“Sec. 36. Overpayments of tax.”.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to wages paid or incurred after the date of the enactment of this Act in taxable years ending after such date.

The SPEAKER pro tempore. The amendment consisting of the text of H.R. 3832 is adopted.

The text of H.R. 3081, as amended by inserting the text of H.R. 3832, is as follows:

H.R. 3832

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

**SECTION 1. SHORT TITLE; REFERENCES; TABLE OF CONTENTS.**

(a) SHORT TITLE.—This Act may be cited as the “Small Business Tax Fairness Act of 2000”.

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

(c) TABLE OF CONTENTS.—

Sec. 1. Short title; references; table of contents.

**TITLE I—SMALL BUSINESS PROVISIONS**

Sec. 101. Deduction for 100 percent of health insurance costs of self-employed individuals.

Sec. 102. Increase in expense treatment for small businesses.

Sec. 103. Increased deduction for meal expenses.

Sec. 104. Increased deductibility of business meal expenses for individuals subject to Federal limitations on hours of service.

Sec. 105. Income averaging for farmers and fishermen not to increase alternative minimum tax liability.

Sec. 106. Repeal of occupational taxes relating to distilled spirits, wine, and beer.

Sec. 107. Repeal of modification of installment method.

**TITLE II—PENSION PROVISIONS**

**Subtitle A—Expanding Coverage**

Sec. 201. Increase in benefit and contribution limits.

Sec. 202. Plan loans for subchapter S owners, partners, and sole proprietors.

Sec. 203. Modification of top-heavy rules.

Sec. 204. Elective deferrals not taken into account for purposes of deduction limits.

Sec. 205. Repeal of coordination requirements for deferred compensation plans of State and local governments and tax-exempt organizations.

Sec. 206. Elimination of user fee for requests to IRS regarding pension plans.

Sec. 207. Deduction limits.

Sec. 208. Option to treat elective deferrals as after-tax contributions.

**Subtitle B—Enhancing Fairness for Women**

Sec. 221. Catchup contributions for individuals age 50 or over.

- Sec. 222. Equitable treatment for contributions of employees to defined contribution plans.
- Sec. 223. Faster vesting of certain employer matching contributions.
- Sec. 224. Simplify and update the minimum distribution rules.
- Sec. 225. Clarification of tax treatment of division of section 457 plan benefits upon divorce.
- Sec. 226. Modification of safe harbor relief for hardship withdrawals from cash or deferred arrangements.
- Subtitle C—Increasing Portability for Participants
- Sec. 231. Rollovers allowed among various types of plans.
- Sec. 232. Rollovers of IRAs into workplace retirement plans.
- Sec. 233. Rollovers of after-tax contributions.
- Sec. 234. Hardship exception to 60-day rule.
- Sec. 235. Treatment of forms of distribution.
- Sec. 236. Rationalization of restrictions on distributions.
- Sec. 237. Purchase of service credit in governmental defined benefit plans.
- Sec. 238. Employers may disregard rollovers for purposes of cash-out amounts.
- Sec. 239. Minimum distribution and inclusion requirements for section 457 plans.
- Subtitle D—Strengthening Pension Security and Enforcement
- Sec. 241. Repeal of 150 percent of current liability funding limit.
- Sec. 242. Maximum contribution deduction rules modified and applied to all defined benefit plans.
- Sec. 243. Excise tax relief for sound pension funding.
- Sec. 244. Excise tax on failure to provide notice by defined benefit plans significantly reducing future benefit accruals.
- Sec. 245. Treatment of multiemployer plans under section 415.
- Subtitle E—Reducing Regulatory Burdens
- Sec. 261. Modification of timing of plan valuations.
- Sec. 262. ESOP dividends may be reinvested without loss of dividend deduction.
- Sec. 263. Repeal of transition rule relating to certain highly compensated employees.
- Sec. 264. Employees of tax-exempt entities.
- Sec. 265. Clarification of treatment of employer-provided retirement advice.
- Sec. 266. Reporting simplification.
- Sec. 267. Improvement of employee plans compliance resolution system.
- Sec. 268. Modification of exclusion for employer provided transit passes.
- Sec. 269. Repeal of the multiple use test.
- Sec. 270. Flexibility in nondiscrimination, coverage, and line of business rules.
- Sec. 271. Extension to international organizations of moratorium on application of certain nondiscrimination rules applicable to State and local plans.
- Sec. 272. Notice and consent period regarding distributions.
- Subtitle F—Plan Amendments
- Sec. 281. Provisions relating to plan amendments.
- TITLE III—ESTATE TAX RELIEF**
- Subtitle A—Reductions of Estate and Gift Tax Rates
- Sec. 301. Reductions of estate and gift tax rates.
- Sec. 302. Sense of the Congress concerning repeal of the death tax.
- Subtitle B—Unified Credit Replaced With Unified Exemption Amount
- Sec. 311. Unified credit against estate and gift taxes replaced with unified exemption amount.
- Subtitle C—Modifications of Generation-Skipping Transfer Tax
- Sec. 321. Deemed allocation of GST exemption to lifetime transfers to trusts; retroactive allocations.
- Sec. 322. Severing of trusts.
- Sec. 323. Modification of certain valuation rules.
- Sec. 324. Relief provisions.
- Subtitle D—Conservation Easements
- Sec. 331. Expansion of estate tax rule for conservation easements.
- TITLE IV—TAX RELIEF FOR DISTRESSED COMMUNITIES AND INDUSTRIES**
- Subtitle A—American Community Renewal Act of 2000
- Sec. 401. Short title.
- Sec. 402. Designation of and tax incentives for renewal communities.
- Sec. 403. Extension of expensing of environmental remediation costs to renewal communities.
- Sec. 404. Extension of work opportunity tax credit for renewal communities.
- Sec. 405. Conforming and clerical amendments.
- Subtitle B—Timber Incentives
- Sec. 411. Temporary suspension of maximum amount of amortizable reforestation expenditures.
- TITLE V—REAL ESTATE PROVISIONS**
- Subtitle A—Improvements in Low-Income Housing Credit
- Sec. 501. Modification of State ceiling on low-income housing credit.
- Sec. 502. Modification of criteria for allocating housing credits among projects.
- Sec. 503. Additional responsibilities of housing credit agencies.
- Sec. 504. Modifications to rules relating to basis of building which is eligible for credit.
- Sec. 505. Other modifications.
- Sec. 506. Carryforward rules.
- Sec. 507. Effective date.
- Subtitle B—Private Activity Bond Volume Cap
- Sec. 511. Acceleration of phase-in of increase in volume cap on private activity bonds.
- Subtitle C—Exclusion From Gross Income for Certain Forgiven Mortgage Obligations
- Sec. 512. Exclusion from gross income for certain forgiven mortgage obligations.
- TITLE I—SMALL BUSINESS PROVISIONS**
- SEC. 101. 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) CLARIFICATION OF LIMITATIONS ON OTHER COVERAGE.—The first sentence of section 162(l)(2)(B) is amended to read as follows: “Paragraph (1) shall not apply to any taxpayer for any calendar month for which the taxpayer participates in any subsidized health plan maintained by any employer (other than an employer described in section 401(c)(4)) of the taxpayer or the spouse of the taxpayer.”.
- (c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2000.
- SEC. 102. INCREASE IN EXPENSE TREATMENT FOR SMALL BUSINESSES.**
- (a) IN GENERAL.—Paragraph (1) of section 179(b) (relating to dollar limitation) is amended to read as follows:
- “(1) DOLLAR LIMITATION.—The aggregate cost which may be taken into account under subsection (a) for any taxable year shall not exceed \$30,000.”.
- (b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years beginning after December 31, 2000.
- SEC. 103. INCREASED DEDUCTION FOR MEAL EXPENSES.**
- (a) IN GENERAL.—Paragraph (1) of section 274(n) (relating to only 50 percent of meal and entertainment expenses allowed as deduction) is amended by striking “50 percent” in the text and inserting “the allowable percentage”.
- (b) ALLOWABLE PERCENTAGES.—Subsection (n) of section 274 is amended by redesignating paragraphs (2) and (3) as paragraphs (3) and (4), respectively, and by inserting after paragraph (1) the following new paragraph:
- “(2) ALLOWABLE PERCENTAGE.—For purposes of paragraph (1), the allowable percentage is—
- “(A) in the case of amounts for items described in paragraph (1)(B), 50 percent, and
- “(B) in the case of expenses for food or beverages, 60 percent (55 percent for taxable years beginning during 2001).”
- (c) CONFORMING AMENDMENT.—The heading for subsection (n) of section 274 is amended by striking “50 PERCENT” and inserting “LIMITED PERCENTAGES”.
- (d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2000.
- SEC. 104. INCREASED DEDUCTIBILITY OF BUSINESS MEAL EXPENSES FOR INDIVIDUALS SUBJECT TO FEDERAL LIMITATIONS ON HOURS OF SERVICE.**
- (a) IN GENERAL.—Paragraph (4) of section 274(n) (relating to limited percentages of meal and entertainment expenses allowed as deduction), as redesignated by section 103, is amended to read as follows:
- “(4) SPECIAL RULE FOR INDIVIDUALS SUBJECT TO FEDERAL HOURS OF SERVICE.—In the case of any expenses for food or beverages consumed while away from home (within the meaning of section 162(a)(2)) by an individual during, or incident to, the period of duty subject to the hours of service limitations of the Department of Transportation, paragraph (2)(B) shall be applied by substituting ‘80 percent’ for the percentage otherwise applicable under paragraph (2)(B).”
- (b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 2000.
- SEC. 105. INCOME AVERAGING FOR FARMERS AND FISHERMEN NOT TO INCREASE ALTERNATIVE MINIMUM TAX LIABILITY.**
- (a) IN GENERAL.—Section 55(c) (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 AND FISHERMEN.—Solely for purposes of this section, section 1301 (relating to averaging of farm and fishing income) shall not apply in computing the regular tax.”.
- (b) ALLOWING INCOME AVERAGING FOR FISHERMEN.—

(1) IN GENERAL.—Section 1301(a) is amended by striking “farming business” and inserting “farming business or fishing business.”

(2) DEFINITION OF ELECTED FARM INCOME.—

(A) IN GENERAL.—Clause (i) of section 1301(b)(1)(A) is amended by inserting “or fishing business” before the semicolon.

(B) CONFORMING AMENDMENT.—Subparagraph (B) of section 1301(b)(1) is amended by inserting “or fishing business” after “farming business” both places it occurs.

(3) DEFINITION OF FISHING BUSINESS.—Section 1301(b) is amended by adding at the end the following new paragraph:

“(4) FISHING BUSINESS.—The term ‘fishing business’ means the conduct of commercial fishing as defined in section 3 of the Magnuson-Stevens Fishery Conservation and Management Act (16 U.S.C. 1802).”

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

**SEC. 106. REPEAL OF OCCUPATIONAL TAXES RELATING TO DISTILLED SPIRITS, WINE, AND BEER.**

(a) REPEAL OF OCCUPATIONAL TAXES.—

(1) IN GENERAL.—The following provisions of part II of subchapter A of chapter 51 of the Internal Revenue Code of 1986 (relating to occupational taxes) are hereby repealed:

(A) Subpart A (relating to proprietors of distilled spirits plants, bonded wine cellars, etc.).

(B) Subpart B (relating to brewer).

(C) Subpart D (relating to wholesale dealers) (other than sections 5114 and 5116).

(D) Subpart E (relating to retail dealers) (other than section 5124).

(E) Subpart G (relating to general provisions) (other than sections 5142, 5143, 5145, and 5146).

(2) NONBEVERAGE DOMESTIC DRAWBACK.—Section 5131 is amended by striking “, on payment of a special tax per annum.”

(3) INDUSTRIAL USE OF DISTILLED SPIRITS.—Section 5276 is hereby repealed.

(b) CONFORMING AMENDMENTS.—

(1)(A) The heading for part II of subchapter A of chapter 51 and the table of subparts for such part are amended to read as follows:

**“PART II—MISCELLANEOUS PROVISIONS**

“Subpart A. Manufacturers of stills.

“Subpart B. Nonbeverage domestic drawback claimants.

“Subpart C. Recordkeeping by dealers.

“Subpart D. Other provisions.”

(B) The table of parts for such subchapter A is amended by striking the item relating to part II and inserting the following new item:

“Part II. Miscellaneous provisions.”

(2) Subpart C of part II of such subchapter (relating to manufacturers of stills) is redesignated as subpart A.

(3)(A) Subpart F of such part II (relating to nonbeverage domestic drawback claimants) is redesignated as subpart B and sections 5131 through 5134 are redesignated as sections 5111 through 5114, respectively.

(B) The table of sections for such subpart B, as so redesignated, is amended—

(i) by redesignating the items relating to sections 5131 through 5134 as relating to sections 5111 through 5114, respectively, and

(ii) by striking “and rate of tax” in the item relating to section 5111, as so redesignated.

(C) Section 5111, as redesignated by subparagraph (A), is amended—

(i) by striking “and rate of tax” in the section heading,

(ii) by striking “(a) ELIGIBILITY FOR DRAWBACK.—”, and

(iii) by striking subsection (b).

(4) Part II of subchapter A of chapter 51 is amended by adding after subpart B, as redesi-

gnated by paragraph (3), the following new subpart:

**“Subpart C—Recordkeeping by Dealers**

“Sec. 5121. Recordkeeping by wholesale dealers.

“Sec. 5122. Recordkeeping by retail dealers.

“Sec. 5123. Preservation and inspection of records, and entry of premises for inspection.”

(5)(A) Section 5114 (relating to records) is moved to subpart C of such part II and inserted after the table of sections for such subpart.

(B) Section 5114 is amended—

(i) by striking the section heading and inserting the following new heading:

**“SEC. 5121. RECORDKEEPING BY WHOLESALE DEALERS.”,**

and

(ii) by redesignating subsection (c) as subsection (d) and by inserting after subsection (b) the following new subsection:

“(c) WHOLESALE DEALERS.—For purposes of this part—

“(1) WHOLESALE DEALER IN LIQUORS.—The term ‘wholesale dealer in liquors’ means any dealer (other than a wholesale dealer in beer) who sells, or offers for sale, distilled spirits, wines, or beer, to another dealer.

“(2) WHOLESALE DEALER IN BEER.—The term ‘wholesale dealer in beer’ means any dealer who sells, or offers for sale, beer, but not distilled spirits or wines, to another dealer.

“(3) DEALER.—The term ‘dealer’ means any person who sells, or offers for sale, any distilled spirits, wines, or beer.

“(4) PRESUMPTION IN CASE OF SALE OF 20 WINE GALLONS OR MORE.—The sale, or offer for sale, of distilled spirits, wines, or beer, in quantities of 20 wine gallons or more to the same person at the same time, shall be presumptive evidence that the person making such sale, or offer for sale, is engaged in or carrying on the business of a wholesale dealer in liquors or a wholesale dealer in beer, as the case may be. Such presumption may be overcome by evidence satisfactorily showing that such sale, or offer for sale, was made to a person other than a dealer.”

(C) Paragraph (3) of section 5121(d), as so redesignated, is amended by striking “section 5146” and inserting “section 5123”.

(6)(A) Section 5124 (relating to records) is moved to subpart C of part II of subchapter A of chapter 51 and inserted after section 5121.

(B) Section 5124 is amended—

(i) by striking the section heading and inserting the following new heading:

**“SEC. 5122. RECORDKEEPING BY RETAIL DEALERS.”,**

(ii) by striking “section 5146” in subsection (c) and inserting “section 5123”, and

(iii) by redesignating subsection (c) as subsection (d) and inserting after subsection (b) the following new subsection:

“(c) RETAIL DEALERS.—For purposes of this section—

“(1) RETAIL DEALER IN LIQUORS.—The term ‘retail dealer in liquors’ means any dealer (other than a retail dealer in beer) who sells, or offers for sale, distilled spirits, wines, or beer, to any person other than a dealer.

“(2) RETAIL DEALER IN BEER.—The term ‘retail dealer in beer’ means any dealer who sells, or offers for sale, beer, but not distilled spirits or wines, to any person other than a dealer.

“(3) DEALER.—The term ‘dealer’ has the meaning given such term by section 5121(c)(3).”

(7) Section 5146 is moved to subpart C of part II of subchapter A of chapter 51, inserted after section 5122, and redesignated as section 5123.

(8) Part II of subchapter A of chapter 51 is amended by inserting after subpart C the following new subpart:

**“Subpart D. Other Provisions**

“Sec. 5131. Packaging distilled spirits for industrial uses.

“Sec. 5132. Prohibited purchases by dealers.”

(9) Section 5116 is moved to subpart D of part II of subchapter A of chapter 51, inserted after the table of sections, redesignated as section 5131, and amended by inserting “(as defined in section 5121(c))” after “dealer” in subsection (a).

(10) Subpart D of part II of subchapter A of chapter 51 is amended by adding at the end thereof the following new section:

**“SEC. 5132. PROHIBITED PURCHASES BY DEALERS.**

“(a) IN GENERAL.—Except as provided in regulations prescribed by the Secretary, it shall be unlawful for a dealer to purchase distilled spirits from any person other than a wholesale dealer in liquors who is required to keep the records prescribed by section 5121.

“(b) PENALTY AND FORFEITURE.—

**“For penalty and forfeiture provisions applicable to violations of subsection (a), see sections 5687 and 7302.”**

(11) Subsection (b) of section 5002 is amended—

(A) by striking “section 5112(a)” and inserting “section 5121(c)(3)”,

(B) by striking “section 5112” and inserting “section 5121(c)”,

(C) by striking “section 5122” and inserting “section 5122(c)”,

(12) Subparagraph (A) of section 5010(c)(2) is amended by striking “section 5134” and inserting “section 5114”.

(13) Subsection (d) of section 5052 is amended to read as follows:

“(d) BREWER.—For purposes of this chapter, the term ‘brewer’ means any person who brews beer or produces beer for sale. Such term shall not include any person who produces only beer exempt from tax under section 5053(e).”

(14) The text of section 5182 is amended to read as follows:

**“For provisions requiring recordkeeping by wholesale liquor dealers, see section 5112, and by retail liquor dealers, see section 5122.”**

(15) Subsection (b) of section 5402 is amended by striking “section 5092” and inserting “section 5052(d)”,

(16) Section 5671 is amended by striking “or 5091”.

(17)(A) Part V of subchapter J of chapter 51 is hereby repealed.

(B) The table of parts for such subchapter J is amended by striking the item relating to part V.

(18)(A) Sections 5142, 5143, and 5145 are moved to subchapter D of chapter 52, inserted after section 5731, redesignated as sections 5732, 5733, and 5734, respectively, and amended—

(i) by striking “this part” each place it appears and inserting “this subchapter”, and

(ii) by striking “this subpart” in section 5732(c)(2) (as so redesignated) and inserting “this subchapter”.

(B) Section 5732, as redesignated by subparagraph (A), is amended by striking “(except the tax imposed by section 5131)” each place it appears.

(C) Subsection (c) of section 5733, as redesignated by subparagraph (A), is amended by striking paragraph (2) and by redesignating paragraph (3) as paragraph (2).

(D) The table of sections for subchapter D of chapter 52 is amended by adding at the end thereof the following:

“Sec. 5732. Payment of tax.



“Sec. 5733. Provisions relating to liability for occupational taxes.

“Sec. 5734. Application of State laws.”

(E) Section 5731 is amended by striking subsection (c) and by redesignating subsection (d) as subsection (c).

(19) Subsection (c) of section 6071 is amended by striking “section 5142” and inserting “section 5732”.

(20) Paragraph (1) of section 7652(g) is amended—

(A) by striking “subpart F” and inserting “subpart B”, and

(B) by striking “section 5131(a)” and inserting “section 5111(a)”.

(21) The table of sections for subchapter D of chapter 51 is amended by striking the item relating to section 5276.

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect on July 1, 2001, but shall not apply to taxes imposed for periods before such date.

**SEC. 107. REPEAL OF MODIFICATION OF INSTALLMENT METHOD.**

(a) IN GENERAL.—Subsection (a) of section 536 of the Ticket to Work and Work Incentives Improvement Act of 1999 (relating to modification of installment method and repeal of installment method for accrual method taxpayers) is repealed effective with respect to sales and other dispositions occurring on or after the date of the enactment of such Act.

(b) APPLICABILITY.—The Internal Revenue Code of 1986 shall be applied and administered as if that subsection (and the amendments made by that subsection) had not been enacted.

**TITLE II—PENSION PROVISIONS**

**Subtitle A—Expanding Coverage**

**SEC. 201. INCREASE IN BENEFIT AND CONTRIBUTION LIMITS.**

(a) DEFINED BENEFIT PLANS.—

(1) DOLLAR LIMIT.—

(A) Subparagraph (A) of section 415(b)(1) (relating to limitation for defined benefit plans) is amended by striking “\$90,000” and inserting “\$160,000”.

(B) Subparagraphs (C) and (D) of section 415(b)(2) are each amended by striking “\$90,000” each place it appears in the headings and the text and inserting “\$160,000”.

(C) Paragraph (7) of section 415(b) (relating to benefits under certain collectively bargained plans) is amended by striking “the greater of \$68,212 or one-half the amount otherwise applicable for such year under paragraph (1)(A) for ‘\$90,000’” and inserting “one-half the amount otherwise applicable for such year under paragraph (1)(A) for ‘\$160,000’”.

(2) LIMIT REDUCED WHEN BENEFIT BEGINS BEFORE AGE 62.—Subparagraph (C) of section 415(b)(2) is amended by striking “the social security retirement age” each place it appears in the heading and text and inserting “age 62”.

(3) LIMIT INCREASED WHEN BENEFIT BEGINS AFTER AGE 65.—Subparagraph (D) of section 415(b)(2) is amended by striking “the social security retirement age” each place it appears in the heading and text and inserting “age 65”.

(4) COST-OF-LIVING ADJUSTMENTS.—Subsection (d) of section 415 (related to cost-of-living adjustments) is amended—

(A) by striking “\$90,000” in paragraph (1)(A) and inserting “\$160,000”, and

(B) in paragraph (3)(A)—

(i) by striking “\$90,000” in the heading and inserting “\$160,000”, and

(ii) by striking “October 1, 1986” and inserting “July 1, 2000”.

(5) CONFORMING AMENDMENT.—Section 415(b)(2) is amended by striking subparagraph (F).

(b) DEFINED CONTRIBUTION PLANS.—

(1) DOLLAR LIMIT.—Subparagraph (A) of section 415(c)(1) (relating to limitation for defined contribution plans) is amended by striking “\$30,000” and inserting “\$40,000”.

(2) COST-OF-LIVING ADJUSTMENTS.—Subsection (d) of section 415 (related to cost-of-living adjustments) is amended—

(A) by striking “\$30,000” in paragraph (1)(C) and inserting “\$40,000”, and

(B) in paragraph (3)(D)—

(i) by striking “\$30,000” in the heading and inserting “\$40,000”, and

(ii) by striking “October 1, 1993” and inserting “July 1, 2000”.

(c) QUALIFIED TRUSTS.—

(1) COMPENSATION LIMIT.—Sections 401(a)(17), 404(l), 408(k), and 505(b)(7) are each amended by striking “\$150,000” each place it appears and inserting “\$200,000”.

(2) BASE PERIOD AND ROUNDING OF COST-OF-LIVING ADJUSTMENT.—Subparagraph (B) of section 401(a)(17) is amended—

(A) by striking “October 1, 1993” and inserting “July 1, 2000”, and

(B) by striking “\$10,000” both places it appears and inserting “\$5,000”.

(d) ELECTIVE DEFERRALS.—

(1) IN GENERAL.—Paragraph (1) of section 402(g) (relating to limitation on exclusion for elective deferrals) is amended to read as follows:

“(1) IN GENERAL.—

“(A) LIMITATION.—Notwithstanding subsections (e)(3) and (h)(1)(B), the elective deferrals of any individual for any taxable year shall be included in such individual’s gross income to the extent the amount of such deferrals for the taxable year exceeds the applicable dollar amount.

“(B) APPLICABLE DOLLAR AMOUNT.—For purposes of subparagraph (A), the applicable dollar amount shall be the amount determined in accordance with the following table:

“For taxable years beginning in calendar year:	The applicable dollar amount:
2001 .....	\$11,000
2002 .....	\$12,000
2003 .....	\$13,000
2004 or thereafter .....	\$14,000.”

(2) COST-OF-LIVING ADJUSTMENT.—Paragraph (5) of section 402(g) is amended to read as follows:

“(5) COST-OF-LIVING ADJUSTMENT.—In the case of taxable years beginning after December 31, 2004, the Secretary shall adjust the \$14,000 amount under paragraph (1)(B) at the same time and in the same manner as under section 415(d), except that the base period shall be the calendar quarter beginning July 1, 2003, and any increase under this paragraph which is not a multiple of \$500 shall be rounded to the next lowest multiple of \$500.”.

(3) CONFORMING AMENDMENTS.—

(A) Section 402(g) (relating to limitation on exclusion for elective deferrals), as amended by paragraphs (1) and (2), is further amended by striking paragraph (4) and redesignating paragraphs (5), (6), (7), (8), and (9) as paragraphs (4), (5), (6), (7), and (8), respectively.

(B) Paragraph (2) of section 457(c) is amended by striking “402(g)(8)(A)(iii)” and inserting “402(g)(7)(A)(iii)”.

(C) Clause (iii) of section 501(c)(18)(D) is amended by striking “(other than paragraph (4) thereof)”.

(e) DEFERRED COMPENSATION PLANS OF STATE AND LOCAL GOVERNMENTS AND TAX-EXEMPT ORGANIZATIONS.—

(1) IN GENERAL.—Section 457 (relating to deferred compensation plans of State and local governments and tax-exempt organizations) is amended—

(A) in subsections (b)(2)(A) and (c)(1) by striking “\$7,500” each place it appears and inserting “the applicable dollar amount”, and

(B) in subsection (b)(3)(A) by striking “\$15,000” and inserting “twice the dollar amount in effect under subsection (b)(2)(A)”.

(2) APPLICABLE DOLLAR AMOUNT; COST-OF-LIVING ADJUSTMENT.—Paragraph (15) of section 457(e) is amended to read as follows:

“(15) APPLICABLE DOLLAR AMOUNT.—

“(A) IN GENERAL.—The applicable dollar amount shall be the amount determined in accordance with the following table:

“For taxable years beginning in calendar year:	The applicable dollar amount:
2001 .....	\$11,000
2002 .....	\$12,000
2003 .....	\$13,000
2004 or thereafter .....	\$14,000.

“(B) COST-OF-LIVING ADJUSTMENTS.—In the case of taxable years beginning after December 31, 2004, the Secretary shall adjust the \$14,000 amount specified in the table in subparagraph (A) at the same time and in the same manner as under section 415(d), except that the base period shall be the calendar quarter beginning July 1, 2003, and any increase under this paragraph which is not a multiple of \$500 shall be rounded to the next lowest multiple of \$500.”.

(f) SIMPLE RETIREMENT ACCOUNTS.—

(1) LIMITATION.—Clause (ii) of section 408(p)(2)(A) (relating to general rule for qualified salary reduction arrangement) is amended by striking “\$6,000” and inserting “the applicable dollar amount”.

(2) APPLICABLE DOLLAR AMOUNT.—Subparagraph (E) of 408(p)(2) is amended to read as follows:

“(E) APPLICABLE DOLLAR AMOUNT; COST-OF-LIVING ADJUSTMENT.—

“(i) IN GENERAL.—For purposes of subparagraph (A)(ii), the applicable dollar amount shall be the amount determined in accordance with the following table:

“For taxable years beginning in calendar year:	The applicable dollar amount:
2001 .....	\$7,000
2002 .....	\$8,000
2003 .....	\$9,000
2004 or thereafter .....	\$10,000.

“(ii) COST-OF-LIVING ADJUSTMENT.—In the case of a year beginning after December 31, 2004, the Secretary shall adjust the \$10,000 amount under clause (i) at the same time and in the same manner as under section 415(d), except that the base period taken into account shall be the calendar quarter beginning July 1, 2003, and any increase under this subparagraph which is not a multiple of \$500 shall be rounded to the next lower multiple of \$500.”.

(3) CONFORMING AMENDMENTS.—

(A) Clause (1) of section 401(k)(11)(B)(i) is amended by striking “\$6,000” and inserting “the amount in effect under section 408(p)(2)(A)(ii)”.

(B) Section 401(k)(11) is amended by striking subparagraph (E).

(g) ROUNDING RULE RELATING TO DEFINED BENEFIT PLANS AND DEFINED CONTRIBUTION PLANS.—Paragraph (4) of section 415(d) is amended to read as follows:

“(4) ROUNDING.—

“(A) \$160,000 AMOUNT.—Any increase under subparagraph (A) of paragraph (1) which is not a multiple of \$5,000 shall be rounded to the next lowest multiple of \$5,000.

“(B) \$40,000 AMOUNT.—Any increase under subparagraph (C) of paragraph (1) which is not a multiple of \$1,000 shall be rounded to the next lowest multiple of \$1,000.”.

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

**SEC. 202. 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) EFFECTIVE DATE.—The amendment made by this section shall apply to loans made after December 31, 2000.

**SEC. 203. MODIFICATION OF TOP-HEAVY RULES.**

(a) SIMPLIFICATION OF DEFINITION OF KEY EMPLOYEE.—

(1) IN GENERAL.—Section 416(i)(1)(A) (defining key employee) is amended—

(A) by striking “or any of the 4 preceding plan years” in the matter preceding clause (i),

(B) by striking clause (i) and inserting the following:

“(i) an officer of the employer having an annual compensation greater than \$150,000.”.

(C) by striking clause (ii) and redesignating clauses (iii) and (iv) as clauses (ii) and (iii), respectively, and

(D) by striking the second sentence in the matter following clause (iii), as redesignated by subparagraph (C).

(2) CONFORMING AMENDMENT.—Section 416(i)(1)(B)(iii) is amended by striking “and subparagraph (A)(ii)”.

(b) MATCHING CONTRIBUTIONS TAKEN INTO ACCOUNT FOR MINIMUM CONTRIBUTION REQUIREMENTS.—Section 416(c)(2)(A) (relating to defined contribution plans) is amended by adding at the end the following: “Employer matching contributions (as defined in section 401(m)(4)(A)) shall be taken into account for purposes of this subparagraph.”.

(c) DISTRIBUTIONS DURING LAST YEAR BEFORE DETERMINATION DATE TAKEN INTO ACCOUNT.—

(1) IN GENERAL.—Paragraph (3) of section 416(g) is amended to read as follows:

“(3) DISTRIBUTIONS DURING LAST YEAR BEFORE DETERMINATION DATE TAKEN INTO ACCOUNT.—

“(A) IN GENERAL.—For purposes of determining—

“(i) the present value of the cumulative accrued benefit for any employee, or

“(ii) the amount of the account of any employee,

such present value or amount shall be increased by the aggregate distributions made with respect to such employee under the plan during the 1-year period ending on the determination date. The preceding sentence shall also apply to distributions under a terminated plan which if it had not been terminated would have been required to be included in an aggregation group.

“(B) 5-YEAR PERIOD IN CASE OF IN-SERVICE DISTRIBUTION.—In the case of any distribution made for a reason other than separation from service, death, or disability, subparagraph (A) shall be applied by substituting ‘5-year period’ for ‘1-year period’.”.

(2) BENEFITS NOT TAKEN INTO ACCOUNT.—Subparagraph (E) of section 416(g)(4) is amended—

(A) by striking “LAST 5 YEARS” in the heading and inserting “LAST YEAR BEFORE DETERMINATION DATE”, and

(B) by striking “5-year period” and inserting “1-year period”.

(d) DEFINITION OF TOP-HEAVY PLANS.—Paragraph (4) of section 416(g) (relating to other special rules for top-heavy plans) is amended by adding at the end the following new subparagraph:

“(H) CASH OR DEFERRED ARRANGEMENTS USING ALTERNATIVE METHODS OF MEETING NON-

DISCRIMINATION REQUIREMENTS.—The term ‘top-heavy plan’ shall not include a plan which consists solely of—

“(i) a cash or deferred arrangement which meets the requirements of section 401(k)(12), and

“(ii) matching contributions with respect to which the requirements of section 401(m)(11) are met.

If, but for this subparagraph, a plan would be treated as a top-heavy plan because it is a member of an aggregation group which is a top-heavy group, contributions under the plan may be taken into account in determining whether any other plan in the group meets the requirements of subsection (c)(2).”.

(e) FROZEN PLAN EXEMPT FROM MINIMUM BENEFIT REQUIREMENT.—Subparagraph (C) of section 416(c)(1) (relating to defined benefit plans) is amended—

(A) by striking “clause (ii)” in clause (i) and inserting “clause (ii) or (iii)”, and

(B) by adding at the end the following:

“(iii) EXCEPTION FOR FROZEN PLAN.—For purposes of determining an employee’s years of service with the employer, any service with the employer shall be disregarded to the extent that such service occurs during a plan year when the plan benefits (within the meaning of section 410(b)) no employee or former employee.”.

(f) ELIMINATION OF FAMILY ATTRIBUTION.—Section 416(i)(1)(B) (defining 5-percent owner) is amended by adding at the end the following new clause:

“(iv) FAMILY ATTRIBUTION DISREGARDED.—Solely for purposes of applying this paragraph (and not for purposes of any provision of this title which incorporates by reference the definition of a key employee or 5-percent owner under this paragraph), section 318 shall be applied without regard to subsection (a)(1) thereof in determining whether any person is a 5-percent owner.”.

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

**SEC. 204. ELECTIVE DEFERRALS NOT TAKEN INTO ACCOUNT FOR PURPOSES OF DEDUCTION LIMITS.**

(a) IN GENERAL.—Section 404 (relating to deduction for contributions of an employer to an employees’ trust or annuity plan and compensation under a deferred payment plan) is amended by adding at the end the following new subsection:

“(n) ELECTIVE DEFERRALS NOT TAKEN INTO ACCOUNT FOR PURPOSES OF DEDUCTION LIMITS.—Elective deferrals (as defined in section 402(g)(3)) shall not be subject to any limitation contained in paragraph (3), (7), or (9) of subsection (a), and such elective deferrals shall not be taken into account in applying any such limitation to any other contributions.”.

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

**SEC. 205. REPEAL OF COORDINATION REQUIREMENTS FOR DEFERRED COMPENSATION PLANS OF STATE AND LOCAL GOVERNMENTS AND TAX-EXEMPT ORGANIZATIONS.**

(a) IN GENERAL.—Subsection (c) of section 457 (relating to deferred compensation plans of State and local governments and tax-exempt organizations), as amended by section 211, is amended to read as follows:

“(c) LIMITATION.—The maximum amount of the compensation of any one individual which may be deferred under subsection (a) during any taxable year shall not exceed the amount in effect under subsection (b)(2)(A) (as modified by any adjustment provided under subsection (b)(3)).”.

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

**SEC. 206. ELIMINATION OF USER FEE FOR REQUESTS TO IRS REGARDING PENSION PLANS.**

(a) ELIMINATION OF CERTAIN USER FEES.—The Secretary of the Treasury or the Secretary’s delegate shall not require payment of user fees under the program established under section 7527 of the Internal Revenue Code of 1986 for requests to the Internal Revenue Service for determination letters with respect to the qualified status of a pension benefit plan maintained solely by one or more eligible employers or any trust which is part of the plan. The preceding sentence shall not apply to any request—

(1) made after the 5th plan year the pension benefit plan is in existence, or

(2) made by the sponsor of any prototype or similar plan which the sponsor intends to market to participating employers.

(b) PENSION BENEFIT PLAN.—For purposes of this section, the term “pension benefit plan” means a pension, profit-sharing, stock bonus, annuity, or employee stock ownership plan.

(c) ELIGIBLE EMPLOYER.—For purposes of this section, the term “eligible employer” has the same meaning given such term in section 408(p)(2)(C)(i)(I) of the Internal Revenue Code of 1986. The determination of whether an employer is an eligible employer under this section shall be made as of the date of the request described in subsection (a).

(d) EFFECTIVE DATE.—The provisions of this section shall apply with respect to requests made after December 31, 2000.

**SEC. 207. DEDUCTION LIMITS.**

(a) IN GENERAL.—Section 404(a) (relating to general rule) is amended by adding at the end the following:

“(12) DEFINITION OF COMPENSATION.—For purposes of paragraphs (3), (7), (8), and (9), the term ‘compensation’ shall include amounts treated as participant’s compensation under subparagraph (C) or (D) of section 415(c)(3).”.

(b) CONFORMING AMENDMENT.—Subparagraph (B) of section 404(a)(3) is amended by striking the last sentence thereof.

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

**SEC. 208. OPTION TO TREAT ELECTIVE DEFERRALS AS AFTER-TAX CONTRIBUTIONS.**

(a) IN GENERAL.—Subpart A of part I of subchapter D of chapter 1 (relating to deferred compensation, etc.) is amended by inserting after section 402 the following new section:

**“SEC. 402A. OPTIONAL TREATMENT OF ELECTIVE DEFERRALS AS PLUS CONTRIBUTIONS.**

“(a) GENERAL RULE.—If an applicable retirement plan includes a qualified plus contribution program—

“(1) any designated plus contribution made by an employee pursuant to the program shall be treated as an elective deferral for purposes of this chapter, except that such contribution shall not be excludable from gross income, and

“(2) such plan (and any arrangement which is part of such plan) shall not be treated as failing to meet any requirement of this chapter solely by reason of including such program.

“(b) QUALIFIED PLUS CONTRIBUTION PROGRAM.—For purposes of this section—

“(1) IN GENERAL.—The term ‘qualified plus contribution program’ means a program under which an employee may elect to make designated plus contributions in lieu of all or a portion of elective deferrals the employee is otherwise eligible to make under the applicable retirement plan.

“(2) SEPARATE ACCOUNTING REQUIRED.—A program shall not be treated as a qualified

program shall not be treated as a qualified plus contribution program unless the applicable retirement plan—

“(A) establishes separate accounts (‘designated plus accounts’) for the designated plus contributions of each employee and any earnings properly allocable to the contributions, and

“(B) maintains separate recordkeeping with respect to each account.

“(C) DEFINITIONS AND RULES RELATING TO DESIGNATED PLUS CONTRIBUTIONS.—For purposes of this section—

“(1) DESIGNATED PLUS CONTRIBUTION.—The term ‘designated plus contribution’ means any elective deferral which—

“(A) is excludable from gross income of an employee without regard to this section, and

“(B) the employee designates (at such time and in such manner as the Secretary may prescribe) as not being so excludable.

“(2) DESIGNATION LIMITS.—The amount of elective deferrals which an employee may designate under paragraph (1) shall not exceed the excess (if any) of—

“(A) the maximum amount of elective deferrals excludable from gross income of the employee for the taxable year (without regard to this section), over

“(B) the aggregate amount of elective deferrals of the employee for the taxable year which the employee does not designate under paragraph (1).

“(3) ROLLOVER CONTRIBUTIONS.—

“(A) IN GENERAL.—A rollover contribution of any payment or distribution from a designated plus account which is otherwise allowable under this chapter may be made only if the contribution is to—

“(i) another designated plus account of the individual from whose account the payment or distribution was made, or

“(ii) a Roth IRA of such individual.

“(B) COORDINATION WITH LIMIT.—Any rollover contribution to a designated plus account under subparagraph (A) shall not be taken into account for purposes of paragraph (1).

“(d) DISTRIBUTION RULES.—For purposes of this title—

“(1) EXCLUSION.—Any qualified distribution from a designated plus account shall not be includible in gross income.

“(2) QUALIFIED DISTRIBUTION.—For purposes of this subsection—

“(A) IN GENERAL.—The term ‘qualified distribution’ has the meaning given such term by section 408A(d)(2)(A) (without regard to clause (iv) thereof).

“(B) DISTRIBUTIONS WITHIN NONEXCLUSION PERIOD.—A payment or distribution from a designated plus account shall not be treated as a qualified distribution if such payment or distribution is made within the 5-taxable-year period beginning with the earlier of—

“(i) the first taxable year for which the individual made a designated plus contribution to any designated plus account established for such individual under the same applicable retirement plan, or

“(ii) if a rollover contribution was made to such designated plus account from a designated plus account previously established for such individual under another applicable retirement plan, the first taxable year for which the individual made a designated plus contribution to such previously established account.

“(C) DISTRIBUTIONS OF EXCESS DEFERRALS AND EARNINGS.—The term ‘qualified distribution’ shall not include any distribution of any excess deferral under section 402(g)(2) and any income on the excess deferral.

“(3) AGGREGATION RULES.—Section 72 shall be applied separately with respect to distributions and payments from a designated plus account and other distributions and payments from the plan.

“(e) OTHER DEFINITIONS.—For purposes of this section—

“(1) APPLICABLE RETIREMENT PLAN.—The term ‘applicable retirement plan’ means—

“(A) an employees’ trust described in section 401(a) which is exempt from tax under section 501(a), and

“(B) a plan under which amounts are contributed by an individual’s employer for an annuity contract described in section 403(b).

“(2) ELECTIVE DEFERRAL.—The term ‘elective deferral’ means any elective deferral described in subparagraph (A) or (C) of section 402(g)(3).”

(b) EXCESS DEFERRALS.—Section 402(g) (relating to limitation on exclusion for elective deferrals) is amended—

(1) by adding at the end of paragraph (1) the following new sentence: “The preceding sentence shall not apply to so much of such excess as does not exceed the designated plus contributions of the individual for the taxable year.”; and

(2) by inserting “(or would be included but for the last sentence thereof)” after “paragraph (1)” in paragraph (2)(A).

(c) ROLLOVERS.—Subparagraph (B) of section 402(c)(8) is amended by adding at the end the following:

“If any portion of an eligible rollover distribution is attributable to payments or distributions from a designated plus account (as defined in section 402A), an eligible retirement plan with respect to such portion shall include only another designated plus account and a Roth IRA.”

(d) REPORTING REQUIREMENTS.—

(1) W-2 INFORMATION.—Section 6051(a)(8) is amended by inserting “, including the amount of designated plus contributions (as defined in section 402A)” before the comma at the end.

(2) INFORMATION.—Section 6047 is amended by redesignating subsection (f) as subsection (g) and by inserting after subsection (e) the following new subsection:

“(f) DESIGNATED PLUS CONTRIBUTIONS.—The Secretary shall require the plan administrator of each applicable retirement plan (as defined in section 402A) to make such returns and reports regarding designated plus contributions (as so defined) to the Secretary, participants and beneficiaries of the plan, and such other persons as the Secretary may prescribe.”

(e) CONFORMING AMENDMENTS.—

(1) Section 408A(e) is amended by adding after the first sentence the following new sentence: “Such term includes a rollover contribution described in section 402A(c)(3)(A).”

(2) The table of sections for subpart A of part I of subchapter D of chapter 1 is amended by inserting after the item relating to section 402 the following new item:

“Sec. 402A. Optional treatment of elective deferrals as plus contributions.”

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

**Subtitle B—Enhancing Fairness for Women**  
**SEC. 221. CATCHUP CONTRIBUTIONS FOR INDIVIDUALS AGE 50 OR OVER.**

(a) IN GENERAL.—Section 414 (relating to definitions and special rules) is amended by adding at the end the following new subsection:

“(v) CATCHUP CONTRIBUTIONS FOR INDIVIDUALS AGE 50 OR OVER.—

“(1) IN GENERAL.—An applicable employer plan shall not be treated as failing to meet any requirement of this title solely because the plan permits an eligible participant to make additional elective deferrals in any plan year.

“(2) LIMITATION ON AMOUNT OF ADDITIONAL DEFERRALS.—

“(A) IN GENERAL.—A plan shall not permit additional elective deferrals under paragraph (1) for any year in an amount greater than the lesser of—

“(i) the applicable percentage of the applicable dollar amount for such elective deferrals for such year, or

“(ii) the excess (if any) of—

“(I) the participant’s compensation for the year, over

“(II) any other elective deferrals of the participant for such year which are made without regard to this subsection.

“(B) APPLICABLE PERCENTAGE.—For purposes of this paragraph, the applicable percentage shall be determined in accordance with the following table:

For taxable years beginning in:	The applicable percentage is:
2001 .....	10
2002 .....	20
2003 .....	30
2004 and thereafter .....	40

“(3) TREATMENT OF CONTRIBUTIONS.—In the case of any contribution to a plan under paragraph (1)—

“(A) such contribution shall not, with respect to the year in which the contribution is made—

“(i) be subject to any otherwise applicable limitation contained in section 402(g), 402(h), 403(b), 404(a), 404(h), 408, 415, or 457, or

“(ii) be taken into account in applying such limitations to other contributions or benefits under such plan or any other such plan, and

“(B) such plan shall not be treated as failing to meet the requirements of section 401(a)(4), 401(a)(26), 401(k)(3), 401(k)(11), 401(k)(12), 401(m), 403(b)(12), 408(k), 408(p), 408E, 410(b), or 416 by reason of the making of (or the right to make) such contribution.

“(4) ELIGIBLE PARTICIPANT.—For purposes of this subsection, the term ‘eligible participant’ means, with respect to any plan year, a participant in a plan—

“(A) who has attained the age of 50 before the close of the plan year, and

“(B) with respect to whom no other elective deferrals may (without regard to this subsection) be made to the plan for the plan year by reason of the application of any limitation or other restriction described in paragraph (3) or contained in the terms of the plan.

“(5) OTHER DEFINITIONS AND RULES.—For purposes of this subsection—

“(A) APPLICABLE DOLLAR AMOUNT.—The term ‘applicable dollar amount’ means, with respect to any year, the amount in effect under section 402(g)(1)(B), 408(p)(2)(E)(i), or 457(e)(15)(A), whichever is applicable to an applicable employer plan, for such year.

“(B) APPLICABLE EMPLOYER PLAN.—The term ‘applicable employer plan’ means—

“(i) an employees’ trust described in section 401(a) which is exempt from tax under section 501(a),

“(ii) a plan under which amounts are contributed by an individual’s employer for an annuity contract described in section 403(b),

“(iii) an eligible deferred compensation plan under section 457 of an eligible employer as defined in section 457(e)(1)(A), and

“(iv) an arrangement meeting the requirements of section 408 (k) or (p).

“(C) ELECTIVE DEFERRAL.—The term ‘elective deferral’ has the meaning given such term by subsection (u)(2)(C).

“(D) EXCEPTION FOR SECTION 457 PLANS.—This subsection shall not apply to an applicable employer plan described in subparagraph (B)(iii) for any year to which section 457(b)(3) applies.”

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

**SEC. 222. EQUITABLE TREATMENT FOR CONTRIBUTIONS OF EMPLOYEES TO DEFINED CONTRIBUTION PLANS.**

(a) **EQUITABLE TREATMENT.**—  
 (1) **IN GENERAL.**—Subparagraph (B) of section 415(c)(1) (relating to limitation for defined contribution plans) is amended by striking “25 percent” and inserting “100 percent”.

(2) **APPLICATION TO SECTION 403(b).**—Section 403(b) is amended—

(A) by striking “the exclusion allowance for such taxable year” in paragraph (1) and inserting “the applicable limit under section 415”;

(B) by striking paragraph (2), and  
 (C) by inserting “or any amount received by a former employee after the 5th taxable year following the taxable year in which such employee was terminated” before the period at the end of the second sentence of paragraph (3).

(3) **CONFORMING AMENDMENTS.**—

(A) Subsection (f) of section 72 is amended by striking “section 403(b)(2)(D)(iii)” and inserting “section 403(b)(2)(D)(iii), as in effect before the enactment of the Small Business Tax Fairness Act of 2000”.

(B) Section 404(a)(10)(B) is amended by striking “, the exclusion allowance under section 403(b)(2),”.

(C) Section 415(a)(2) is amended by striking “, and the amount of the contribution for such portion shall reduce the exclusion allowance as provided in section 403(b)(2)”.

(D) Section 415(c)(3) is amended by adding at the end the following new subparagraph:

“(E) **ANNUITY CONTRACTS.**—In the case of an annuity contract described in section 403(b), the term ‘participant’s compensation’ means the participant’s includible compensation determined under section 403(b)(3).”.

(E) Section 415(c) is amended by striking paragraph (4).

(F) Section 415(c)(7) is amended to read as follows:

“(7) **CERTAIN CONTRIBUTIONS BY CHURCH PLANS NOT TREATED AS EXCEEDING LIMIT.**—

“(A) **IN GENERAL.**—Notwithstanding any other provision of this subsection, at the election of a participant who is an employee of a church or a convention or association of churches, including an organization described in section 414(e)(3)(B)(ii), contributions and other additions for an annuity contract or retirement income account described in section 403(b) with respect to such participant, when expressed as an annual addition to such participant’s account, shall be treated as not exceeding the limitation of paragraph (1) if such annual addition is not in excess of \$10,000.

“(B) **\$40,000 AGGREGATE LIMITATION.**—The total amount of additions with respect to any participant which may be taken into account for purposes of this subparagraph for all years may not exceed \$40,000.

“(C) **ANNUAL ADDITION.**—For purposes of this paragraph, the term ‘annual addition’ has the meaning given such term by paragraph (2).”.

(G) Subparagraph (B) of section 402(g)(7) (as redesignated by section 211) is amended by inserting before the period at the end the following: “(as in effect before the enactment of the Small Business Tax Fairness Act of 2000)”.

(3) **EFFECTIVE DATE.**—The amendments made by this subsection shall apply to years beginning after December 31, 2000.

(b) **SPECIAL RULES FOR SECTIONS 403(b) AND 408.**—

(1) **IN GENERAL.**—Subsection (k) of section 415 is amended by adding at the end the following new paragraph:

“(4) **SPECIAL RULES FOR SECTIONS 403(b) AND 408.**—For purposes of this section, any annu-

ity contract described in section 403(b) for the benefit of a participant shall be treated as a defined contribution plan maintained by each employer with respect to which the participant has the control required under subsection (b) or (c) of section 414 (as modified by subsection (h)). For purposes of this section, any contribution by an employer to a simplified employee pension plan for an individual for a taxable year shall be treated as an employer contribution to a defined contribution plan for such individual for such year.”.

(2) **EFFECTIVE DATE.**—

(A) **IN GENERAL.**—The amendment made by paragraph (1) shall apply to limitation years beginning after December 31, 1999.

(B) **EXCLUSION ALLOWANCE.**—Effective for limitation years beginning in 2000, in the case of any annuity contract described in section 403(b) of the Internal Revenue Code of 1986, the amount of the contribution disqualified by reason of section 415(g) of such Code shall reduce the exclusion allowance as provided in section 403(b)(2) of such Code.

(3) **MODIFICATION OF 403(b) EXCLUSION ALLOWANCE TO CONFORM TO 415 MODIFICATION.**—The Secretary of the Treasury shall modify the regulations regarding the exclusion allowance under section 403(b)(2) of the Internal Revenue Code of 1986 to render void the requirement that contributions to a defined benefit pension plan be treated as previously excluded amounts for purposes of the exclusion allowance. For taxable years beginning after December 31, 1999, such regulations shall be applied as if such requirement were void.

(c) **DEFERRED COMPENSATION PLANS OF STATE AND LOCAL GOVERNMENTS AND TAX-EXEMPT ORGANIZATIONS.**—

(1) **IN GENERAL.**—Subparagraph (B) of section 457(b)(2) (relating to salary limitation on eligible deferred compensation plans) is amended by striking “33½ percent” and inserting “100 percent”.

(2) **EFFECTIVE DATE.**—The amendment made by this subsection shall apply to years beginning after December 31, 2000.

**SEC. 223. 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) **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 one or more collective bargaining agreements between employee representatives and one or more employers ratified by the date of the 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 the 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. 224. SIMPLIFY AND UPDATE THE MINIMUM DISTRIBUTION RULES.**

(a) **SIMPLIFICATION AND FINALIZATION OF MINIMUM DISTRIBUTION REQUIREMENTS.**—

(1) **IN GENERAL.**—The Secretary of the Treasury shall—

(A) simplify and finalize the regulations relating to minimum distribution requirements under sections 401(a)(9), 408(a)(6) and (b)(3), 403(b)(10), and 457(d)(2) of the Internal Revenue Code of 1986, and

(B) modify such regulations to—  
 (i) reflect current life expectancy, and  
 (ii) revise the required distribution methods so that, under reasonable assumptions, the amount of the required minimum distribution does not decrease over a participant’s life expectancy.

(2) **FRESH START.**—Notwithstanding subparagraph (D) of section 401(a)(9) of such Code, during the first year that regulations are in effect under this subsection, required distributions for future years may be redetermined to reflect changes under such regulations. Such redetermination shall include the opportunity to choose a new designated beneficiary and to elect a new method of calculating life expectancy.

(3) **EFFECTIVE DATE FOR REGULATIONS.**—Regulations referred to in paragraph (1) shall be effective for years beginning after December 31, 2000, and shall apply in such years without regard to whether an individual had previously begun receiving minimum distributions.

(b) **REPEAL OF RULE WHERE DISTRIBUTIONS HAD BEGUN BEFORE DEATH OCCURS.**—

(1) **IN GENERAL.**—Subparagraph (B) of section 401(a)(9) is amended by striking clause (i) and redesignating clauses (ii), (iii), and (iv) as clauses (i), (ii), and (iii), respectively.

(2) **CONFORMING CHANGES.**—

(A) Clause (i) of section 401(a)(9)(B) (as so redesignated) is amended—

(i) by striking “FOR OTHER CASES” in the heading, and

(ii) by striking “the distribution of the employee’s interest has begun in accordance with subparagraph (A)(ii)” and inserting “his entire interest has been distributed to him.”.

(B) Clause (ii) of section 401(a)(9)(B) (as so redesignated) is amended by striking “clause (ii)” and inserting “clause (i)”.

(C) Clause (iii) of section 401(a)(9)(B) (as so redesignated) is amended—

(i) by striking “clause (iii)(I)” and inserting “clause (ii)(I)”;

(ii) by striking “clause (iii)(III)” in subclause (I) and inserting “clause (ii)(III)”;

(iii) by striking “the date on which the employee would have attained the age 70½,” in subclause (I) and inserting “April 1 of the calendar year following the calendar year in which the spouse attains 70½,”; and

(iv) by striking “the distributions to such spouse begin,” in subclause (II) and inserting “his entire interest has been distributed to him.”.

(3) **EFFECTIVE DATE.**—The amendments made by this subsection shall apply to years beginning after December 31, 2000.

**(c) REDUCTION IN EXCISE TAX.—**

(1) IN GENERAL.—Subsection (a) of section 4974 is amended by striking “50 percent” and inserting “10 percent”.

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

**SEC. 225. 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. 226. MODIFICATION OF SAFE HARBOR RELIEF FOR HARDSHIP WITHDRAWALS FROM CASH OR DEFERRED ARRANGEMENTS.**

(a) IN GENERAL.—The Secretary of the Treasury shall revise the regulations relating to hardship distributions under section 401(k)(2)(B)(i)(IV) of the Internal Revenue Code of 1986 to provide that the period an employee is prohibited from making elective and employee contributions in order for a distribution to be deemed necessary to satisfy financial need shall be equal to 6 months.

(b) EFFECTIVE DATE.—The revised regulations under subsection (a) shall apply to years beginning after December 31, 2000.

**Subtitle C—Increasing Portability for Participants****SEC. 231. ROLLOVERS ALLOWED AMONG VARIOUS TYPES OF PLANS.**

(a) ROLLOVERS FROM AND TO SECTION 457 PLANS.—

**(1) ROLLOVERS FROM SECTION 457 PLANS.—**

(A) IN GENERAL.—Section 457(e) (relating to other definitions and special rules) is amended by adding at the end the following:

**“(16) ROLLOVER AMOUNTS.—**

“(A) GENERAL RULE.—In the case of an eligible deferred compensation plan established and maintained by an employer described in subsection (e)(1)(A), if—

“(i) any portion of the balance to the credit of an employee in such plan is paid to such employee in an eligible rollover distribution (within the meaning of section 402(c)(4) without regard to subparagraph (C) thereof),

“(ii) the employee transfers any portion of the property such employee receives in such distribution to an eligible retirement plan described in section 402(c)(8)(B), and

“(iii) in the case of a distribution of property other than money, the amount so transferred consists of the property distributed, then such distribution (to the extent so transferred) shall not be includible in gross income for the taxable year in which paid.

**“(B) CERTAIN RULES MADE APPLICABLE.—**

The rules of paragraphs (2) through (7) (other than paragraph (4)(C)) and (9) of section 402(c) and section 402(f) shall apply for purposes of subparagraph (A).

“(C) REPORTING.—Rollovers under this paragraph shall be reported to the Secretary in the same manner as rollovers from qualified retirement plans (as defined in section 4974(c)).”.

(B) DEFERRAL LIMIT DETERMINED WITHOUT REGARD TO ROLLOVER AMOUNTS.—Section 457(b)(2) (defining eligible deferred compensation plan) is amended by inserting “(other than rollover amounts)” after “taxable year”.

(C) DIRECT ROLLOVER.—Paragraph (1) of section 457(d) is amended by striking “and” at the end of subparagraph (A), by striking the period at the end of subparagraph (B) and inserting “, and”, and by inserting after subparagraph (B) the following:

“(C) in the case of a plan maintained by an employer described in subsection (e)(1)(A), the plan meets requirements similar to the requirements of section 401(a)(31).

Any amount transferred in a direct trustee-to-trustee transfer in accordance with section 401(a)(31) shall not be includible in gross income for the taxable year of transfer.”.

**(D) WITHHOLDING.—**

(i) Paragraph (12) of section 3401(a) is amended by adding at the end the following:

“(E) under or to an eligible deferred compensation plan which, at the time of such payment, is a plan described in section 457(b) maintained by an employer described in section 457(e)(1)(A); or”.

(ii) Paragraph (3) of section 3405(c) is amended to read as follows:

“(3) ELIGIBLE ROLLOVER DISTRIBUTION.—For purposes of this subsection, the term ‘eligible rollover distribution’ has the meaning given such term by section 402(f)(2)(A).”.

(iii) LIABILITY FOR WITHHOLDING.—Subparagraph (B) of section 3405(d)(2) is amended by striking “or” at the end of clause (ii), by striking the period at the end of clause (iii) and inserting “, or”, and by adding at the end the following:

“(iv) section 457(b).”.

**(2) ROLLOVERS TO SECTION 457 PLANS.—**

(A) IN GENERAL.—Section 402(c)(8)(B) (defining eligible retirement plan) is amended by striking “and” at the end of clause (iii), by striking the period at the end of clause (iv) and inserting “, and”, and by inserting after clause (iv) the following new clause:

“(v) an eligible deferred compensation plan described in section 457(b) of an employer described in section 457(e)(1)(A).”.

(B) SEPARATE ACCOUNTING.—Section 402(c) is amended by adding at the end the following new paragraph:

“(11) SEPARATE ACCOUNTING.—Unless a plan described in clause (v) of paragraph (8)(B) agrees to separately account for amounts rolled into such plan from eligible retirement plans not described in such clause, the plan described in such clause may not accept transfers or rollovers from such retirement plans.”.

(C) 10 PERCENT ADDITIONAL TAX.—Subsection (t) of section 72 (relating to 10-percent additional tax on early distributions from qualified retirement plans) is amended by adding at the end the following new paragraph:

“(9) SPECIAL RULE FOR ROLLOVERS TO SECTION 457 PLANS.—For purposes of this subsection, a distribution from an eligible deferred compensation plan (as defined in section 457(b)) of an employer described in section 457(e)(1)(A) shall be treated as a distribution from a qualified retirement plan described in 4974(c)(1) to the extent that such distribution is attributable to an amount

transferred to an eligible deferred compensation plan from a qualified retirement plan (as defined in section 4974(c)).”.

**(b) ALLOWANCE OF ROLLOVERS FROM AND TO 403 (b) PLANS.—**

(1) ROLLOVERS FROM SECTION 403 (b) PLANS.—Section 403(b)(8)(A)(ii) (relating to rollover amounts) is amended by striking “such distribution” and all that follows and inserting “such distribution to an eligible retirement plan described in section 402(c)(8)(B), and”.

(2) ROLLOVERS TO SECTION 403 (b) PLANS.—Section 402(c)(8)(B) (defining eligible retirement plan), as amended by subsection (a), is amended by striking “and” at the end of clause (iv), by striking the period at the end of clause (v) and inserting “, and”, and by inserting after clause (v) the following new clause:

“(vi) an annuity contract described in section 403(b).”.

(c) EXPANDED EXPLANATION TO RECIPIENTS OF ROLLOVER DISTRIBUTIONS.—Paragraph (1) of section 402(f) (relating to written explanation to recipients of distributions eligible for rollover treatment) is amended by striking “and” at the end of subparagraph (C), by striking the period at the end of subparagraph (D) and inserting “, and”, and by adding at the end the following new subparagraph:

“(E) of the provisions under which distributions from the eligible retirement plan receiving the distribution may be subject to restrictions and tax consequences which are different from those applicable to distributions from the plan making such distribution.”.

(d) SPOUSAL ROLLOVERS.—Section 402(c)(9) (relating to rollover where spouse receives distribution after death of employee) is amended by striking “; except that” and all that follows up to the end period.

**(e) CONFORMING AMENDMENTS.—**

(1) Section 72(o)(4) is amended by striking “and 408(d)(3)” and inserting “403(b)(8), 408(d)(3), and 457(e)(16)”.

(2) Section 219(d)(2) is amended by striking “or 408(d)(3)” and inserting “408(d)(3), or 457(e)(16)”.

(3) Section 401(a)(31)(B) is amended by striking “and 403(a)(4)” and inserting “, 403(a)(4), 403(b)(8), and 457(e)(16)”.

(4) Subparagraph (A) of section 402(f)(2) is amended by striking “or paragraph (4) of section 403(a)” and inserting “, paragraph (4) of section 403(a), subparagraph (A) of section 403(b)(8), or subparagraph (A) of section 457(e)(16)”.

(5) Paragraph (1) of section 402(f) is amended by striking “from an eligible retirement plan”.

(6) Subparagraphs (A) and (B) of section 402(f)(1) are amended by striking “another eligible retirement plan” and inserting “an eligible retirement plan”.

(7) Subparagraph (B) of section 403(b)(8) is amended to read as follows:

“(B) CERTAIN RULES MADE APPLICABLE.—The rules of paragraphs (2) through (7) and (9) of section 402(c) and section 402(f) shall apply for purposes of subparagraph (A), except that section 402(f) shall be applied to the payor in lieu of the plan administrator.”.

(8) Section 408(a)(1) is amended by striking “or 403(b)(8)” and inserting “, 403(b)(8), or 457(e)(16)”.

(9) Subparagraphs (A) and (B) of section 415(b)(2) are each amended by striking “and 408(d)(3)” and inserting “403(b)(8), 408(d)(3), and 457(e)(16)”.

(10) Section 415(c)(2) is amended by striking “and 408(d)(3)” and inserting “408(d)(3), and 457(e)(16)”.

(11) Section 4973(b)(1)(A) is amended by striking “or 408(d)(3)” and inserting “408(d)(3), or 457(e)(16)”.

**(f) EFFECTIVE DATE; SPECIAL RULE.—**

(1) EFFECTIVE DATE.—The amendments made by this section shall apply to distributions after December 31, 2000.

(2) SPECIAL RULE.—Notwithstanding any other provision of law, subsections (h)(3) and (h)(5) of section 1122 of the Tax Reform Act of 1986 shall not apply to any distribution from an eligible retirement plan (as defined in clause (iii) or (iv) of section 402(c)(8)(B) of the Internal Revenue Code of 1986) on behalf of an individual if there was a rollover to such plan on behalf of such individual which is permitted solely by reason of any amendment made by this section.

**SEC. 232. 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:

“(i) 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).”

(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. 233. 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. 234. 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 233, 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. 235. 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 clause (iii) to receive any distribution to which the participant or beneficiary is entitled under the transferee plan in the form of a single sum distribution.

“(ii) Clause (i) shall apply to plan mergers and other transactions having the effect of a direct transfer, including consolidations of benefits attributable to different employers within a multiple employer plan.

“(E) ELIMINATION OF FORM OF DISTRIBUTION.—Except to the extent provided in regulations, a defined contribution plan shall not be treated as failing to meet the requirements of this section merely because of the elimination of a form of distribution previously available thereunder. This subparagraph shall not apply to the elimination of a form of distribution with respect to any participant unless—

“(i) a single sum payment is available to such participant at the same time or times as the form of distribution being eliminated, and

“(ii) such single sum payment is based on the same or greater portion of the participant’s account as the form of distribution being eliminated.”

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

(b) REGULATIONS.—

(1) 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

amended to read as follows: "The Secretary shall by regulations provide that this subparagraph shall not apply to any plan amendment that does not adversely affect the rights of participants in a material manner."

(2) SECRETARY DIRECTED.—Not later than December 31, 2001, the Secretary of the Treasury is directed to issue final regulations under section 411(d)(6) of the Internal Revenue Code of 1986, including the regulations required by the amendments made by this subsection. 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. 236. 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. 237. 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 (16) the following new paragraph:

"(17) 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)(17))".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to trustee-to-trustee transfers after December 31, 2000.

**SEC. 238. EMPLOYERS MAY DISREGARD ROLLOVERS FOR PURPOSES OF CASH-OUT AMOUNTS.**

(a) QUALIFIED PLANS.—Section 411(a)(11) (relating to restrictions on certain mandatory distributions) is amended by adding at the end the following:

"(D) SPECIAL RULE FOR ROLLOVER CONTRIBUTIONS.—A plan shall not fail to meet the requirements of this paragraph if, under the terms of the plan, the present value of the nonforfeitable accrued benefit is determined without regard to that portion of such benefit which is attributable to rollover contributions (and earnings allocable thereto). For purposes of this subparagraph, the term 'rollover contributions' means any rollover contribution under sections 402(c), 403(a)(4), 403(b)(8), 408(d)(3)(A)(ii), and 457(e)(16)."

(b) ELIGIBLE DEFERRED COMPENSATION PLANS.—Clause (i) of section 457(e)(9)(A) is amended by striking "such amount" and inserting "the portion of such amount which is not attributable to rollover contributions (as defined in section 411(a)(11)(D))".

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

**SEC. 239. MINIMUM DISTRIBUTION AND INCLUSION REQUIREMENTS FOR SECTION 457 PLANS.**

(a) MINIMUM DISTRIBUTION REQUIREMENTS.—Paragraph (2) of section 457(d) (relating to distribution requirements) is amended to read as follows:

"(2) MINIMUM DISTRIBUTION REQUIREMENTS.—A plan meets the minimum distribution requirements of this paragraph if such plan meets the requirements of section 401(a)(9)."

(b) INCLUSION IN GROSS INCOME.—

(1) YEAR OF INCLUSION.—Subsection (a) of section 457 (relating to year of inclusion in gross income) is amended to read as follows:

"(a) YEAR OF INCLUSION IN GROSS INCOME.—

"(1) IN GENERAL.—Any amount of compensation deferred under an eligible deferred compensation plan, and any income attributable to the amounts so deferred, shall be includible in gross income only for the taxable year in which such compensation or other income—

"(A) is paid to the participant or other beneficiary, in the case of a plan of an eligible employer described in subsection (e)(1)(A), and

"(B) is paid or otherwise made available to the participant or other beneficiary, in the case of a plan of an eligible employer described in subsection (e)(1)(B).

"(2) SPECIAL RULE FOR ROLLOVER AMOUNTS.—To the extent provided in section 72(t)(9), section 72(t) shall apply to any amount includible in gross income under this subsection."

(2) CONFORMING AMENDMENTS.—

(A) So much of paragraph (9) of section 457(e) as precedes subparagraph (A) is amended to read as follows:

"(9) BENEFITS OF TAX EXEMPT ORGANIZATION PLANS NOT TREATED AS MADE AVAILABLE BY

REASON OF CERTAIN ELECTIONS, ETC.—In the case of an eligible deferred compensation plan of an employer described in subsection (e)(1)(B)—"

(B) Section 457(d) is amended by adding at the end the following new paragraph:

"(3) SPECIAL RULE FOR GOVERNMENT PLAN.—An eligible deferred compensation plan of an employer described in subsection (e)(1)(A) shall not be treated as failing to meet the requirements of this subsection solely by reason of making a distribution described in subsection (e)(9)(A)."

(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. 241. REPEAL OF 150 PERCENT OF CURRENT LIABILITY FUNDING LIMIT.**

(a) AMENDMENT TO INTERNAL REVENUE CODE OF 1986.—Section 412(c)(7) (relating to full-funding limitation) is amended—

(1) by striking "the applicable percentage" in subparagraph (A)(i)(I) and inserting "in the case of plan years beginning before January 1, 2004, the applicable percentage", and

(2) by amending subparagraph (F) to read as follows:

"(F) APPLICABLE PERCENTAGE.—For purposes of subparagraph (A)(i)(I), the applicable percentage shall be determined in accordance with the following table:

<b>"In the case of any plan year beginning in—</b>	<b>The applicable percentage is—</b>
2001 .....	160
2002 .....	165
2003 .....	170."

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

**SEC. 242. MAXIMUM CONTRIBUTION DEDUCTION RULES MODIFIED AND APPLIED TO ALL DEFINED BENEFIT PLANS.**

(a) IN GENERAL.—Subparagraph (D) of section 404(a)(1) (relating to special rule in case of certain plans) is amended to read as follows:

"(D) SPECIAL RULE IN CASE OF CERTAIN PLANS.—

"(i) IN GENERAL.—In the case of any defined benefit plan, except as provided in regulations, the maximum amount deductible under the limitations of this paragraph shall not be less than the unfunded termination liability (determined as if the proposed termination date referred to in section 4041(b)(2)(A)(i)(II) of the Employee Retirement Income Security Act of 1974 were the last day of the plan year).

"(ii) PLANS WITH LESS THAN 100 PARTICIPANTS.—For purposes of this subparagraph, in the case of a plan which has less than 100 participants for the plan year, termination liability shall not include the liability attributable to benefit increases for highly compensated employees (as defined in section 414(q)) resulting from a plan amendment which is made or becomes effective, whichever is later, within the last 2 years before the termination date.

"(iii) RULE FOR DETERMINING NUMBER OF PARTICIPANTS.—For purposes of determining whether a plan has more than 100 participants, all defined benefit plans maintained by the same employer (or any member of such employer's controlled group (within the meaning of section 412(l)(8)(C))) shall be treated as one plan, but only employees of such member or employer shall be taken into account.

"(iv) PLANS ESTABLISHED AND MAINTAINED BY PROFESSIONAL SERVICE EMPLOYERS.—Clause (i) shall not apply to a plan described in section 4021(b)(13) of the Employee Retirement Income Security Act of 1974."

(b) CONFORMING AMENDMENT.—Paragraph (6) of section 4972(c) is amended to read as follows:

“(6) EXCEPTIONS.—In determining the amount of nondeductible contributions for any taxable year, there shall not be taken into account so much of the contributions to one or more defined contribution plans which are not deductible when contributed solely because of section 404(a)(7) as does not exceed the greater of—

“(A) the amount of contributions not in excess of 6 percent of compensation (within the meaning of section 404(a)) paid or accrued (during the taxable year for which the contributions were made) to beneficiaries under the plans, or

“(B) the sum of—

“(i) the amount of contributions described in section 401(m)(4)(A), plus

“(ii) the amount of contributions described in section 402(g)(3)(A).

For purposes of this paragraph, the deductible limits under section 404(a)(7) shall first be applied to amounts contributed to a defined benefit plan and then to amounts described in subparagraph (B).”

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

**SEC. 243. EXCISE TAX RELIEF FOR SOUND PENSION FUNDING.**

(a) IN GENERAL.—Subsection (c) of section 4972 (relating to nondeductible contributions) is amended by adding at the end the following new paragraph:

“(7) DEFINED BENEFIT PLAN EXCEPTION.—In determining the amount of nondeductible contributions for any taxable year, an employer may elect for such year not to take into account any contributions to a defined benefit plan except to the extent that such contributions exceed the full-funding limitation (as defined in section 412(c)(7), determined without regard to subparagraph (A)(i)(I) thereof). For purposes of this paragraph, the deductible limits under section 404(a)(7) shall first be applied to amounts contributed to defined contribution plans and then to amounts described in this paragraph. If an employer makes an election under this paragraph for a taxable year, paragraph (6) shall not apply to such employer for such taxable year.”

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

**SEC. 244. EXCISE TAX ON FAILURE TO PROVIDE NOTICE BY DEFINED BENEFIT PLANS SIGNIFICANTLY REDUCING FUTURE BENEFIT ACCRUALS.**

(a) AMENDMENT TO 1986 CODE.—Chapter 43 (relating to qualified pension, etc., plans) is amended by adding at the end the following new section:

**“SEC. 4980F. FAILURE OF APPLICABLE PLANS REDUCING BENEFIT ACCRUALS TO SATISFY NOTICE REQUIREMENTS.**

“(a) IMPOSITION OF TAX.—There is hereby imposed a tax on the failure of any applicable pension plan to meet the requirements of subsection (e) with respect to any applicable individual.

“(b) AMOUNT OF TAX.—

“(1) IN GENERAL.—The amount of the tax imposed by subsection (a) on any failure with respect to any applicable individual shall be \$100 for each day in the noncompliance period with respect to such failure.

“(2) NONCOMPLIANCE PERIOD.—For purposes of this section, the term ‘noncompliance period’ means, with respect to any failure, the period beginning on the date the failure first occurs and ending on the date the failure is corrected.

“(c) LIMITATIONS ON AMOUNT OF TAX.—

“(1) OVERALL LIMITATION FOR UNINTENTIONAL FAILURES.—In the case of failures

that are due to reasonable cause and not to willful neglect, the tax imposed by subsection (a) for failures during the taxable year of the employer (or, in the case of a multiemployer plan, the taxable year of the trust forming part of the plan) shall not exceed \$500,000. For purposes of the preceding sentence, all multiemployer plans of which the same trust forms a part shall be treated as one plan. For purposes of this paragraph, if not all persons who are treated as a single employer for purposes of this section have the same taxable year, the taxable years taken into account shall be determined under principles similar to the principles of section 1561.

“(2) WAIVER BY SECRETARY.—In the case of a failure which is due to reasonable cause and not to willful neglect, the Secretary may waive part or all of the tax imposed by subsection (a) to the extent that the payment of such tax would be excessive relative to the failure involved.

“(d) LIABILITY FOR TAX.—The following shall be liable for the tax imposed by subsection (a):

“(1) In the case of a plan other than a multiemployer plan, the employer.

“(2) In the case of a multiemployer plan, the plan.

“(e) NOTICE REQUIREMENTS FOR PLANS SIGNIFICANTLY REDUCING BENEFIT ACCRUALS.—

“(1) IN GENERAL.—If an applicable pension plan is amended to provide for a significant reduction in the rate of future benefit accrual, the plan administrator shall provide written notice to each applicable individual (and to each employee organization representing applicable individuals).

“(2) NOTICE.—The notice required by paragraph (1) shall be written in a manner calculated to be understood by the average plan participant and shall provide sufficient information (as determined in accordance with regulations prescribed by the Secretary) to allow applicable individuals to understand the effect of the plan amendment.

“(3) TIMING OF NOTICE.—Except as provided in regulations, the notice required by paragraph (1) shall be provided within a reasonable time before the effective date of the plan amendment.

“(4) DESIGNEES.—Any notice under paragraph (1) may be provided to a person designated, in writing, by the person to which it would otherwise be provided.

“(5) NOTICE BEFORE ADOPTION OF AMENDMENT.—A plan shall not be treated as failing to meet the requirements of paragraph (1) merely because notice is provided before the adoption of the plan amendment if no material modification of the amendment occurs before the amendment is adopted.

“(f) APPLICABLE INDIVIDUAL; APPLICABLE PENSION PLAN.—For purposes of this section—

“(1) APPLICABLE INDIVIDUAL.—The term ‘applicable individual’ means, with respect to any plan amendment—

“(A) any participant in the plan, and

“(B) any beneficiary who is an alternate payee (within the meaning of section 414(p)(8)) under an applicable qualified domestic relations order (within the meaning of section 414(p)(1)(A)),

who may reasonably be expected to be affected by such plan amendment.

“(2) APPLICABLE PENSION PLAN.—The term ‘applicable pension plan’ means—

“(A) any defined benefit plan, or

“(B) an individual account plan which is subject to the funding standards of section 412,

which had 100 or more participants who had accrued a benefit, or with respect to whom contributions were made, under the plan (whether or not vested) as of the last day of

the plan year preceding the plan year in which the plan amendment becomes effective. 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)) with respect to which the election provided by section 410(d) has not been made.”

(b) CLERICAL AMENDMENT.—The table of sections for chapter 43 is amended by adding at the end the following new item:

“Sec. 4980F. Failure of applicable plans reducing benefit accruals to satisfy notice requirements.”

(c) EFFECTIVE DATES.—

(1) IN GENERAL.—The amendments made by this section shall apply to plan amendments taking effect on or after the date of the enactment of this Act.

(2) TRANSITION.—Until such time as the Secretary of the Treasury issues regulations under sections 4980F(e)(2) and (3) of the Internal Revenue Code of 1986 (as added by the amendments made by this section), a plan shall be treated as meeting the requirements of such sections if it makes a good faith effort to comply with such requirements.

(3) SPECIAL RULE.—The period for providing any notice required by the amendments made by this section shall not end before the date which is 3 months after the date of the enactment of this Act.

**SEC. 245. 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) EFFECTIVE DATE.—The amendment made by this section shall apply to years beginning after December 31, 2000.

**Subtitle E—Reducing Regulatory Burdens**

**SEC. 261. MODIFICATION OF TIMING OF PLAN VALUATIONS.**

(a) AMENDMENTS TO 1986 CODE.—Section 412(c)(9) (relating to annual valuation) is amended—

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

“(A) IN GENERAL.—For purposes”, and

(2) by adding at the end the following:

“(B) ELECTION TO USE PRIOR YEAR VALUATION.—

“(i) IN GENERAL.—Except as provided in clause (ii), if, for any plan year—

“(I) an election is in effect under this subparagraph with respect to a plan, and

“(II) the assets of the plan are not less than 125 percent of the plan’s current liability (as defined in paragraph (7)(B)), determined as of the valuation date for the preceding plan year,

then this section shall be applied using the information available as of such valuation date.

“(ii) EXCEPTIONS.—

“(I) ACTUAL VALUATION EVERY 3 YEARS.—Clause (i) shall not apply for more than 2 consecutive plan years and valuation shall be under subparagraph (A) with respect to any plan year to which clause (i) does not apply by reason of this subclause.

“(II) REGULATIONS.—Clause (i) shall not apply to the extent that more frequent valuations are required under the regulations under subparagraph (A).

“(iii) ADJUSTMENTS.—Information under clause (i) shall, in accordance with regulations, be actuarially adjusted to reflect significant differences in participants.



“(iv) ELECTION.—An election under this subparagraph, once made, shall be irrevocable without the consent of the Secretary.”

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

**SEC. 262. ESOP DIVIDENDS MAY BE REINVESTED WITHOUT LOSS OF DIVIDEND DEDUCTION.**

(a) IN GENERAL.—Section 404(k)(2)(A) (defining applicable dividends) is amended by striking “or” at the end of clause (ii), by redesignating clause (iii) as clause (iv), and by inserting after clause (ii) the following new clause:

“(iii) is, at the election of such participants or their beneficiaries—

“(I) payable as provided in clause (i) or (ii), or

“(II) paid to the plan and reinvested in qualifying employer securities, or”.

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

**SEC. 263. REPEAL OF TRANSITION RULE RELATING TO CERTAIN HIGHLY COMPENSATED EMPLOYEES.**

(a) IN GENERAL.—Paragraph (4) of section 1114(c) of the Tax Reform Act of 1986 is hereby repealed.

(b) EFFECTIVE DATE.—The repeal made by subsection (a) shall apply to plan years beginning after December 31, 2000.

**SEC. 264. EMPLOYEES OF TAX-EXEMPT ENTITIES.**

(a) IN GENERAL.—The Secretary of the Treasury shall modify Treasury Regulations section 1.410(b)-6(g) to provide that employees of an organization described in section 403(b)(1)(A)(i) of the Internal Revenue Code of 1986 who are eligible to make contributions under section 403(b) of such Code pursuant to a salary reduction agreement may be treated as excludable with respect to a plan under section 401 (k) or (m) of such Code that is provided under the same general arrangement as a plan under such section 401(k), if—

(1) no employee of an organization described in section 403(b)(1)(A)(i) of such Code is eligible to participate in such section 401(k) plan or section 401(m) plan, and

(2) 95 percent of the employees who are not employees of an organization described in section 403(b)(1)(A)(i) of such Code are eligible to participate in such plan under such section 401 (k) or (m).

(b) EFFECTIVE DATE.—The modification required by subsection (a) shall apply as of the same date set forth in section 1426(b) of the Small Business Job Protection Act of 1996.

**SEC. 265. CLARIFICATION OF TREATMENT OF EMPLOYER-PROVIDED RETIREMENT ADVICE.**

(a) IN GENERAL.—Subsection (a) of section 132 (relating to exclusion from gross income) is amended by striking “or” at the end of paragraph (5), by striking the period at the end of paragraph (6) and inserting “, or”, and by adding at the end the following new paragraph:

“(7) qualified retirement planning services.”

(b) QUALIFIED RETIREMENT PLANNING SERVICES DEFINED.—Section 132 is amended by redesignating subsection (m) as subsection (n) and by inserting after subsection (l) the following:

“(m) QUALIFIED RETIREMENT PLANNING SERVICES.—

“(1) IN GENERAL.—For purposes of this section, the term ‘qualified retirement planning services’ means any retirement planning service provided to an employee and his spouse by an employer maintaining a qualified employer plan.

“(2) NONDISCRIMINATION RULE.—Subsection (a)(7) shall apply in the case of highly com-

pensated employees only if such services are available on substantially the same terms to each member of the group of employees normally provided education and information regarding the employer’s 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.

**SEC. 266. REPORTING SIMPLIFICATION.**

(a) SIMPLIFIED ANNUAL FILING REQUIREMENT FOR OWNERS AND THEIR SPOUSES.—

(1) IN GENERAL.—The Secretary of the Treasury shall modify the requirements for filing annual returns with respect to one-participant retirement plans to ensure that such plans with assets of \$250,000 or less as of the close of the plan year need not file a return for that year.

(2) ONE-PARTICIPANT RETIREMENT PLAN DEFINED.—For purposes of this subsection, the term “one-participant retirement plan” means a retirement plan that—

(A) on the first day of the plan year—

(i) covered only the employer (and the employer’s spouse) and the employer owned the entire business (whether or not incorporated), or

(ii) covered only one or more partners (and their spouses) in a business partnership (including partners in an S or C corporation),

(B) meets the minimum coverage requirements of section 410(b) of the Internal Revenue Code of 1986 without being combined with any other plan of the business that covers the employees of the business,

(C) does not provide benefits to anyone except the employer (and the employer’s spouse) or the partners (and their spouses),

(D) does not cover a business that is a member of an affiliated service group, a controlled group of corporations, or a group of businesses under common control, and

(E) does not cover a business that leases employees.

(3) OTHER DEFINITIONS.—Terms used in paragraph (2) which are also used in section 414 of the Internal Revenue Code of 1986 shall have the respective meanings given such terms by such section.

(b) SIMPLIFIED ANNUAL FILING REQUIREMENT FOR PLANS WITH FEWER THAN 25 EMPLOYEES.—In the case of a retirement plan which covers less than 25 employees on the first day of the plan year and meets the requirements described in subparagraphs (B), (D), and (E) of subsection (a)(2), the Secretary of the Treasury shall provide for the filing of a simplified annual return that is substantially similar to the annual return required to be filed by a one-participant retirement plan.

(c) EFFECTIVE DATE.—The provisions of this section shall take effect on January 1, 2001.

**SEC. 267. IMPROVEMENT OF EMPLOYEE PLANS COMPLIANCE RESOLUTION SYSTEM.**

The Secretary of the Treasury shall continue to update and improve the Employee Plans Compliance Resolution System (or any successor program) giving special attention to—

(1) increasing the awareness and knowledge of small employers concerning the availability and use of the program,

(2) taking into account special concerns and circumstances that small employers face with respect to compliance and correction of compliance failures,

(3) extending the duration of the self-correction period under the Administrative Policy Regarding Self-Correction for significant compliance failures,

(4) expanding the availability to correct insignificant compliance failures under the Administrative Policy Regarding Self-Correction during audit, and

(5) assuring that any tax, penalty, or sanction that is imposed by reason of a compliance failure is not excessive and bears a reasonable relationship to the nature, extent, and severity of the failure.

**SEC. 268. MODIFICATION OF EXCLUSION FOR EMPLOYER PROVIDED TRANSIT PASSES.**

(a) IN GENERAL.—Section 132(f)(3) (relating to cash reimbursements) is amended by striking the last sentence.

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

**SEC. 269. REPEAL OF THE MULTIPLE USE TEST.**

(a) IN GENERAL.—Paragraph (9) of section 401(m) is amended to read as follows:

“(9) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary to carry out the purposes of this subsection and subsection (k), including regulations permitting appropriate aggregation of plans and contributions.”

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

**SEC. 270. FLEXIBILITY IN NONDISCRIMINATION, COVERAGE, AND LINE OF BUSINESS RULES.**

(a) NONDISCRIMINATION.—

(1) IN GENERAL.—The Secretary of the Treasury shall, by regulation, provide that a plan shall be deemed to satisfy the requirements of section 401(a)(4) of the Internal Revenue Code of 1986 if such plan satisfies the facts and circumstances test under section 401(a)(4) of such Code, as in effect before January 1, 1994, but only if—

(A) the plan satisfies conditions prescribed by the Secretary to appropriately limit the availability of such test, and

(B) the plan is submitted to the Secretary for a determination of whether it satisfies such test.

Subparagraph (B) shall only apply to the extent provided by the Secretary.

(2) EFFECTIVE DATES.—

(A) REGULATIONS.—The regulation required by paragraph (1) shall apply to years beginning after December 31, 2000.

(B) CONDITIONS OF AVAILABILITY.—Any condition of availability prescribed by the Secretary under paragraph (1)(A) shall not apply before the first year beginning not less than 120 days after the date on which such condition is prescribed.

(b) COVERAGE TEST.—

(1) IN GENERAL.—Section 410(b)(1) (relating to minimum coverage requirements) is amended by adding at the end the following:

“(D) In the case that the plan fails to meet the requirements of subparagraphs (A), (B) and (C), the plan—

“(i) satisfies subparagraph (B), as in effect immediately before the enactment of the Tax Reform Act of 1986,

“(ii) is submitted to the Secretary for a determination of whether it satisfies the requirement described in clause (i), and

“(iii) satisfies conditions prescribed by the Secretary by regulation that appropriately limit the availability of this subparagraph.

Clause (ii) shall apply only to the extent provided by the Secretary.”

(2) EFFECTIVE DATES.—

(A) IN GENERAL.—The amendment made by paragraph (1) shall apply to years beginning after December 31, 2000.

(B) CONDITIONS OF AVAILABILITY.—Any condition of availability prescribed by the Secretary under regulations prescribed by the Secretary under section 410(b)(1)(D) of the Internal Revenue Code of 1986 shall not apply

before the first year beginning not less than 120 days after the date on which such condition is prescribed.

(c) LINE OF BUSINESS RULES.—The Secretary of the Treasury shall, on or before December 31, 2000, modify the existing regulations issued under section 414(r) of the Internal Revenue Code of 1986 in order to expand (to the extent that the Secretary determines appropriate) the ability of a pension plan to demonstrate compliance with the line of business requirements based upon the facts and circumstances surrounding the design and operation of the plan, even though the plan is unable to satisfy the mechanical tests currently used to determine compliance.

**SEC. 271. EXTENSION TO INTERNATIONAL ORGANIZATIONS OF MORATORIUM ON APPLICATION OF CERTAIN NON-DISCRIMINATION RULES APPLICABLE TO STATE AND LOCAL PLANS.**

(a) IN GENERAL.—Subparagraph (G) of section 401(a)(5), subparagraph (H) of section 401(a)(26), subparagraph (G) of section 401(k)(3), and paragraph (2) of section 1505(d) of the Taxpayer Relief Act of 1997 are each amended by inserting "or by an international organization which is described in section 414(d)" after "or instrumentality thereof".

(b) CONFORMING AMENDMENTS.—

(1) The headings for subparagraph (G) of section 401(a)(5) and subparagraph (H) of section 401(a)(26) are each amended by inserting "AND INTERNATIONAL ORGANIZATION" after "GOVERNMENTAL".

(2) Subparagraph (G) of section 401(k)(3) is amended by inserting "STATE AND LOCAL GOVERNMENTAL AND INTERNATIONAL ORGANIZATION PLANS.—" after "(G)".

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

**SEC. 272. NOTICE AND CONSENT PERIOD REGARDING DISTRIBUTIONS.**

(a) EXPANSION OF PERIOD.—

(1) AMENDMENT TO 1986 CODE.—Subparagraph (A) of section 417(a)(6) is amended by striking "90-day" and inserting "180-day".

(2) MODIFICATION OF REGULATIONS.—The Secretary of the Treasury shall modify the regulations under sections 402(f), 411(a)(11), and 417 of the Internal Revenue Code of 1986 to substitute "180 days" for "90 days" each place it appears in Treasury Regulations sections 1.402(f)-1, 1.411(a)-11(c), and 1.417(e)-1(b).

(3) EFFECTIVE DATE.—The amendment made by paragraph (1) and the modifications required by paragraph (2) shall apply to years beginning after December 31, 2000.

(b) CONSENT REGULATION INAPPLICABLE TO CERTAIN DISTRIBUTIONS.—

(1) IN GENERAL.—The Secretary of the Treasury shall modify the regulations under section 411(a)(11) of the Internal Revenue Code of 1986 to provide that the description of a participant's right, if any, to defer receipt of a distribution shall also describe the consequences of failing to defer such receipt.

(2) EFFECTIVE DATE.—The modifications required by paragraph (1) shall apply to years beginning after December 31, 2000.

**Subtitle F—Plan Amendments**

**SEC. 281. PROVISIONS RELATING TO PLAN AMENDMENTS.**

(a) IN GENERAL.—If this section applies to any plan or contract amendment—

(1) such plan or contract shall be treated as being operated in accordance with the terms of the plan during the period described in subsection (b)(2)(A), and

(2) such plan shall not fail to meet the requirements of section 411(d)(6) of the Internal Revenue Code of 1986 by reason of such amendment.

(b) AMENDMENTS TO WHICH SECTION APPLIES.—

(1) IN GENERAL.—This section shall apply to any amendment to any plan or annuity contract which is made—

(A) pursuant to any amendment made by this title, or pursuant to any regulation issued under this title, and

(B) on or before the last day of the first plan year beginning on or after January 1, 2003.

In the case of a governmental plan (as defined in section 414(d) of the Internal Revenue Code of 1986), this paragraph shall be applied by substituting "2005" for "2003".

(2) CONDITIONS.—This section shall not apply to any amendment unless—

(A) during the period—

(i) beginning on the date the legislative or regulatory amendment described in paragraph (1)(A) takes effect (or in the case of a plan or contract amendment not required by such legislative or regulatory amendment, the effective date specified by the plan), and

(ii) ending on the date described in paragraph (1)(B) (or, if earlier, the date the plan or contract amendment is adopted),

the plan or contract is operated as if such plan or contract amendment were in effect, and

(B) such plan or contract amendment applies retroactively for such period.

**TITLE III—ESTATE TAX RELIEF**

**Subtitle A—Reductions of Estate and Gift Tax Rates**

**SEC. 301. REDUCTIONS OF ESTATE AND GIFT TAX RATES.**

(a) MAXIMUM RATE OF TAX REDUCED TO 50 PERCENT.—

(1) IN GENERAL.—The table contained in section 2001(c)(1) is amended by striking the two highest brackets and inserting the following:

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

(2) PHASE-IN OF REDUCED RATE.—Subsection (c) of section 2001 is amended by adding at the end the following new paragraph:

"(3) PHASE-IN OF REDUCED RATE.—In the case of decedents dying, and gifts made, during 2001, the last item in the table contained in paragraph (1) shall be applied by substituting '53%' for '50%'."

(b) REPEAL OF PHASEOUT OF GRADUATED RATES.—Subsection (c) of section 2001 is amended by striking paragraph (2) and redesignating paragraph (3), as added by subsection (a), as paragraph (2).

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

"(3) PHASEDOWN OF TAX.—In the case of estates of decedents dying, and gifts made, during any calendar year after 2002—

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

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

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

"(B) PERCENTAGE POINTS OF REDUCTION.—

<b>The number of</b>	
<b>For calendar year: percentage points is:</b>	
2003 .....	1.0
2004 .....	2.0

"(C) TABLE FOR YEARS AFTER 2004.—The table applicable under this subsection to estates of decedents dying, and gifts made,

during calendar year 2004 shall apply to estates of decedents dying, and gifts made, after calendar year 2004.

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

(d) EFFECTIVE DATES.—

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

(2) SUBSECTION (c).—The amendment made by subsection (c) shall apply to estates of decedents dying, and gifts made, after December 31, 2002.

**SEC. 302. SENSE OF THE CONGRESS CONCERNING REPEAL OF THE DEATH TAX.**

(a) FINDINGS.—Congress finds the following:

(1) The death tax stifles economic growth by taking productive resources out of the private sector, thereby causing unemployment and inhibiting job creation.

(2) The death tax penalizes hard work and entrepreneurial activity by causing the demise of small, family-owned businesses when an owner dies.

(3) The death tax rates in the United States are the second highest among all industrialized nations.

(4) The death tax prevents minorities from gaining an economic foothold in the economy since it limits the inter-generational transfer of wealth, which is critical to establishing a legacy and power base for minorities in our society.

(5) The death tax presents serious challenges for farmers whose value is in their land, not liquid assets, and who must sell land to pay the tax, thereby jeopardizing the future existence of the already-struggling family farm.

(6) The death tax contributes to the development of rural areas by causing farms and ranches to be sold and subdivided.

(7) Previous attempts by Congress to create death tax exemptions have been ineffective due to an inability to legislatively duplicate the complex family relationships that exist in our society.

(8) Increasing entrepreneurship and investment in retirement will bring a whole new class of people under the death tax.

(b) SENSE OF CONGRESS.—It is the sense of Congress that the death tax relief in this Act is considered a first step in our effort to ultimately repeal this onerous tax.

**Subtitle B—Unified Credit Replaced With Unified Exemption Amount**

**SEC. 311. UNIFIED CREDIT AGAINST ESTATE AND GIFT TAXES REPLACED WITH UNIFIED EXEMPTION AMOUNT.**

(a) IN GENERAL.—

(1) ESTATE TAX.—Subsection (b) of section 2001 (relating to computation of tax) is amended to read as follows:

"(b) COMPUTATION OF TAX.—

"(1) IN GENERAL.—The tax imposed by this section shall be the amount equal to the excess (if any) of—

"(A) the tentative tax determined under paragraph (2), over

"(B) the aggregate amount of tax which would have been payable under chapter 12 with respect to gifts made by the decedent after December 31, 1976, if the provisions of subsection (c) (as in effect at the decedent's death) had been applicable at the time of such gifts.

"(2) TENTATIVE TAX.—For purposes of paragraph (1), the tentative tax determined under

this paragraph is a tax computed under subsection (c) on the excess of—

“(A) the sum of—  
“(i) the amount of the taxable estate, and  
“(ii) the amount of the adjusted taxable gifts, over

“(B) the exemption amount for the calendar year in which the decedent died.

“(3) EXEMPTION AMOUNT.—For purposes of paragraph (2), the term ‘exemption amount’ means the amount determined in accordance with the following table:

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

“(4) ADJUSTED TAXABLE GIFTS.—For purposes of paragraph (2), the term ‘adjusted taxable gifts’ means the total amount of the taxable gifts (within the meaning of section 2503) made by the decedent after December 31, 1976, other than gifts which are includible in the gross estate of the decedent.”

(2) GIFT TAX.—Subsection (a) of section 2502 (relating to computation of tax) is amended to read as follows:

“(a) COMPUTATION OF TAX.—

“(1) IN GENERAL.—The tax imposed by section 2501 for each calendar year shall be the amount equal to the excess (if any) of—

“(A) the tentative tax determined under paragraph (2), over

“(B) the tax paid under this section for all prior calendar periods.

“(2) TENTATIVE TAX.—For purposes of paragraph (1), the tentative tax determined under this paragraph for a calendar year is a tax computed under section 2001(c) on the excess of—

“(A) the aggregate sum of the taxable gifts for such calendar year and for each of the preceding calendar periods, over

“(B) the exemption amount under section 2001(b)(3) for such calendar year.”

(b) REPEAL OF UNIFIED CREDITS.—  
(1) Section 2010 (relating to unified credit against estate tax) is hereby repealed.

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

(c) CONFORMING AMENDMENTS.—  
(1)(A) Subsection (b) of section 2011 is amended—

(i) by striking “adjusted” in the table, and  
(ii) by striking the last sentence.

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

(2) Subsection (a) of section 2012 is amended by striking “and the unified credit provided by section 2010”.

(3) Subparagraph (A) of section 2013(c)(1) is amended by striking “2010”.

(4) Paragraph (2) of section 2014(b) is amended by striking “2010”.

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

“(ii) to treat any reduction in the tax imposed by paragraph (1)(A) by reason of the credit allowable under section 2010 (as in effect on the day before the date of the enactment of the Small Business Tax Fairness Act of 2000) or the exemption amount allowable under section 2001(b) with respect to the decedent as a credit under section 2505 (as so in effect) or exemption under section 2521 (as the case may be) allowable to such surviving spouse for purposes of determining the amount of the exemption allowable under section 2521 with respect to taxable gifts made by the surviving spouse during the year in which the spouse becomes a citizen or any subsequent year.”

(6) Subsection (a) of section 2057 is amended by striking paragraphs (2) and (3) and inserting the following new paragraph:

“(2) MAXIMUM DEDUCTION.—The deduction allowed by this section shall not exceed the excess of \$1,300,000 over the exemption amount (as defined in section 2001(b)(3)).”

(7)(A) Subsection (b) of section 2101 is amended to read as follows:

“(b) COMPUTATION OF TAX.—

“(1) IN GENERAL.—The tax imposed by this section shall be the amount equal to the excess (if any) of—

“(A) the tentative tax determined under paragraph (2), over

“(B) a tentative tax computed under section 2001(c) on the amount of the adjusted taxable gifts.

“(2) TENTATIVE TAX.—For purposes of paragraph (1), the tentative tax determined under this paragraph is a tax computed under section 2001(c) on the excess of—

“(A) the sum of—

“(i) the amount of the taxable estate, and

“(ii) the amount of the adjusted taxable gifts, over

“(B) the exemption amount for the calendar year in which the decedent died.

“(3) EXEMPTION AMOUNT.—

“(A) IN GENERAL.—The term ‘exemption amount’ means \$60,000.

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

“(i) \$60,000, or

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

“(C) SPECIAL RULES.—

“(i) COORDINATION WITH TREATIES.—To the extent required under any treaty obligation of the United States, the exemption amount allowed under this paragraph shall be equal to the amount which bears the same ratio to the exemption amount under section 2001(b)(3) (for the calendar year in which the decedent died) as the value of the part of the decedent’s gross estate which at the time of his death is situated in the United States bears to the value of his entire gross estate wherever situated. For purposes of the preceding sentence, property shall not be treated as situated in the United States if such property is exempt from the tax imposed by this subchapter under any treaty obligation of the United States.

“(ii) COORDINATION WITH GIFT TAX EXEMPTION AND UNIFIED CREDIT.—If an exemption has been allowed under section 2521 (or a credit has been allowed under section 2505 as in effect on the day before the date of the enactment of the Small Business Tax Fairness Act of 2000) with respect to any gift made by the decedent, each dollar amount contained in subparagraph (A) or (B) or the exemption amount applicable under clause (i) of this subparagraph (whichever applies) shall be reduced by the exemption so allowed under 2521 (or, in the case of such a credit, by the amount of the gift for which the credit was so allowed).”

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

(9)(A) Subsection (a) of section 2107 is amended by adding at the end the following new paragraph:

“(3) LIMITATION ON EXEMPTION AMOUNT.—Subparagraphs (B) and (C) of section 2101(b)(3) shall not apply in applying section 2101 for purposes of this section.”

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

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

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

(10) Paragraph (1) of section 6018(a) is amended by striking “the applicable exclusion amount in effect under section 2010(c)” and inserting “the exemption amount under section 2001(b)(3)”.

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

“(A) the amount of the tentative tax which would be determined under the rate schedule set forth in section 2001(c) if the amount with respect to which such tentative tax is to be computed were \$1,000,000, or”.

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

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

(13) The table of sections for subchapter C of chapter 12 is amended by inserting before the item relating to section 2522 the following new item:

“Sec. 2521. Exemption.”.

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

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

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

#### **Subtitle C—Modifications of Generation-skipping Transfer Tax**

#### **SEC. 321. DEEMED ALLOCATION OF GST EXEMPTION TO LIFETIME TRANSFERS TO TRUSTS; RETROACTIVE ALLOCATIONS.**

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

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

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

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

“(A) allocated by such individual,

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

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

“(3) DEFINITIONS.—

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

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

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

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

“(II) on or before one or more dates specified in the trust instrument that will occur

before the date that such individual attains age 46, or

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

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

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

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

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

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

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

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

“(5) APPLICABILITY AND EFFECT.—

“(A) IN GENERAL.—An individual—

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

“(I) an indirect skip, or

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

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

“(B) ELECTIONS.—

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

“(ii) OTHER ELECTIONS.—An election under clause (i)(II) or (ii) of subparagraph (A) may be made on a timely filed gift tax return for

the calendar year for which the election is to become effective.

“(D) RETROACTIVE ALLOCATIONS.—

“(I) IN GENERAL.—If—

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

“(B) such person—

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

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

“(C) such person predeceases the transferor,

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

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

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

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

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

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

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

(c) EFFECTIVE DATES.—

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

(2) RETROACTIVE ALLOCATIONS.—Section 2632(d) of the Internal Revenue Code of 1986 (as added by subsection (a)) shall apply to deaths of non-skip persons occurring after December 31, 1999.

#### SEC. 322. SEVERING OF TRUSTS.

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

“(3) SEVERING OF TRUSTS.—

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

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

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

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

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

“(ii) TRUSTS WITH INCLUSION RATIO GREATER THAN ZERO.—If a trust has an inclusion ratio of greater than zero and less than 1, a severance is a qualified severance only if the sin-

gle trust is divided into two trusts, one of which receives a fractional share of the total value of all trust assets equal to the applicable fraction of the single trust immediately before the severance. In such case, the trust receiving such fractional share shall have an inclusion ratio of zero and the other trust shall have an inclusion ratio of 1.

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

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

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

#### SEC. 323. MODIFICATION OF CERTAIN VALUATION RULES.

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

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

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

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

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

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

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to transfers subject to chapter 11 or 12 of the Internal Revenue Code of 1986 made after December 31, 1999.

#### SEC. 324. RELIEF PROVISIONS.

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

“(g) RELIEF PROVISIONS.—

“(1) RELIEF FOR LATE ELECTIONS.—

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

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

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

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

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

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

(b) EFFECTIVE DATES.—

(1) RELIEF FOR LATE ELECTIONS.—Section 2642(g)(1) of the Internal Revenue Code of 1986 (as added by subsection (a)) shall apply to requests pending on, or filed after, December 31, 1999.

(2) SUBSTANTIAL COMPLIANCE.—Section 2642(g)(2) of such Code (as so added) shall take effect on the date of the enactment of this Act and shall apply to transfers subject to chapter 11 or 12 of the Internal Revenue Code of 1986 made after December 31, 1999.

#### Subtitle D—Conservation Easements

### SEC. 331. EXPANSION OF ESTATE TAX RULE FOR CONSERVATION EASEMENTS.

(a) WHERE LAND IS LOCATED.—

(1) IN GENERAL.—Clause (i) of section 2031(c)(8)(A) (defining land subject to a conservation easement) is amended—

(A) by striking “25 miles” both places it appears and inserting “50 miles”, and

(B) striking “10 miles” and inserting “25 miles”.

(2) EFFECTIVE DATE.—The amendments made by this subsection shall apply to estates of decedents dying after December 31, 1999.

(b) CLARIFICATION OF DATE FOR DETERMINING VALUE OF LAND AND EASEMENT.—

(1) IN GENERAL.—Section 2031(c)(2) (defining applicable percentage) is amended by adding at the end the following new sentence: “The values taken into account under the preceding sentence shall be such values as of the date of the contribution referred to in paragraph (8)(B).”.

(2) EFFECTIVE DATE.—The amendment made by this subsection shall apply to estates of decedents dying after December 31, 1997.

### TITLE IV—TAX RELIEF FOR DISTRESSED COMMUNITIES AND INDUSTRIES

#### Subtitle A—American Community Renewal Act of 2000

##### SEC. 401. SHORT TITLE.

This subtitle may be cited as the “American Community Renewal Act of 2000”.

##### SEC. 402. DESIGNATION OF AND TAX INCENTIVES FOR RENEWAL COMMUNITIES.

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

#### “Subchapter X—Renewal Communities

“Part I. Designation.

“Part II. Renewal community capital gain; renewal community business.

“Part III. Family development accounts.

“Part IV. Additional incentives.

#### “PART I—DESIGNATION

“Sec. 1400E. Designation of renewal communities.

##### “SEC. 1400E. DESIGNATION OF RENEWAL COMMUNITIES.

“(a) DESIGNATION.—

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

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

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

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

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

“(2) NUMBER OF DESIGNATIONS.—

“(A) IN GENERAL.—The Secretary of Housing and Urban Development may designate not more than 15 nominated areas as renewal communities.

“(B) MINIMUM DESIGNATION IN RURAL AREAS.—Of the areas designated under paragraph (1), at least 3 must be areas—

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

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

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

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

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

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

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

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

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

“(4) LIMITATION ON DESIGNATIONS.—

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

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

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

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

“(B) TIME LIMITATIONS.—The Secretary of Housing and Urban Development may designate nominated areas as renewal communities only during the 36-month period beginning on the first day of the first month following the month in which the regulations described in subparagraph (A) are prescribed.

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

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

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

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

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

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

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

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

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

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

“(A) December 31, 2007,

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

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

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

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

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

“(c) AREA AND ELIGIBILITY REQUIREMENTS.—

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

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

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

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

“(C) the area—

“(i) has a population, of at least—

“(I) 4,000 if any portion of such area (other than a rural area described in subsection (a)(2)(B)(i)) is located within a metropolitan

statistical area (within the meaning of section 143(k)(2)(B)) which has a population of 50,000 or greater; or

“(II) 1,000 in any other case; or

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

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

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

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

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

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

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

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

“(d) REQUIRED STATE AND LOCAL COMMITMENTS.—

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

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

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

“(2) COURSE OF ACTION.—

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

“(3) LOCAL GOVERNMENT.—The term ‘local government’ means—

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

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

“(C) the District of Columbia.

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

## “PART II—RENEWAL COMMUNITY CAPITAL GAIN; RENEWAL COMMUNITY BUSINESS

“Sec. 1400F. Renewal community capital gain.

“Sec. 1400G. Renewal community business defined.

## “SEC. 1400F. RENEWAL COMMUNITY CAPITAL GAIN.

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

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

“(1) IN GENERAL.—The term ‘qualified community asset’ means—

“(A) any qualified community stock;

“(B) any qualified community partnership interest; and

“(C) any qualified community business property.

“(2) QUALIFIED COMMUNITY STOCK.—

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

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

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

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

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

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

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

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

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

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

“(4) QUALIFIED COMMUNITY BUSINESS PROPERTY.—

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

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

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

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

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

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

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

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

**“SEC. 1400G. RENEWAL COMMUNITY BUSINESS DEFINED.**

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

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

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

**“PART III—FAMILY DEVELOPMENT ACCOUNTS**

“Sec. 1400H. Family development accounts for renewal community EITC recipients.

“Sec. 1400I. Designation of earned income tax credit payments for deposit to family development account.

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

“(a) ALLOWANCE OF DEDUCTION.—

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

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

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

“(2) LIMITATION.—

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

“(i) \$2,000, or

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

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

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

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

ment account (including a Roth IRA) for the benefit of such individual.

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

“(b) TAX TREATMENT OF DISTRIBUTIONS.—

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

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

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

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

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

“(A) Qualified higher education expenses.

“(B) Qualified first-time homebuyer costs.

“(C) Qualified business capitalization costs.

“(D) Qualified medical expenses.

“(E) Qualified rollovers.

“(3) QUALIFIED HIGHER EDUCATION EXPENSES.—

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

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

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

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

“(5) QUALIFIED BUSINESS CAPITALIZATION COSTS.—

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

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

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

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

“(ii) which contravenes any law.

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

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

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

“(A) such taxpayer, or

“(B) any qualified individual who is—

“(i) the spouse of such taxpayer, or

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

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

“(d) TAX TREATMENT OF ACCOUNTS.—

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

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

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

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

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

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

“(B) contributions will not be accepted for the taxable year in excess of \$3,000.

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

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

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

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

“(g) OTHER DEFINITIONS AND SPECIAL RULES.—

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

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

“(3) TIME WHEN CONTRIBUTIONS DEEMED MADE.—For purposes of this section, a taxpayer shall be deemed to have made a contribution to a family development account on the last day of the preceding taxable year if the contribution is made on account of such taxable year and is made not later than

the time prescribed by law for filing the return for such taxable year (not including extensions thereof).

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

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

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

“(B) shall be furnished to individuals—

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

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

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

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

“(1) IN GENERAL.—If any amount is distributed from a family development account and is not used exclusively to pay qualified family development expenses for the holder of the account or the spouse or dependent (as defined in section 152) of such holder, the tax imposed by this chapter for the taxable year of such distribution shall be increased by 10 percent of the portion of such amount which is includible in gross income.

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

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

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

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

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

**“SEC. 1400I. DESIGNATION OF EARNED INCOME TAX CREDIT PAYMENTS FOR DEPOSIT TO FAMILY DEVELOPMENT ACCOUNT.**

“(a) IN GENERAL.—With respect to the return of any qualified individual (as defined in section 1400H(f)) for the taxable year of the tax imposed by this chapter, such individual may designate that a specified portion (not less than \$1) of any overpayment of tax for such taxable year which is attributable to the earned income tax credit shall be deposited by the Secretary into a family development account of such individual. The Secretary shall so deposit such portion designated under this subsection.

“(b) MANNER AND TIME OF DESIGNATION.—A designation under subsection (a) may be made with respect to any taxable year—

“(1) at the time of filing the return of the tax imposed by this chapter for such taxable year, or

“(2) at any other time (after the time of filing the return of the tax imposed by this chapter for such taxable year) specified in regulations prescribed by the Secretary. Such designation shall be made in such manner as the Secretary prescribes by regulations.

“(c) PORTION ATTRIBUTABLE TO EARNED INCOME TAX CREDIT.—For purposes of sub-

section (a), an overpayment for any taxable year shall be treated as attributable to the earned income tax credit to the extent that such overpayment does not exceed the credit allowed to the taxpayer under section 32 for such taxable year.

“(d) OVERPAYMENTS TREATED AS REFUNDED.—For purposes of this title, any portion of an overpayment of tax designated under subsection (a) shall be treated as being refunded to the taxpayer as of the last date prescribed for filing the return of tax imposed by this chapter (determined without regard to extensions) or, if later, the date the return is filed.

“(e) TERMINATION.—This section shall not apply to any taxable year beginning after December 31, 2007.

**“PART IV—ADDITIONAL INCENTIVES**

“Sec. 1400K. Commercial revitalization deduction.

“Sec. 1400L. Increase in expensing under section 179.

**“SEC. 1400K. COMMERCIAL REVITALIZATION DEDUCTION.**

“(a) GENERAL RULE.—At the election of the taxpayer, either—

“(1) one-half of any qualified revitalization expenditures chargeable to capital account with respect to any qualified revitalization building shall be allowable as a deduction for the taxable year in which the building is placed in service, or

“(2) a deduction for all such expenditures shall be allowable ratably over the 120-month period beginning with the month in which the building is placed in service.

The deduction provided by this section with respect to such expenditure shall be in lieu of any depreciation deduction otherwise allowable on account of such expenditure.

“(b) QUALIFIED REVITALIZATION BUILDINGS AND EXPENDITURES.—For purposes of this section—

“(1) QUALIFIED REVITALIZATION BUILDING.—The term ‘qualified revitalization building’ means any building (and its structural components) if—

“(A) such building is located in a renewal community and is placed in service after December 31, 2000;

“(B) a commercial revitalization deduction amount is allocated to the building under subsection (d); and

“(C) depreciation (or amortization in lieu of depreciation) is allowable with respect to the building (without regard to this section).

“(2) QUALIFIED REVITALIZATION EXPENDITURE.—

“(A) IN GENERAL.—The term ‘qualified revitalization expenditure’ means any amount properly chargeable to capital account—

“(i) for property for which depreciation is allowable under section 168 (without regard to this section) and which is—

“(I) nonresidential real property; or

“(II) an addition or improvement to property described in subclause (I);

“(ii) in connection with the construction of any qualified revitalization building which was not previously placed in service or in connection with the substantial rehabilitation (within the meaning of section 47(c)(1)(C)) of a building which was placed in service before the beginning of such rehabilitation; and

“(iii) for land (including land which is functionally related to such property and subordinate thereto).

“(B) DOLLAR LIMITATION.—The aggregate amount which may be treated as qualified revitalization expenditures with respect to any qualified revitalization building for any taxable year shall not exceed the excess of—

“(i) \$10,000,000, reduced by

“(ii) any such expenditures with respect to the building taken into account by the tax-

payer or any predecessor in determining the amount of the deduction under this section for all preceding taxable years.

“(C) CERTAIN EXPENDITURES NOT INCLUDED.—The term ‘qualified revitalization expenditure’ does not include—

“(i) ACQUISITION COSTS.—The costs of acquiring any building or interest therein and any land in connection with such building to the extent that such costs exceed 30 percent of the qualified revitalization expenditures determined without regard to this clause.

“(ii) CREDITS.—Any expenditure which the taxpayer may take into account in computing any credit allowable under this title unless the taxpayer elects to take the expenditure into account only for purposes of this section.

“(c) WHEN EXPENDITURES TAKEN INTO ACCOUNT.—Qualified revitalization expenditures with respect to any qualified revitalization building shall be taken into account for the taxable year in which the qualified revitalization building is placed in service. For purposes of the preceding sentence, a substantial rehabilitation of a building shall be treated as a separate building.

“(d) LIMITATION ON AGGREGATE DEDUCTIONS ALLOWABLE WITH RESPECT TO BUILDINGS LOCATED IN A STATE.—

“(1) IN GENERAL.—The amount of the deduction determined under this section for any taxable year with respect to any building shall not exceed the commercial revitalization deduction amount (in the case of an amount determined under subsection (a)(2), the present value of such amount as determined under the rules of section 42(b)(2)(C) by substituting ‘100 percent’ for ‘72 percent’ in clause (ii) thereof) allocated to such building under this subsection by the commercial revitalization agency. Such allocation shall be made at the same time and in the same manner as under paragraphs (1) and (7) of section 42(h).

“(2) COMMERCIAL REVITALIZATION DEDUCTION AMOUNT FOR AGENCIES.—

“(A) IN GENERAL.—The aggregate commercial revitalization deduction amount which a commercial revitalization agency may allocate for any calendar year is the amount of the State commercial revitalization deduction ceiling determined under this paragraph for such calendar year for such agency.

“(B) STATE COMMERCIAL REVITALIZATION DEDUCTION CEILING.—The State commercial revitalization deduction ceiling applicable to any State—

“(i) for each calendar year after 2000 and before 2008 is \$6,000,000 for each renewal community in the State; and

“(ii) zero for each calendar year thereafter.

“(C) COMMERCIAL REVITALIZATION AGENCY.—For purposes of this section, the term ‘commercial revitalization agency’ means any agency authorized by a State to carry out this section.

“(e) RESPONSIBILITIES OF COMMERCIAL REVITALIZATION AGENCIES.—

“(1) PLANS FOR ALLOCATION.—Notwithstanding any other provision of this section, the commercial revitalization deduction amount with respect to any building shall be zero unless—

“(A) such amount was allocated pursuant to a qualified allocation plan of the commercial revitalization agency which is approved (in accordance with rules similar to the rules of section 147(f)(2) (other than subparagraph (B)(ii) thereof)) by the governmental unit of which such agency is a part; and

“(B) such agency notifies the chief executive officer (or its equivalent) of the local jurisdiction within which the building is located of such allocation and provides such individual a reasonable opportunity to comment on the allocation.



“(2) QUALIFIED ALLOCATION PLAN.—For purposes of this subsection, the term ‘qualified allocation plan’ means any plan—

“(A) which sets forth selection criteria to be used to determine priorities of the commercial revitalization agency which are appropriate to local conditions;

“(B) which considers—

“(i) the degree to which a project contributes to the implementation of a strategic plan that is devised for a renewal community through a citizen participation process;

“(ii) the amount of any increase in permanent, full-time employment by reason of any project; and

“(iii) the active involvement of residents and nonprofit groups within the renewal community; and

“(C) which provides a procedure that the agency (or its agent) will follow in monitoring compliance with this section.

“(f) REGULATIONS.—For purposes of this section, the Secretary shall, by regulations, provide for the application of rules similar to the rules of section 49 and subsections (a) and (b) of section 50.

“(g) TERMINATION.—This section shall not apply to any building placed in service after December 31, 2007.

**“SEC. 1400L. INCREASE IN EXPENSING UNDER SECTION 179.**

“(a) GENERAL RULE.—In the case of a renewal community business (as defined in section 1400G), for purposes of section 179—

“(1) the limitation under section 179(b)(1) shall be increased by the lesser of—

“(A) \$35,000; or

“(B) the cost of section 179 property which is qualified renewal property placed in service during the taxable year; and

“(2) the amount taken into account under section 179(b)(2) with respect to any section 179 property which is qualified renewal property shall be 50 percent of the cost thereof.

“(b) RECAPTURE.—Rules similar to the rules under section 179(d)(10) shall apply with respect to any qualified renewal property which ceases to be used in a renewal community by a renewal community business.

“(c) QUALIFIED RENEWAL PROPERTY.—For purposes of this section—

“(1) IN GENERAL.—The term ‘qualified renewal property’ means any property to which section 168 applies (or would apply but for section 179) if—

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

“(B) such property would be qualified zone property (as defined in section 1397C) if references to renewal communities were substituted for references to empowerment zones in section 1397C.

“(2) CERTAIN RULES TO APPLY.—The rules of subsections (a)(2) and (b) of section 1397C shall apply for purposes of this section.”.

**SEC. 403. EXTENSION OF EXPENSING OF ENVIRONMENTAL REMEDIATION COSTS TO RENEWAL COMMUNITIES.**

(a) EXTENSION.—Paragraph (2) of section 198(c) (defining targeted area) is amended by redesignating subparagraph (C) as subparagraph (D) and by inserting after subparagraph (B) the following new subparagraph:

“(C) RENEWAL COMMUNITIES INCLUDED.—Except as provided in subparagraph (B), such term shall include a renewal community (as defined in section 1400E) with respect to expenditures paid or incurred after December 31, 2000.”.

(b) EXTENSION OF TERMINATION DATE FOR RENEWAL COMMUNITIES.—Subsection (h) of section 198 is amended by inserting before the period “(December 31, 2007, in the case of a renewal community, as defined in section 1400E).”.

**SEC. 404. EXTENSION OF WORK OPPORTUNITY TAX CREDIT FOR RENEWAL COMMUNITIES.**

(a) EXTENSION.—Subsection (c) of section 51 (relating to termination) is amended by adding at the end the following new paragraph:

“(5) EXTENSION OF CREDIT FOR RENEWAL COMMUNITIES.—

“(A) IN GENERAL.—In the case of an individual who begins work for the employer after the date contained in paragraph (4)(B), for purposes of section 38—

“(i) in lieu of applying subsection (a), the amount of the work opportunity credit determined under this section for the taxable year shall be equal to—

“(I) 15 percent of the qualified first-year wages for such year; and

“(II) 30 percent of the qualified second-year wages for such year;

“(ii) subsection (b)(3) shall be applied by substituting ‘\$10,000’ for ‘\$6,000’;

“(iii) paragraph (4)(B) shall be applied by substituting for the date contained therein the last day for which the designation under section 1400E of the renewal community referred to in subparagraph (B)(i) is in effect; and

“(iv) rules similar to the rules of section 51A(b)(5)(C) shall apply.

“(B) QUALIFIED FIRST- AND SECOND-YEAR WAGES.—For purposes of subparagraph (A)—

“(i) IN GENERAL.—The term ‘qualified wages’ means, with respect to each 1-year period referred to in clause (ii) or (iii), as the case may be, the wages paid or incurred by the employer during the taxable year to any individual but only if—

“(I) the employer is engaged in a trade or business in a renewal community throughout such 1-year period;

“(II) the principal place of abode of such individual is in such renewal community throughout such 1-year period; and

“(III) substantially all of the services which such individual performs for the employer during such 1-year period are performed in such renewal community.

“(ii) QUALIFIED FIRST-YEAR WAGES.—The term ‘qualified first-year wages’ means, with respect to any individual, qualified wages attributable to service rendered during the 1-year period beginning with the day the individual begins work for the employer.

“(iii) QUALIFIED SECOND-YEAR WAGES.—The term ‘qualified second-year wages’ means, with respect to any individual, qualified wages attributable to service rendered during the 1-year period beginning on the day after the last day of the 1-year period with respect to such individual determined under clause (ii).”.

(b) CONGRUENT TREATMENT OF RENEWAL COMMUNITIES AND ENTERPRISE ZONES FOR PURPOSES OF YOUTH RESIDENCE REQUIREMENTS.—

(1) HIGH-RISK YOUTH.—Subparagraphs (A)(ii) and (B) of section 51(d)(5) are each amended by striking “empowerment zone or enterprise community” and inserting “empowerment zone, enterprise community, or renewal community”.

(2) QUALIFIED SUMMER YOUTH EMPLOYEE.—Clause (iv) of section 51(d)(7)(A) is amended by striking “empowerment zone or enterprise community” and inserting “empowerment zone, enterprise community, or renewal community”.

(3) HEADINGS.—Paragraphs (5)(B) and (7)(C) of section 51(d) are each amended by inserting “OR COMMUNITY” in the heading after “ZONE”.

(4) EFFECTIVE DATE.—The amendments made by this subsection shall apply to individuals who begin work for the employer after December 31, 2000.

**SEC. 405. CONFORMING AND CLERICAL AMENDMENTS.**

(a) DEDUCTION FOR CONTRIBUTIONS TO FAMILY DEVELOPMENT ACCOUNTS ALLOWABLE WHETHER OR NOT TAXPAYER ITEMIZES.—Subsection (a) of section 62 (relating to adjusted gross income defined) is amended by inserting after paragraph (19) the following new paragraph:

“(20) FAMILY DEVELOPMENT ACCOUNTS.—The deduction allowed by section 1400H(a)(1).”.

(b) TAX ON EXCESS CONTRIBUTIONS.—

(1) TAX IMPOSED.—Subsection (a) of section 4973 is amended by striking “or” at the end of paragraph (3), adding “or” at the end of paragraph (4), and inserting after paragraph (4) the following new paragraph:

“(5) a family development account (within the meaning of section 1400H(e)).”.

(2) EXCESS CONTRIBUTIONS.—Section 4973 is amended by adding at the end the following new subsection:

“(g) FAMILY DEVELOPMENT ACCOUNTS.—For purposes of this section, in the case of family development accounts, the term ‘excess contributions’ means the sum of—

“(1) the excess (if any) of—

“(A) the amount contributed for the taxable year to the accounts (other than a qualified rollover, as defined in section 1400H(c)(7)), over

“(B) the amount allowable as a deduction under section 1400H for such contributions; and

“(2) the amount determined under this subsection for the preceding taxable year reduced by the sum of—

“(A) the distributions out of the accounts for the taxable year which were included in the gross income of the payee under section 1400H(b)(1);

“(B) the distributions out of the accounts for the taxable year to which rules similar to the rules of section 408(d)(5) apply by reason of section 1400H(d)(3); and

“(C) the excess (if any) of the maximum amount allowable as a deduction under section 1400H for the taxable year over the amount contributed to the account for the taxable year.

For purposes of this subsection, any contribution which is distributed from the family development account in a distribution to which rules similar to the rules of section 408(d)(4) apply by reason of section 1400H(d)(3) shall be treated as an amount not contributed.”.

(c) TAX ON PROHIBITED TRANSACTIONS.—Section 4975 is amended—

(1) by adding at the end of subsection (c) the following new paragraph:

“(6) SPECIAL RULE FOR FAMILY DEVELOPMENT ACCOUNTS.—An individual for whose benefit a family development account is established and any contributor to such account shall be exempt from the tax imposed by this section with respect to any transaction concerning such account (which would otherwise be taxable under this section) if, with respect to such transaction, the account ceases to be a family development account by reason of the application of section 1400H(d)(2) to such account.”; and

(2) in subsection (e)(1), by striking “or” at the end of subparagraph (E), by redesignating subparagraph (F) as subparagraph (G), and by inserting after subparagraph (E) the following new subparagraph:

“(F) a family development account described in section 1400H(e), or”.

(d) INFORMATION RELATING TO CERTAIN TRUSTS AND ANNUITY PLANS.—Subsection (c) of section 6047 is amended—

(1) by inserting “or section 1400H” after “section 219”; and

(2) by inserting “, of any family development account described in section 1400H(e).”, after “section 408(a)”.

(e) INSPECTION OF APPLICATIONS FOR TAX EXEMPTION.—Clause (i) of section 6104(a)(1)(B) is amended by inserting “a family development account described in section 1400H(e),” after “section 408(a),”.

(f) FAILURE TO PROVIDE REPORTS ON FAMILY DEVELOPMENT ACCOUNTS.—Paragraph (2) of section 6693(a) is amended by striking “and” at the end of subparagraph (C), by striking the period and inserting “, and” at the end of subparagraph (D), and by adding at the end the following new subparagraph:

“(E) section 1400H(g)(6) (relating to family development accounts).”.

(g) CONFORMING AMENDMENTS REGARDING COMMERCIAL REVITALIZATION DEDUCTION.—

(1) Section 172 is amended by redesignating subsection (j) as subsection (k) and by inserting after subsection (i) the following new subsection:

“(j) NO CARRYBACK OF SECTION 1400K DEDUCTION BEFORE DATE OF THE ENACTMENT.—No portion of the net operating loss for any taxable year which is attributable to any commercial revitalization deduction determined under section 1400K may be carried back to a taxable year ending before the date of the enactment of section 1400K.”.

(2) Subparagraph (B) of section 48(a)(2) is amended by inserting “or commercial revitalization” after “rehabilitation” each place it appears in the text and heading.

(3) Subparagraph (C) of section 469(i)(3) is amended—

(A) by inserting “or section 1400K” after “section 42”; and

(B) by inserting “AND COMMERCIAL REVITALIZATION DEDUCTION” after “CREDIT” in the heading.

(h) CLERICAL AMENDMENTS.—The table of subchapters for chapter 1 is amended by adding at the end the following new item:

“Subchapter X. Renewal Communities.”.

**Subtitle B—Timber Incentives**

**SEC. 411. TEMPORARY SUSPENSION OF MAXIMUM AMOUNT OF AMORTIZABLE REFORESTATION EXPENDITURES.**

(a) INCREASE IN DOLLAR LIMITATION.—Paragraph (1) of section 194(b) (relating to amortization of reforestation expenditures) is amended by striking “\$10,000 (\$5,000” and inserting “\$25,000 (\$12,500”.

(b) TEMPORARY SUSPENSION OF INCREASED DOLLAR LIMITATION.—Subsection (b) of section 194(b) (relating to amortization of reforestation expenditures) is amended by adding at the end the following new paragraph:

“(5) SUSPENSION OF DOLLAR LIMITATION.—Paragraph (1) shall not apply to taxable years beginning after December 31, 2000, and before January 1, 2004.

(c) CONFORMING AMENDMENT.—Paragraph (1) of section 48(b) is amended by striking “section 194(b)(1)” and inserting “section 194(b)(1) and without regard to section 194(b)(5)”.

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

**TITLE V—REAL ESTATE PROVISIONS**

**Subtitle A—Improvements in Low-Income Housing Credit**

**SEC. 501. MODIFICATION OF STATE CEILING ON LOW-INCOME HOUSING CREDIT.**

(a) IN GENERAL.—Clauses (i) and (ii) of section 42(h)(3)(C) (relating to State housing credit ceiling) are amended to read as follows:

“(i) the unused State housing credit ceiling (if any) of such State for the preceding calendar year,

“(ii) the greater of—

“(I) the applicable amount under subparagraph (H) multiplied by the State population, or

“(II) \$2,000,000.”.

(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)(ii), the applicable amount shall be determined under the following table:

“For calendar year:	The applicable amount is:
2001 .....	\$1.35
2002 .....	1.45
2003 .....	1.55
2004 and thereafter .....	1.65.”.

(c) ADJUSTMENT OF STATE CEILING FOR INCREASES IN COST-OF-LIVING.—Paragraph (3) of section 42(h) (relating to housing credit dollar amount for agencies), as amended by subsection (c), is amended by adding at the end the following new subparagraph:

“(I) COST-OF-LIVING ADJUSTMENT.—

“(i) IN GENERAL.—In the case of a calendar year after 2004, the \$2,000,000 in subparagraph (C) and the \$1.65 amount in subparagraph (H) shall each be increased by an amount equal to—

“(I) such dollar amount, multiplied by  
“(II) the cost-of-living adjustment determined under section 1(f)(3) for such calendar year by substituting ‘calendar year 2003’ for ‘calendar year 1992’ in subparagraph (B) thereof.

“(ii) ROUNDING.—

“(I) In the case of the amount in subparagraph (C), any increase under clause (i) which is not a multiple of \$5,000 shall be rounded to the next lowest multiple of \$5,000.

“(II) In the case of the amount in subparagraph (H), any increase under clause (i) which is not a multiple of 5 cents shall be rounded to the next lowest multiple of 5 cents.”.

(d) CONFORMING AMENDMENTS.—

(1) Section 42(h)(3)(C), as amended by subsection (a), is amended—

(A) by striking “clause (ii)” in the matter following clause (iv) and inserting “clause (i)”, and

(B) by striking “clauses (i)” in the matter following clause (iv) and inserting “clauses (ii)”.

(2) Section 42(h)(3)(D)(ii) is amended—

(A) by striking “subparagraph (C)(ii)” and inserting “subparagraph (C)(i)”, and

(B) by striking “clauses (i)” in subclause (II) and inserting “clauses (ii)”.

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to calendar years after 2000.

**SEC. 502. MODIFICATION OF CRITERIA FOR ALLOCATING HOUSING CREDITS AMONG PROJECTS.**

(a) SELECTION CRITERIA.—Subparagraph (C) of section 42(m)(1) (relating to certain selection criteria must be used) is amended—

(1) by inserting “, including whether the project includes the use of existing housing as part of a community revitalization plan” before the comma at the end of clause (iii), and

(2) by striking clauses (v), (vi), and (vii) and inserting the following new clauses:

“(v) tenant populations with special housing needs,

“(vi) public housing waiting lists,

“(vii) tenant populations of individuals with children, and

“(viii) projects intended for eventual tenant ownership.”.

(b) PREFERENCE FOR COMMUNITY REVITALIZATION PROJECTS LOCATED IN QUALIFIED CENSUS TRACTS.—Clause (ii) of section 42(m)(1)(B) is amended by striking “and” at the end of subclause (I), by adding “and” at the end of subclause (II), and by inserting after subclause (II) the following new subclause:

“(III) projects which are located in qualified census tracts (as defined in subsection (d)(5)(C)) and the development of which contributes to a concerted community revitalization plan.”.

**SEC. 503. ADDITIONAL RESPONSIBILITIES OF HOUSING CREDIT AGENCIES.**

(a) MARKET STUDY; PUBLIC DISCLOSURE OF RATIONALE FOR NOT FOLLOWING CREDIT ALLOCATION PRIORITIES.—Subparagraph (A) of section 42(m)(1) (relating to responsibilities of housing credit agencies) is amended by striking “and” at the end of clause (i), by striking the period at the end of clause (ii) and inserting a comma, and by adding at the end the following new clauses:

“(iii) a comprehensive market study of the housing needs of low-income individuals in the area to be served by the project is conducted before the credit allocation is made and at the developer’s expense by a disinterested party who is approved by such agency, and

“(iv) a written explanation is available to the general public for any allocation of a housing credit dollar amount which is not made in accordance with established priorities and selection criteria of the housing credit agency.”.

(b) SITE VISITS.—Clause (iii) of section 42(m)(1)(B) (relating to qualified allocation plan) is amended by inserting before the period “and in monitoring for noncompliance with habitability standards through regular site visits”.

**SEC. 504. MODIFICATIONS TO RULES RELATING TO BASIS OF BUILDING WHICH IS ELIGIBLE FOR CREDIT.**

(a) ADJUSTED BASIS TO INCLUDE PORTION OF CERTAIN BUILDINGS USED BY LOW-INCOME INDIVIDUALS WHO ARE NOT TENANTS AND BY PROJECT EMPLOYEES.—Paragraph (4) of section 42(d) (relating to special rules relating to determination of adjusted basis) is amended—

(1) by striking “subparagraph (B)” in subparagraph (A) and inserting “subparagraphs (B) and (C)”,

(2) by redesignating subparagraph (C) as subparagraph (D), and

(3) by inserting after subparagraph (B) the following new subparagraph:

“(C) INCLUSION OF BASIS OF PROPERTY USED TO PROVIDE SERVICES FOR CERTAIN NONTENANTS.—

“(i) IN GENERAL.—The adjusted basis of any building located in a qualified census tract (as defined in paragraph (5)(C)) shall be determined by taking into account the adjusted basis of property (of a character subject to the allowance for depreciation and not otherwise taken into account) used throughout the taxable year in providing any community service facility.

“(ii) LIMITATION.—The increase in the adjusted basis of any building which is taken into account by reason of clause (i) shall not exceed 10 percent of the eligible basis of the qualified low-income housing project of which it is a part. For purposes of the preceding sentence, all community service facilities which are part of the same qualified low-income housing project shall be treated as one facility.

“(iii) COMMUNITY SERVICE FACILITY.—For purposes of this subparagraph, the term ‘community service facility’ means any facility designed to serve primarily individuals whose income is 60 percent or less of area median income (within the meaning of subsection (g)(1)(B)).”.

(b) CERTAIN NATIVE AMERICAN HOUSING ASSISTANCE DISREGARDED IN DETERMINING WHETHER BUILDING IS FEDERALLY SUBSIDIZED FOR PURPOSES OF THE LOW-INCOME HOUSING CREDIT.—Subparagraph (E) of section 42(i)(2) (relating to determination of whether building is federally subsidized) is amended—

(1) in clause (i), by inserting "or the Native American Housing Assistance and Self-Determination Act of 1996 (25 U.S.C. 4101 et seq.) (as in effect on October 1, 1997)" after "this subparagraph)", and

(2) in the subparagraph heading, by inserting "OR NATIVE AMERICAN HOUSING ASSISTANCE" after "HOME ASSISTANCE".

**SEC. 505. OTHER MODIFICATIONS.**

(a) ALLOCATION OF CREDIT LIMIT TO CERTAIN BUILDINGS.—

(1) The first sentence of section 42(h)(1)(E)(ii) is amended by striking "(as of" the first place it appears and inserting "(as of the later of the date which is 6 months after the date that the allocation was made or".

(2) The last sentence of section 42(h)(3)(C) is amended by striking "project which" and inserting "project which fails to meet the 10 percent test under paragraph (1)(E)(ii) on a date after the close of the calendar year in which the allocation was made or which".

(b) DETERMINATION OF WHETHER BUILDINGS ARE LOCATED IN HIGH COST AREAS.—The first sentence of section 42(d)(5)(C)(ii)(I) is amended—

(1) by inserting "either" before "in which 50 percent", and

(2) by inserting before the period "or which has a poverty rate of at least 25 percent".

**SEC. 506. CARRYFORWARD RULES.**

(a) IN GENERAL.—Clause (ii) of section 42(h)(3)(D) (relating to unused housing credit carryovers allocated among certain States) is amended by striking "the excess" and all that follows and inserting "the excess (if any) of—

"(I) the unused State housing credit ceiling for the year preceding such year, over

"(II) the aggregate housing credit dollar amount allocated for such year."

(b) CONFORMING AMENDMENT.—The second sentence of section 42(h)(3)(C) (relating to State housing credit ceiling) is amended by striking "clauses (i) and (iii)" and inserting "clauses (i) through (iv)".

**SEC. 507. EFFECTIVE DATE.**

Except as otherwise provided in this subtitle, the amendments made by this subtitle shall apply to—

(1) housing credit dollar amounts allocated after December 31, 2000, and

(2) buildings placed in service after such date to the extent paragraph (1) of section 42(h) of the Internal Revenue Code of 1986 does not apply to any building by reason of paragraph (4) thereof, but only with respect to bonds issued after such date.

**Subtitle B—Private Activity Bond Volume Cap**

**SEC. 511. ACCELERATION OF PHASE-IN OF 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 to read as follows:

Calendar Year	Per Capita Limit	Aggregate Limit
2001 .....	\$55.00	\$165,000,000
2002 .....	60.00	180,000,000
2003 .....	65.00	195,000,000
2004, 2005, and 2006.	70.00	210,000,000
2007 and thereafter.	75.00	225,000,000."

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

**Subtitle C—Exclusion From Gross Income for Certain Forgiven Mortgage Obligations**

**SEC. 512. EXCLUSION FROM GROSS INCOME FOR CERTAIN FORGIVEN MORTGAGE OBLIGATIONS.**

(a) IN GENERAL.—Paragraph (1) of section 108(a) (relating to exclusion from gross income) is amended by striking "or" at the end of both subparagraphs (A) and (C), by striking the period at the end of subparagraph (D) and inserting ", or", and by inserting after subparagraph (D) the following new subparagraph:

"(E) in the case of an individual, the indebtedness discharged is qualified residential indebtedness."

(b) QUALIFIED RESIDENTIAL INDEBTEDNESS SHORTFALL.—Section 108 (relating to discharge of indebtedness) is amended by adding at the end the following new subsection:

(h) QUALIFIED RESIDENTIAL INDEBTEDNESS.—

"(1) LIMITATIONS.—The amount excluded under subparagraph (E) of subsection (a)(1) with respect to any qualified residential indebtedness shall not exceed the excess (if any) of—

"(A) the outstanding principal amount of such indebtedness (immediately before the discharge), over

"(B) the sum of—

"(i) the amount realized from the sale of the real property securing such indebtedness reduced by the cost of such sale, and

"(ii) the outstanding principal amount of any other indebtedness secured by such property.

"(2) QUALIFIED RESIDENTIAL INDEBTEDNESS.—

"(A) IN GENERAL.—The term 'qualified residential indebtedness' means indebtedness which—

"(i) was incurred or assumed by the taxpayer in connection with real property used as the principal residence (within the meaning of section 121) of the taxpayer and is secured by such real property,

"(ii) is incurred or assumed to acquire, construct, reconstruct, or substantially improve such real property, and

"(iii) with respect to which such taxpayer makes an election to have this paragraph apply.

"(B) REFINANCED INDEBTEDNESS.—Such term shall include indebtedness resulting from the refinancing of indebtedness under subparagraph (A)(ii), but only to the extent the amount of the indebtedness resulting from such refinancing does not exceed the amount of the refinanced indebtedness.

"(C) EXCEPTIONS.—Such term shall not include qualified farm indebtedness or qualified real property business indebtedness."

(c) CONFORMING AMENDMENTS.—

(1) Paragraph (2) of section 108(a) is amended—

(A) in subparagraph (A) by striking "and (D)" and inserting "(D), and (E)", and

(B) by amending subparagraph (B) to read as follows:

"(B) INSOLVENCY EXCLUSION TAKES PRECEDENCE OVER QUALIFIED FARM EXCLUSION; QUALIFIED REAL PROPERTY BUSINESS EXCLUSION; AND QUALIFIED RESIDENTIAL SHORTFALL EXCLUSION.—Subparagraphs (C), (D), and (E) of paragraph (1) shall not apply to a discharge to the extent the taxpayer is insolvent."

(2) Paragraph (1) of section 108(b) is amended by striking "or (C)" and inserting "(C), or (E)".

(3) Subsection (c) of section 121 of such Code is amended by adding at the end the following new paragraph:

"(4) SPECIAL RULE RELATING TO DISCHARGE OF INDEBTEDNESS.—The amount of gain which (but for this paragraph) would be excluded from gross income under subsection

(a) with respect to a principal residence shall be reduced by the amount excluded from gross income under section 108(a)(1)(E) with respect to such residence."

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

The SPEAKER pro tempore. The gentleman from Texas (Mr. ARCHER) and the gentleman from New York (Mr. RANGEL) each will control 1 hour.

The Chair recognizes the gentleman from Texas (Mr. ARCHER).

GENERAL LEAVE

Mr. ARCHER. Mr. Speaker, I ask unanimous consent that all Members may have 5 legislative days in which to revise and extend their remarks and include extraneous material on the bill, H.R. 3081.

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

There was no objection.

1530

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

Mr. Speaker, today will be another day of accomplishment for the American people because today Congress will once again do the right thing and pass a plan to help make health care more affordable and accessible for hard-working, middle-income, self-employed Americans. We will also strengthen our pension system for millions of Americans and make it better for working women and people who switch jobs so often and in that way all Americans can be more secure in their retirement.

Mr. Speaker, I am proud that Congress is here today once again pushing to remove the gruesome death tax penalty from the Tax Code and to send it one step closer to the grave. Clearly, the death tax is one of the most unfair taxes in the Tax Code today. It is terribly complex and, what is worse, at a time when the only economic cloud on our horizon is our negative private savings rate, the death tax is a dollar for dollar tax on the personal savings of Americans. That is wrong.

Furthermore, it often prevents families from being able to see their small businesses go down to their heirs and forced to be sold in order to pay the tax. No one should have to visit the undertaker and the IRS on the same day.

Today the House considers the Small Business Tax Fairness Act to help the diesel engine of our economy and the job creation factory of our country. That factory is America's small businesses. More than 6 out of every 10 American workers is employed by a small business. Small businesses have created two-thirds of the new jobs since 1970, and small businesses account for close to 40 percent of the GNP.

American women are starting new businesses at twice the rate of men. This year, in fact, will be the first year in our entire history where women will own more than half of all businesses,

about 8 million across the Nation. The Small Business Tax Fairness Act is aimed to help those hard-working, middle-income Americans, the shopkeeper in South Carolina, the restaurant owner in California, and the small family in Ohio. These Americans are not rich. The average small business owner makes about \$40,000 a year, and the average restaurant owner makes about \$50,000 a year; but as we have heard already this morning, and it is really a shame, Democrats who want to divide our country are making the same old class warfare arguments that do nothing to help unite us; do nothing to help recognize the ladder of upward mobility for all Americans and that no one stays fixed in where they are today.

We should be expanding opportunity for all, not pitting one group of Americans against another. Is expanding the low-income housing tax credit a tax break for the rich? Is creating new renewal communities in America's most poverty stricken communities a tax break for the rich? Is helping self-employed Americans get health insurance at a tax break, is that helping the rich? Is strengthening our pension system a tax break for the rich?

All these provisions are included in this bill, but Democrats still cannot stop the tax cut for the rich broken record. Why can Democrats not leave the divisive class warfare rhetoric back in the 20th century where it belongs?

Once again, Democrats are fighting tax relief, any tax relief and all tax relief, whether it is for married couples or whether it is for small businesses.

Mr. Speaker, today Congress is once again doing the right thing. It was right to balance the budget and to pay down the debt, and we did that. It was right to strengthen Medicare, and we did that. It was right to cut taxes for families, promote higher education, expand health care, and we have done that. It was right to fix the failed welfare system so Americans can discover the freedom of independence and personal responsibility. It was right to reform the IRS, and we did that. It was right to help our school children and help parents and teachers with education reform. It was right to stop the raid on the Social Security trust fund and protect every dime of Social Security from being spent on other programs, and we have done that.

It is right to pass this plan today, a plan to help more Americans get health insurance, to give millions of Americans more retirement security, to help small businesses continue to create jobs and economic growth, and to put a nail in the coffin of one of the worst taxes in America today, the death tax.

Mr. Speaker, I urge the passage of this bill, and I would like to submit for the RECORD the following correspondence between Chairman GOODLING and myself:

COMMITTEE ON WAYS AND MEANS,  
*Washington, DC, March 7, 2000.*  
Hon. WILLIAM F. GOODLING,  
*Chairman, Committee on Education and the Workforce, Rayburn House Office Building, Washington, DC.*

DEAR CHAIRMAN GOODLING: I write to confirm our mutual understanding with respect to further consideration of H.R. 3801, the "Wage and Employment Growth Act." H.R. 3801 was favorable reported by the Committee on Ways and Means on November 11, 1999.

In addition to the tax items considered by the Committee on Ways and Means, H.R. 3801 contains a number of provisions within the jurisdiction of the Education and Workforce Committee. In addition to the amendments to the Fair Labor Standards Act in Title I, the bill also contains provisions in Title III relating to the Employee Retirement Income Security Act (ERISA) and other pension related matters, which were previously approved by your Committee and included in the conference report for H.R. 2488, the "Taxpayer Refund and Relief Act." You may recall that, in order to expedite consideration of H.R. 2488, you agreed to withhold the ERISA related items when the bill was considered on the floor pending subsequent action in conference.

Similarly, in order to expedite consideration of H.R. 3801, it is my understanding that you will agree to withhold consideration on the floor of the ERISA and pension related items within your Committee's jurisdiction at this time. This is being done based on the understanding that I will support efforts to include the agreed upon provisions in the final conference report on H.R. 3801, and that I will not object to a request for conferees with respect to matters within the jurisdiction of your Committee when a House-Senate conference is convened on this legislation.

Finally, I will include in the Record a copy of our exchange of letters on this matter during floor consideration. Thank you for your assistance and cooperation in this matter. With best personal regards,

Sincerely,

BILL ARCHER,  
*Chairman.*

COMMITTEE ON EDUCATION  
AND THE WORKFORCE,  
*Washington, DC, March 7, 2000.*

Hon. BILL ARCHER,  
*Chairman, Committee on Ways and Means, Longworth HOB, Washington, DC.*

DEAR CHAIRMAN ARCHER: Thank you for your letter and for working with me regarding H.R. 3801, the Wage and Employment Growth Act. As you have correctly noted H.R. 3801 contains a number of provisions within the jurisdiction of the Committee on Education and the Workforce. I understand that in order to expedite consideration of the bill, all provisions within the sole jurisdiction of the Committee on Education and the Workforce will be deleted from the bill, including Title I, Amendments to the Fair Labor Standards Act; Section 377, a free standing provision dealing with the clarification of church plans under state insurance law; and all pension amendments to ERISA contained in Title III.

I appreciate your support and efforts to include the above referenced pension provisions in the final conference agreement on H.R. 3801. I also appreciate your support in my request to the Speaker for the appointment of conferees from my Committee with respect to matters within the jurisdiction of my Committee when a conference with the Senate is convened on this legislation.

Thank you for working with me to develop this legislation and for agreeing to include

this exchange of letters in the Congressional Record during the House debate on H.R. 3801. I look forward to working with you on these issues in the future.

Sincerely,

BILL GOODLING,  
*Chairman.*

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

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

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

Mr. RANGEL. Mr. Speaker, when we are talking about justice, equity, and fair play, it is not right to call this a class war. While it is true that in the Republican tax bill, which basically came out of the Committee on Rules, that there are some democratic principles that we can support, the truth of the matter is one does not have to be an accountant or H&R Block or a tax lawyer to see that the \$120 billion tax cut is not for the small business person. So take a look at it. Clearly, it is targeted for the wealthiest Americans that we have.

Now, it may not be bad to do that, but do not pile up on a bill that is just trying to give a dollar extra in terms of minimum wage. If these things want to be done, come out and let the Committee on Ways and Means have hearings, vote on it and bring it to the floor so that the floor can work its will.

What my colleagues are basically doing today is to say how can we kill the minimum wage bill. Now, the gentleman from California (Mr. DREIER), the chairman of the Committee on Rules, he stood up in this well and he said he thought it was bad to superimpose congressional rule on employers, and I know a lot of my colleagues think that is true. So why not just take the minimum wage bill, leave the tax portion to the Committee on Ways and Means, and vote up or down on what is right on minimum wage. Or do it their way and say, hey, the President is inclined to support minimum wage; maybe politically we can vote for it and have the President to veto it.

Now, how can one get the President to veto it? Load it up with provisions of the tax bill that passed last year because he would veto it.

Now, it just seems to me that if my colleagues on the other side did not have the political courage to get a vote to override the President's veto, we should not do on legislation for minimum wage what the Committee on Ways and Means and what this House is not prepared to do with a straight shot.

Everything that the people want is going to be taken, whether it is the Patients' Bill of Rights, affordable drugs, and it is going to be said that my colleagues on the other side are for these things and then add on to it substantial tax cuts that is not for the working people but for those who really have the highest earnings and deserve the benefits the least.

If one takes a look at the alternative that we asked for, many of the things

that are in their bill we have, but what we do is close the loopholes of Americans that after enjoying the benefits of the great prosperity that we have renounce their citizenship, renounce their country, renounce the American flag and flee off to foreign countries. For crying out loud, why would anyone be opposed to closing up that loophole? It is in our alternative.

We then will target the tax money, not \$122 billion but \$36 billion, to the small farmers, the small businesspeople, and this is what they want and this is what the President is willing to sign.

We have targeted relief for people that need and deserve it. So if what my colleagues on the other side are trying to say is that they are for an increase in the minimum wage but they want to help the small businessman, how do they explain that three-fourths of the bill, in terms of tax cuts, is not going to the small businessman, not going to the small farmer? Is this their way to kill a bill by having the President to veto it and then wait until their whole legislative process collapses and then we negotiate with the President?

We should not have to negotiate with any President. We should legislate, and we should also give the minority an opportunity to express its will.

What does that mean? Why would the rule deny us an opportunity just for an alternative, just to give Republicans and Democrats an opportunity to say that we have a better way to do it?

Well, we know one thing, that what is really trying to be done is to get that 800 pound billion dollar gorilla back up here to the tax floor in smaller pieces. It did not work last year. It was vetoed last year. An override for the veto last year was not run for, and an override this year is not being thought about to try for.

There are things that we should be working together on: Fixing up Social Security, Medicare, Patients' Bill of Rights, affordable drugs, education; not to do it as Democrats, not to do it as Republicans but to do it as Americans and as Members of Congress and working with the President. One does not have to like the President to work with him, but they cannot do it alone and the only time we can accomplish something is by cooperation, as the chairman and I did when we brought to the floor removing the penalty for people who want to work after 65. That is what is called cooperation. That is how bills are not vetoed, and that is how we can work again.

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

Mr. ARCHER. Mr. Speaker, I yield 2½ minutes to the gentleman from Illinois (Mr. CRANE), the ranking Republican member of the Committee on Ways and Means.

Mr. CRANE. Mr. Speaker, I thank the chairman, the gentleman from Texas (Mr. ARCHER), for yielding me this time.

Mr. Speaker, we stand on this floor, representatives of a country that is

basking in a time of great economic prosperity. The United States is at full employment and business is expanding with new jobs being created at a rate rarely experienced in anyone's lifetime. Today we have an opportunity to return money to Americans who work hard and, based on that work, pay too much in taxes.

While I wish it could be more, it is time to give a little back. I am particularly pleased with the death tax relief provisions and delighted that we continue our efforts to eradicate it. Whether it is the family farm or a more traditional business, the death tax is an assault upon the moral values of every family in this country that has had the wherewithal to create a business from nothing, persevere through the bad times and hope to leave it to their children.

Unfortunately, it is all too often that a family is forced to sell its business because the Federal Government has decreed that it is entitled to a disproportionate share of a family's business once the owner has died. In effect, Uncle Sam put a bounty on family-owned businesses. The old saying is that death and taxes are sure things, and years ago the Federal Government made certain that through the death tax the two are inextricably intertwined.

This bill gives us an opportunity to loosen just a little the stranglehold the Tax Code has on these families and their livelihoods.

I also want to convey my support for accelerating the 100 percent health insurance deduction for the self-employed. Being able to purchase health care insurance means that more children and men and women will have access to the best health care system in the world.

I was pleased we were able to include a reinstatement of the installment method of accounting for accrual basis taxpayers, which has been so detrimental to hundreds of thousands of businesses across the country, many of them in my home State of Illinois.

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Mr. Speaker, I will continue my fight to drastically reform our tax system and reduce the tax burden our American families struggle with every day.

I urge my colleagues to vote in support of H.R. 3081, the Small Business Tax Fairness Act of 2000.

Mr. RANGEL. Mr. Speaker, I yield 3 minutes to the gentleman from Michigan (Mr. LEVIN), a senior member of the Committee on Ways and Means.

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

Mr. LEVIN. Mr. Speaker, there has been a lot of talk on the Republican side about the "straight-talk express." This bill is the "double-talk express."

These are the facts: our Democratic bill does more, does more for small business than the Republican bill. The Republican bill does most for the very

wealthy. As the gentleman from New York (Mr. RANGEL) eloquently stated, about three-quarters of the tax relief in this bill goes to the upper 1 percent, and this is called a small business bill. This is called a minimum wage bill.

Mr. Speaker, we are not fighting any tax relief; we are fighting for the right kind of tax relief. What the Republicans are doing here is using the minimum wage as a bargaining chip, and the very wealthy pick up most of the winnings.

The class warfare here, if there is any, is against the working poor. A Member of Congress earns in one month what a low-income family working hard earns in about a year. I do not demean the work of those of us in Congress, and we should not demean the work of those who are in low-income categories.

We passed a welfare reform bill here; and I voted for it, people moving from welfare to work. Tens of thousands of them who have moved from welfare to work under the present minimum wage cannot earn enough to get above the poverty line; cannot earn enough when they work hard 40 hours a week to get above the poverty line. What my colleagues are trying to do is to nickel and dime this bill and tie it to a bill that is going to be vetoed. Why pass a bill through here that the President says he is going to veto? What is the sense of doing that? This is the same old same old Republican majority.

Mr. Speaker, it is time to turn a new leaf in this House. The people who work hard for a living at a minimum wage deserve an increase. They are way behind in terms of real dollars where they were 15 years ago, even after the action of a couple of years ago. It is a disgrace to tie this bill to something else. Bring it up alone. Mr. Speaker, we know why they will not do it, because they know it will pass. Eventually, we are going to pass a bill here that addresses the needs of hard-working, low-income families, and not a bill that gives almost 75 percent to the most wealthy 1 percent in the United States of America.

Mr. ARCHER. Mr. Speaker, I yield 3 minutes to the gentlewoman from the State of Washington (Ms. DUNN), a respected Member of the Committee on Ways and Means.

Ms. DUNN. Mr. Speaker, I want to thank the gentleman from Texas (Mr. ARCHER) and all of the other people, Republicans and Democrats, who worked so hard and so fairly to put the provisions together that we will be voting on today. This bill provides essential relief that is a down payment toward the ultimate repeal of the devastating death tax.

The freedom to attain prosperity and to accumulate wealth is uniquely American; and when unfettered, it is a wonderful thing to behold. Yet, the current tax treatment of a person's life savings is so onerous that children are often forced to turn over more than half of their inheritance to the Federal

Government, in cash, within 9 months of the death of the parent. We all know stories about the basic unfairness of this tax. It is just as wrong as it is tragic, and it dishonors the hard work of those who have passed on.

As a result, in the past, Congress has tried to provide targeted death tax relief to certain people. In 1997, a new death tax provision was enacted to provide additional relief to smaller family-held businesses and farms. Although it was a good idea at the time, this exemption has proven to be a boondoggle for attorneys who are hired by families trying to navigate their way through the 14-point eligibility test.

The Democrats now propose to increase this family-owned business exemption under the guise of relief. Well, it will not work. Many estate planners have told us that this exemption is so complex that fewer than 2 percent of businesses or farms even qualify. As much as we try, it is simply impossible to duplicate in law the complex family relationships that exist in the real world.

Democrats will also argue today that this tax only hits a select few. This argument is misleading because it only focuses on a portion of the debate: who pays the tax. What they do not tell us is that the mere existence of the tax forces businesses to spend an average of \$67,000 per year in life insurance premiums and attorneys and accountant fees in order to prepare for the tax. The total cost of compliance in the private sector alone is about equal to the total dollars collected in this tax each year. In addition, their argument does not account for the number of businesses who sell before the owner dies in order to pay a lower capital gains tax.

The Chicago-based Vanguard, one of America's last remaining black-owned newspapers, was forced to sell last year because they could not pay the millions of dollars they owed in death tax. As a result, that community lost an important voice. This is typical of what happens when a family-owned enterprise cannot afford to pay the high after-death taxes.

That is also why the Black Chamber of Commerce, the Hispanic Chamber of Commerce, and the National Indian Business Council all support the repeal of the death tax. They argue that it takes 2 or 3 generations to gain an economic foothold in the community. To them, the death tax is an enemy.

Mr. Speaker, I urge every single one of my colleagues on the floor of this House to vote against the repeal of the unfair death tax that we can do away with in this bill.

Mr. RANGEL. Mr. Speaker, I yield 2 minutes to the gentleman from Illinois (Mr. PHELPS).

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

Mr. PHELPS. Mr. Speaker, I rise in strong opposition today to the Republican tax cut package. I urge that all

Members who support fair, affordable, small business tax relief to instead co-sponsor the Democratic alternative which we should have been allowed to consider on the floor today.

Yesterday I testified before the Committee on Rules in favor of a rule that made in order both the wage and tax provisions of the Democratic alternative. This alternative, originally sponsored by the gentleman from Michigan (Mr. BONIOR), the gentleman from New York (Mr. RANGEL), the gentleman from Texas (Mr. SANDLIN), and myself included a two-step, one-dollar minimum wage increase and a \$32 billion package of targeted small business tax relief. It had strong support in the House and across the country, and it merited an opportunity for debate in a clean up or down vote. Unfortunately, perhaps because they too were aware of our proposal's popularity, the committee recommended a closed rule on H.R. 3081.

This should not be a partisan issue. This is an issue of fairness and fiscal responsibility of making it easier for working men and women to provide for their families and making it easier for employers to help them do so. Members on both sides of the aisle deserve the chance to vote on a package of sensible, targeted tax provisions that are fully paid for and that serve the specific purpose of helping to offset the burdens that result from an increased minimum wage.

Instead, we have before us a sprawling, incredibly expensive tax cut bill which lavishes the vast majority of its benefits on the wealthiest one-third or 1 percent of taxpayers. In fact, the portion of the Republican bill which actually helps small businesses is less than the \$32 billion provided by our substitute. Yet, the Republican bill carries a cost of \$122 billion over 10 years. Unlike the Democratic package, which is fully offset, H.R. 3081 jeopardizes not only the future of Social Security and Medicare, but also our ability to give Americans the biggest tax break of all by paying down the national debt.

At the conclusion of this debate, a motion to recommit will be offered that will contain the Democratic tax statistic. I urge support of the Democratic alternative.

Mr. ARCHER. Mr. Speaker, I yield 2½ minutes to the gentleman from Florida (Mr. FOLEY), a respected member of the Committee on Ways and Means.

Mr. FOLEY. Mr. Speaker, let me thank the chairman of the committee for the excellent bill that is on the floor today, and let me urge the members of the minority to use a little caution when characterizing these bills.

First and foremost, I supported increasing minimum wage and will vote again that same way today. But let me also detail for my colleagues the fact that the process today in the bill we are debating are in fact sponsored largely by a number of prominent Democrats. Pension modernization

that is coming within this bill is known as the Portman-Cardin bill; distressed communities, which does not sound like something that is for the rich in Palm Beach, known as Watts-Talent-Frost and 19 others. Low income housing, Johnson-Rangel, the ranking member of the committee, on a bill that I have sponsored with the gentleman from New Jersey (Mr. ANDREWS) for forgiving mortgage obligations, that is, forgiving debt for somebody who has gone bankrupt. We are trying to help those that need help rebuilding their lives.

Why do we debate this bill if it is going to be vetoed by the President? I heard that question asked by my colleague. We have to do that until the President finally gets it right. We did that three times with welfare reform and finally, finally the President signed the bill. Lo and behold, every Member running for Congress for reelection, Democrat or Republican, gets up and says, we have reformed welfare. Now they take credit for it because it is a good bill.

The other thing that bothers me in this process is many of the people that advocate putting another dollar burden on the average small business owner are those same people who have never actually worked outside this process in their life. They have not had a small business. I owned a restaurant. It was difficult to make ends meet, difficult to make payroll; and at times, I went without a paycheck because I had to pay my staff. Yes, I agree increasing the minimum wage will help, but I certainly do not find it a problem to at least assist the small businesses in making that increase in payroll costs softened at least by some important tax provisions.

Now, we can sit here and wrangle all day about a bad bill, a good bill, this bill, that bill. I have heard many Members of Congress today say, help the small people out, and I agree. People at minimum wage are seeing increased fuel costs. I am not hearing much being done by the Energy Department or the White House, other than to say, my God, gas prices are up. I think we need some help for people that are, in fact, paying for gas at the pump. But one thing we can do certainly today is help provide some incentives for small business.

Mr. Speaker, again, if people would look carefully at what is in this bill, they will not be taken in by the persuasive arguments of some on the other side that this is for the wealthy. That is an easy argument. They always come with that wealthy argument: it is for the rich; it is for the rich. Folks, look at the bill. Health insurance, pension modernization, distressed communities, low-income housing. These issues are not for the rich; these are for every American.

Mr. RANGEL. Mr. Speaker, I yield 2 minutes to the gentleman from Texas (Mr. DOGGETT).

Mr. DOGGETT. Mr. Speaker, Members may not recognize this fellow in

the fedora standing in the shadows, but they ought to be aware of what he is doing. He is a caricature of America's leading tax shelter hustlers. This bill is his bill. By restricting amendments, by assuring that we cannot deal with the leading causes of injustice in our tax system today, Republicans have protected the tax shelter hustlers.

Only yesterday, the Secretary of the Treasury, Larry Summers, told the Senate Finance Committee that failure to address this issue of tax shelters "in a meaningful way puts the fairness and efficacy of our tax system at risk." He has also said that the most serious compliance problem we have in the American tax system today is the failure to deal with tax shelter hustlers. This bill in particular, like the Committee on Ways and Means, in general does absolutely nothing to stop the tax shelter hustlers that are robbing the Treasury of upwards of \$10 billion a year.

Only this week we learned that the tax shelter problem has gotten so serious that one insurance company after another is moving to Bermuda. It is so bad that even some of the insurance companies that remain in this country are saying, our competitors are gaining an unfair advantage through their tax shelters.

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It is wrong, and that is why the substitute that the gentleman from New York (Mr. RANGEL) has proposed incorporates a bill that I wrote concerning abusive tax shelters. It would do something about the most serious compliance problem with our tax system. The instant bill does absolutely nothing.

There is another problem that the gentleman from New York (Mr. RANGEL) addresses. As incredible as this tax shelter hustler problem is, there is even one greater problem. Some Americans have grown so prosperous that they can afford the arrogance of renouncing their citizenship and discovering one day that the Port Royal Golf Course in Bermuda is their hometown, that they have new citizenship. This expatriation problem represents a multi-billion dollar scandal of people renouncing their citizenship for the sole purpose of dodging taxes.

Once again, like the fellow in the fedora, those who have so little patriotism, those scoundrels, who would renounce their American citizenship to evade their taxes, they are fully protected in this bill. But they are fully dealt with in the substitute of the gentleman from New York (Mr. RANGEL). Republicans are so fearful of dealing with these real tax problems in this country.

And who do Members think picks up the tax tab for the hustler in the fedora and the scoundrel, who renounces his American citizenship? Small business and individual taxpayer because who else is left to pick up the tab? So by dodging these serious problems of tax dodging our Republican colleagues are

actually imposing more burden on the small businesses of America.

Mr. ARCHER. Mr. Speaker, I yield 2½ minutes to the respected gentlewoman from Connecticut (Mrs. JOHNSON), a member of the Committee on Ways and Means.

Mrs. JOHNSON of Connecticut. Mr. Speaker, I rise in strong support of this legislation. Small business is the engine of our growing economy. It also creates more new jobs than all the big business put together. Yet, it finds it very difficult to pay higher wages for entry level jobs.

Today, between the various bills that we will pass, we will increase the minimum wage, but we will also cut costs for our small businesses so they will have the revenues to pay the higher wage without laying people off.

I am proud that the Republican approach very carefully and realistically focuses on job retention, as well as fair wages. I am also pleased that this bill has lots of things in it for working people, not just about wages, but in this bill we pass pension legislation that allows women over 50 to make catch-up contributions to pension plans. This means women who stay home and take care of their children, when they return to the work force, can make those catch-up contributions and retire with the level of security that, frankly, they need, and we in America need them to have.

It is also true that this bill allows portability, makes it much easier to carry your pension from one job to another without fear of loss. It also allows faster vesting.

This is terrific legislation for working people. It will enable small businesses to offer pension plans. It will give women a fair shake in the retirement security business. In addition, it will spread and encourage the building of affordable housing in our cities.

If there is one crisis that is looming that we are not talking about, it is the need for low-wage earners to have decent places to live and rent in our cities. This bill addresses that issue, as well.

It also cuts costs for small business in other ways, allowing them to expense the cost of equipment so they can hire more people and do better strengthening our economy and the fabric of our communities.

This is broad-based tax reform for small business. It helps working people, not only through wages, when it is coupled with the following bill, but through housing, pension reform, health care deductibility for premiums.

We need to think holistically about opportunity in America. That is what this tax bill does. Cutting taxes means we can save for our retirement. Cutting taxes strengthens our economy and helps our people.

Mr. RANGEL. Mr. Speaker, I yield 3 minutes to the gentleman from Washington (Mr. MCDERMOTT).

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

Mr. MCDERMOTT. Mr. Speaker, Yogi Berra says, it is *deja vu* all over again, and here we are again. It is another month. We saw the February tax bill, and now we have the March tax bill. This one cuts \$120 billion out of the tax base with no budget, no concern for Medicare, no concern for social security. We are simply giving it away again.

This one has an interesting twist to it, because it says, you small business guys, we are going to do something for you. We are going to raise the minimum wage for your workers, and that is going to be a cost to you. Now we have to give something to the small business people.

But let me tell the Members, it is premised on the idea that small business people must be stupid, that they cannot read tax law, because this bill is not designed for small business people. Two-thirds of the \$120 billion in tax breaks goes for the estate tax. That affects the 2 percent richest people at the top of the society. That is why this graph is so illustrative. The Republican tax bill is all loaded on the end of the rich people.

The gentleman from New York (Mr. RANGEL) has put a bill forward that says, yes, we believe there ought to be some estate tax changes, but like this blue line, it ought to start way back with small people's estates and sort of be equal all the way. Not the Republicans, give it all to the rich. That is why we have a spike down here in accounts of \$25 million and more. That is not for small business people.

We talk about what we are going to do for pension changes. Eighty-seven percent of the pension changes go to the 5 percent of the people at the top. It is, again, a bill skewed to the people at the top. That is in the face of not doing anything about Medicare, not doing anything about social security. Let us just shovel the money out the door.

Now, between the February bill and this bill, we have served up to the American people the belief that they are going to get \$375 billion in taxes, a reduction. Now wait for the April bill and the May bill and the June bill. They will be right back where they were last year with a tax cut of over \$792 billion, which the President vetoed.

If Members think that the President is not paying attention, and that if they send it to him one piece at a time he will not understand what they are doing, they are really kind of underestimating the intellect of the President. He can add. He can add the February bill to the March bill to the April bill to the May bill, and he is going to veto them all. This is a poison pill for a raise in the minimum wage. That is all it is designed to do.

Mr. ARCHER. Mr. Speaker, I yield myself 30 seconds.

Mr. Speaker, the gentleman has an interesting chart. The fascinating thing about it is, though, that the people that he claims will get the benefit

of the reduction in the death tax are dead. They do not get any benefit. They are gone. The real issue is, who are their heirs? How is it distributed?

But they do not want to talk about that. That is the reason why there is no official distribution table on the death tax, because it is not going to benefit the people who have died, it is the people who lose their jobs and it is the people who have the distribution.

Mr. Speaker, I yield 2 minutes to the gentleman from Louisiana (Mr. MCCREY), a respected member of the Committee on Ways and Means.

Mr. MCCREY. Mr. Speaker, I thank the gentleman for yielding time to me.

Mr. Speaker, every time we bring a bill to the floor to cut taxes, the Democrats come up with the same old objection: "Oh, it is a tax cut for the rich." The way they define rich, I just want all those folks out in America who are middle class to know that they are actually rich, because they are among those defined to be rich by the Democrats. So keep that in mind.

Let me just enumerate a few provisions of this bill that are clearly not for the rich: a 100 percent health insurance deductibility for the self-employed. Those are not rich folks, those are folks that have started their own business and worked for years and years at those razor-thin margins to keep it going, and they do not get the same health care treatment as big corporations. This bill will do that.

Community renewal, tax breaks to build the inner city and rural areas to try to provide jobs in those areas. That is not for the rich. A low-income housing tax credit. We are going to increase the amount of money available for low-income housing in this country. That is not for the rich. There is pension reform, and 77 percent of people on pensions are middle class and lower-income workers, not rich.

Finally, if we want to talk about the estate tax, yes, if we count all the assets and the income of the folks who are affected by the death tax, we could think they are rich. The fact is that a great many of those folks, like farmers, like small business owners, are asset rich and cash poor. When they die, for their small business or their farm to keep alive, to keep going, we had better have death tax relief, or those small farms and small businesses are going to go away because their heirs are cash poor. They cannot afford to pay the tax, so they have to sell the farm or sell the business in order to pay the tax. That is not right.

This bill will get us just a little way down the road towards correcting the inequity in the Tax Code of America.

Mr. RANGEL. Mr. Speaker, I yield 3 minutes to the gentleman from Tennessee (Mr. TANNER), a member of the committee.

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

Mr. TANNER. Mr. Speaker, I thank the gentleman for yielding time to me.

I want to thank the gentleman from New York (Mr. RANGEL) for the opportunity to say a few words.

Mr. Speaker, I am still, as a Blue Dog, mystified as to this procedure, this process. The majority party continues to bring bills to the floor when we do not have a budget. We owe \$3.7 trillion in hard cash, and we are paying \$240 billion year in interest alone. One-third of all of the individual and corporate taxes being collected on April 15 go to pay nothing but interest. Yet, we bring these tax measures to the floor.

If we pass this one, this body will have passed over \$300 billion worth of tax cuts with no budget, not doing anything about the debt, nothing about social security, energy, nothing about Medicare, recruitment and retention in the military, readiness of the country. We need military modernization, we need a pay raise for the troops. The veterans, it will take \$3 billion to help the veterans.

We do not have time for that, but we do have time for \$300 billion worth of tax cuts over the next 10 years on money that is not even here. This money is projected. They have to be living in a cave not to understand that oil prices are rising, if Members do not understand that. That puts tremendous inflationary pressure on the system. This projection of a huge surplus could go away just as easily as it came about with rising oil prices, rising interest rates. That surplus that all of these tax cuts come out of may never get here.

Mr. Speaker, the other part I want to talk about is the estate tax. I do not like estate taxes. I am responsible for a bill to do away with them. But politics is the art of the possible. Here it is not, in this day, in this time, possible politically to do away with the estate tax.

What did the gentleman from New York (Mr. RANGEL) write? He wrote true estate tax relief for the small family farmer. Tim and Susan Lucky live in my district in Gibson County, Tennessee. They have a farm that is worth about \$3 million. They do not have any money, but they have a farm worth about \$3 million. Do Members know what they pay, under the bill of the gentleman from New York (Mr. RANGEL) in estate taxes? Nothing. Do Members know what they pay under the Republican plan in estate taxes? It would be \$336,000. Tell me who is interested in estate tax relief for the family farmer and the small businessman.

This is a fact, under these bills that are mentioned. We did not get to offer the bill of the gentleman from New York (Mr. RANGEL). Do Members know why? Because it will pass.

So legislative malpractice in bringing tax bills to the floor without a budget is the same legislative malpractice in shutting out a bill like this.

Mr. ARCHER. Mr. Speaker, I yield 2½ minutes to the gentleman from California (Mr. HERGER), another respected member of the Committee on Ways and Means.

Mr. HERGER. Mr. Speaker, small businesses are the backbone of our Nation's economy, creating jobs, economic growth, and innovation. The legislation before us today, the Small Business Tax Fairness Act, provides the tax reform necessary to ensure that small businesses will continue to prosper.

For example, this legislation will help the self-employed afford health care by providing full deductibility of health insurance premiums. It will help small businesses acquire the tools they need to compete by increasing the amount small businesses can expense.

This legislation also provides much needed assistance to families attempting to pass a business from one generation to the next by reducing the burdensome death tax.

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Furthermore, this legislation will help Americans save for their retirement by modernizing pension laws.

Mr. Speaker, I am especially pleased that the legislation before us today includes a provision I authored, which will restore peace of mind to small business owners by allowing small businesses to once again make use of installment sales. This provision will correct an urgent situation whereby thousands of small business owners have seen the value of their businesses drop by 10 to 20 percent.

Enactment of the Installment Tax Correction Act aspect of this legislation will mean real relief and fairness for those who have spent a lifetime building a business only to see a change in tax law threaten their retirement.

I urge all my colleagues to support tax fairness by supporting this legislation.

Mr. RANGEL. Mr. Speaker, I yield 2½ minutes to the gentlewoman from Florida (Mrs. THURMAN), a member of the Committee on Ways and Means.

Mrs. THURMAN. Mr. Speaker, I thank the gentleman from New York (Mr. RANGEL) for his work on this piece of legislation.

Mr. Speaker, today in America, there are about 203,000 women working full time for minimum wage. These women are working to support their families. These are not high school students working for extra spending money.

Raising the Federal minimum wage by \$1 would give these mothers an extra \$2,000 a year. That \$2,000 would feed a family of four for 7 months.

Mr. Speaker, look around in these neighborhoods. These are the nursing aids who attend to our mothers and our fathers, the day care workers who care for our children, the clerks who help us at the grocery store. But do my colleagues know what? This raise is in jeopardy today because the Republican leadership has attached a risky tax scheme and doing little for small businesses of America. I support raising the minimum wage and providing tax cuts for small businesses, but not this way.



Today, this House is considering \$122 billion tax scheme that, according to Citizens for Tax Justice, will give 73 percent of the tax cut to people who make \$319,000 and higher, while doing little for working families and small business.

It is irresponsible for us, once again, to be bullied into voting for a tax bill that is not paid for, breaking our own rules in this House. If this economy should falter and this surplus is not real, then we are going to put it back on the children and back on the grandchildren. Do my colleagues know what? The ones that we are raising that we want them to have the opportunity to have a small business will not be there because they will have debt because we do not pay for it.

However, the gentleman from New York (Mr. RANGEL) and Members put together a Democratic substitute like the rules tell us to do, paid for, which should be considered here today. But guess what? We are not even going to be given the opportunity other than talk about it. We will not even get any votes on it.

It would have provided \$32 billion in targeted tax cuts designed to help small businesses offset the cost of implementing the minimum wage. These targeted cuts include 100 percent deductibility for health insurance for self-employed, a permanent extension of the Work Opportunity Tax Credit, and Welfare to Work Tax Credit, and estate tax relief. The gentleman from Tennessee (Mr. TANNER) said it better than anybody.

The SPEAKER pro tempore (Mr. PEASE). Without objection, the gentleman from Ohio (Mr. PORTMAN) will control the time of the gentleman from Texas (Mr. ARCHER).

There was no objection.

Mr. PORTMAN. Mr. Speaker, I yield 2 minutes to the gentleman from Pennsylvania (Mr. ENGLISH).

Mr. ENGLISH. Mr. Speaker, I thank the gentleman from Ohio (Mr. PORTMAN), who has been one of our most vigorous advocates of pension reform, for yielding me this time. I am happy to see that this legislation has some of his work included.

Mr. Speaker, I rise in strong support of this legislation. This package provides much needed relief to small businesses that, combined with an increase in the minimum wage, is a win-win situation for workers and entry-level positions who are trying to work their way into the mainstream of our strong economy.

I have been a long-time supporter of raising the minimum wage, and this \$1 increase that we have proposed is the equivalent of a 20 percent raise over 3 years. That sends a strong positive message to working seniors, first-time workers, and those striving to work their way out of the welfare system.

Combined with that minimum wage increase, this legislation provides much-needed tax relief that will assist small businesses and their workers.

For example, it enhances the retirement security of all Americans by increasing pension portability, allowing workers over 50 to catch up on contributions and increasing the contribution and benefits limits in defined contribution and benefits plans.

It encourages job creation among small businesses through increasing the expense and write-off for equipment, an important pro-growth initiative.

This legislation also reforms a section of the code that punishes people by artificially lowering the value of their pension through caps.

It also creates tax incentives to lure investment back into some of our most depressed communities so that they can share in our economic prosperity. It expands incentive for the creation of affordable housing.

Notwithstanding all of that, we are hearing rhetoric on the other side of the aisle, as incredible as it may sound, that this is all tax cuts for the rich. In reality, we are simply helping all American workers partake of the current financial prosperity of our country.

I urge all of my colleagues to look beyond the rhetoric and to support this important fairness legislation.

Mr. RANGEL. Mr. Speaker, I yield 3 minutes to the distinguished gentleman from Massachusetts (Mr. NEAL), a member of the Committee on Ways and Means.

Mr. NEAL of Massachusetts. Mr. Speaker, the Republican leadership in the House is finally dealing with the minimum wage issue. We are going to do something for millions of wage earners making \$10,712 annually. I just cannot figure out what the long-term goal is, to kill a bill before it gets to the President? To get the President to veto it? Or simply to get this hot potato off of their hands?

The issue is not going to go away simply because a poison pill is added to the minimum wage increase in the form of a tax bill, a tax bill that has such little support today that the Republican leadership did not even dare to give the gentleman from New York (Mr. RANGEL) a substitute, because they knew that Democratic substitute, with the help of their own Members, would prevail.

I support a number of items in this proposal today, but not allowing the Democratic substitute has stifled debate in an irresponsible way here. Our bill was targeted and paid for and, most importantly, had the most votes.

The fact that it is not paid for today is crucial because this is just one of the several bills that will come to the House floor this year, all designed to have a dramatic revenue loss in the future, justified by questionable estimates about the budget situation, estimates that can change very quickly in any sign of a downturn. That is the context in which this debate takes place today.

Moreover, there are provisions in this bill before us that overreach, especially

in the estate and pension areas and should be opposed on the merits.

In the pension area, the bill does contain a number of proposals that everyone supports. These proposals are in the administration's bill. These proposals are in my bill. They are in the Portman bill. They are in the Democratic Caucus bill. But there are also, in this bill today, many provisions lobbied extensively by the business community that are highly controversial; and that in the end is the problem.

Let me read from a quote that the administration has offered on this proposal. "H.R. 3832 contains pension provisions that would raise the maximum retirement plan contribution and compensation limits for business owners and executives. This would weaken the pension anti-discrimination and top-heavy protections for moderate- and lower-income workers. These provisions are regressive, would not significantly increase plan coverage or national savings, and could lead to cuts in retirement benefits for moderate- and lower-income workers while benefits for the highly paid executives are maintained or even increased."

I cannot support this proposal. As I have suggested in the past, and I will suggest again today, the proponents of pension legislation should meet with the administration, develop a consensus package on these items that might well be enacted this year, especially those items involving pension portability. That would clear away the underbrush, if I may use that word, and allow us to focus on the more serious differences between us.

I believe that all of us want to expand pension coverage for those who do not have it and want the current employer-based pension system to simply work better.

Mr. PORTMAN. Mr. Speaker, I yield myself 2½ minutes to respond to some of the comments that were just made and talk a little bit about this package.

First, I want to commend the gentleman from Texas (Chairman ARCHER) for putting this good tax relief package together.

We have to recall where we are. We are in the process of raising the minimum wage, and this is simply an attempt to try to cushion the impact of that minimum wage on job loss in this country, because all the studies show there will be an impact on the economy particularly among smaller businesses. So these proposals are focused on smaller businesses.

In the pension area in particular, the problem we have of a gap of people not having pensions is primarily among smaller businesses. There are about 70 million Americans today who do not have pension coverage. That is unacceptable. That has happened increasingly with the administration's position that I just heard announced about pension reform. It will continue to happen. It will continue to have fewer and fewer people getting pensions because

the administration seems to be taking the position that any kind of pension reform that would at all incur, increase, and expand coverage for defined contribution plans and defined benefit plans somehow is going to help the rich too much.

Let me tell my colleagues about the limits that the gentleman from Massachusetts (Mr. NEAL) just talked about. He said the administration is opposed to raising the limits, the contribution limits and the benefit limits on pensions. Somehow this would be counter-productive. It would hurt low-wage workers.

Let me tell my colleagues what the limits are today. Today the limit is about \$170,000 compensation limit under defined contribution plan and defined benefit plan. We propose raising it to \$200,000 a year. In 1993, under a Democrat Congress, I might say, that limit was at \$235,000. It was reduced over time, strictly as a revenue grab, in order to effect the deficit we lived in and had in this country.

If that \$235,000 were adjusted to inflation today, it would be \$290,000 limit. Now, tell me, if the Treasury Department opposes this pension provision because the limits are too high, why did a Democrat Congress have \$235,000 limit that would now be almost \$300,000?

We are talking about just raising it up to \$200,000 because, yes, we believe that those 70 million Americans who do not have a pension now, particularly in small businesses, where only 19 percent of small businesses because of the costs and the burdens and the liabilities now have any coverage. We believe those small businesses ought to be able to offer a pension plan to their employees. We want every employee in America to have a pension plan. That is the purpose of this legislation.

It is focused on small business because that is where most of the problem is with regard to the pension coverage, but it is going to help every American be able to put more aside for retirement.

It also provides for portability and people to take a pension from job to job. Finally, it provides, yes, for some common sense regulatory relief so that the costs and burdens are reduced for those smaller businesses.

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

Mr. RANGEL. Mr. Speaker, I yield 2 minutes to the distinguished gentleman from California (Ms. WATERS).

Ms. WATERS. Mr. Speaker, I join in this discussion because I want to raise the question of why we are using this time to try and talk about the need for tax cuts for the wealthy. This is all about increasing minimum wage. We are being sidetracked. We are being taken off course while the Republicans are attempting one more time to get their outrageous tax cuts into law by any means necessary.

Whether we are talking about the tax cuts that are being indicated in order,

as they would say, to do minimum wage increase, or whether we are talking about the ongoing, continuing effort to just give more tax breaks to the rich, we find ourselves having to defend time and time again against trying to do more and more for the rich corporations and the richest Americans in this country.

Let us force this discussion on whether or not there is a need for an increase in the minimum wage for the poorest of the working people in this Nation at a time when everyone is touting how well we are doing in this economy, how well people are doing in Silicon Valley. There are 260,000 millionaires in Silicon Valley alone. My colleagues would dare say that we cannot have this modest increase in minimum wage until we do some more tax cuts for the rich. This is outrageous. We have had to fight our Republican friends every step of the way.

The alternative that we have designed would, of course, take care of some of those areas where we could do some targeted tax cuts. This is not the way to do it. I would ask my friends and my colleagues to resist this effort to give more tax cuts to the rich.

Mr. PORTMAN. Mr. Speaker, I yield 2 minutes to the gentleman from California (Mr. CALVERT).

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Mr. CALVERT. Mr. Speaker, I thank the gentleman for yielding me this time.

I am a former small business owner. I understand what overregulation does to small business. I understand what overtaxation does to small business. I understand what too much litigation does to a small business. I understand what happens when the Government increases the cost to stay in business. And I know that a lot of businesses do not stay in business.

A lot of small businesses are not in Silicon Valley; they are in our hometowns. They are our local dry cleaners, our local drive-thru restaurants, the local carryout. These are not big corporations. These are small mom and pop businesses. Matter of fact, two-thirds of the job creation in this country is by small businesses, and we need to help them. We need to help them stay in business because, without some of these minor changes in the Tax Code, they are not going to be around.

What is wrong with allowing small businesses an opportunity to deduct their health care expenses? What is wrong with some changes in the death tax, which everyone agrees is a disgrace? We should not have a death tax in this country, a tax of up to 55 percent of the value of one's estate, when they have paid taxes all of their lives.

Small business is important. And as one of the few people in the House that actually operated a small business, I would like to see it stay around, so I am hoping my colleagues will get together and vote on this and vote to support this Tax Relief Act.

Mr. RANGEL. Mr. Speaker, I yield 2 minutes to the gentleman from Maryland (Mr. WYNN), who has committed his career to the protection of small business.

Mr. WYNN. Mr. Speaker, I thank the gentleman for yielding me this time.

I never cease to be amazed at how my Republican colleagues can take basically a good idea and turn it into a vehicle to give more tax relief to the very wealthy. It absolutely amazes me.

We do have a good idea here. We ought to help small businesses. Small businesses are the engine of America's economy. They create half of the jobs and contribute to half of the gross domestic product. So there are things we can do to help small business. On the other hand, however, when we look at this Republican proposal, we find it is not small businesses, not the mom and pop neighborhood restaurants and groceries; it is the real fat cats who get the lion's share of the benefits.

Let me talk about first what the Democrats want to do to help small business. First of all, we want to give 100 percent deductibility for health insurance. That is something small businesses want. We also want to increase small business deductions for investments in plants and equipment. We want to extend the work opportunity tax credit and the welfare-to-work tax credit. These are tax benefits that actually benefit small businesses and help them hire workers. We also want to address the estate tax issue, and we want to raise up to \$4 million, the exemption, for estate taxes. So we are concerned about that issue. We want to give an increase in the meals deduction for small neighborhood restaurants, so they can benefit from that.

There is a package of things that we want to do, that I actually believe some Republicans want to do, that we ought to do. That package is reasonable, about \$36 billion, and we can pay for it with the offsets in the Democratic proposal. Unfortunately, the Republicans would not allow us to bring this proposal to the floor.

Now, let us look at the Republican plan. It is bloated: \$120 billion. And when we ask ourselves if small businesses are not benefiting from this, the question then becomes, who is? I can tell my colleagues who is: 73 percent of the benefit in the Republican plan goes to the richest 1 percent of Americans. These people are already doing very well in our current economy. They have stocks, they have bonds, they do not need this massive tax relief package.

On the other hand, our approach says let us help small business; let us save Social Security and Medicare by being fiscally prudent. I ask my colleagues to consider the Democratic alternative and reject the Republican approach.

Mr. PORTMAN. Mr. Speaker, I yield 2 minutes to the gentleman from New York (Mr. SWEENEY).

Mr. SWEENEY. Mr. Speaker, I am here to talk about a specific provision

that is part of this bill, and I think it really points out the difference between what our philosophy is and what the other side believes in. It is the installment tax consumer credit that is part of this bill, repealed last year by the administration as a revenue enhancer.

What the administration prefers to do is force the hard-working American families, those in the small business community, to pay taxes even before they receive payment for the sale of their business. And it has real human impact.

For example, several months ago Dorothy and George Long arranged for the sale of their bed and breakfast in my district in Upstate New York. They had worked for over 30 years to build this business, and now they were looking forward to the sale of the business so they could retire. Unfortunately, they may have to reconsider those plans because they are, with the current structure, left with three very tough choices: take a loan out in order to pay for the capital gains tax immediately due, break their contract and face a lawsuit, or suffer the consequences of nonpayment of taxes.

Mr. Speaker, I think that it is very important that we pass this bill today because we have to ensure that small businesses remain healthy. And providing for these kinds of tax reductions in small business will do that.

Mr. RANGEL. Mr. Speaker, I yield 2 minutes to the gentleman from New Jersey (Mr. MENENDEZ).

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

Mr. MENENDEZ. Mr. Speaker, I thank the gentleman for yielding me this time.

The Republican proposal we have before us today, I believe, is shameful. The Republicans claim that small businesses need tax breaks to offset an increase in the minimum wage, and we Democrats have a proposal that would do just that. But what Republicans are not telling us is that they offer the wealthiest Americans a tax cut of \$123 billion but fail to provide working families a decent wage. Under the Republican proposal, minimum wage workers would have to wait 3 years to receive a mere dollar increase in their wages.

Tell the woman working 40 hours a week, breaking her back pressing garments or cleaning hotel rooms, that she has to wait 3 years to get a dollar increase in her wage while the wealthiest Americans are getting a \$123 billion tax cut.

Tell a father, laboring all day in the field or in a factory, facing the indignity of a poverty-level wage, that he has to wait 3 years to get a dollar increase in pay while the wealthy are getting a \$123 billion tax cut.

Tell a single mom, who leaves her child in the care of strangers, with no idea about the quality of care they receive while she waits on tables, that she has to wait 3 years for a dollar in-

crease in her wages while the wealthy are getting a \$123 billion tax cut.

We Democrats are not willing to tell those people who get up every day, work hard, play by the rules and at the end of the week find themselves in such circumstances that they must wait.

Rather than proposing a timely increase in their wages, our Republican colleagues have opted to sacrifice these families in the name of tax cuts for the wealthy. This is a lose-lose scenario for minimum-wage workers.

First, the Republican proposal jeopardizes their ability to provide for their children and denies them basic health and retirement security, and then Republicans propose an excessive tax cut for the wealthy that will jeopardize Medicare and Social Security.

We must prevent this double jeopardy for working families.

The SPEAKER pro tempore (Mr. PEASE). Without objection, the gentleman from Illinois (Mr. WELLER) will control the time of the gentleman from Ohio (Mr. PORTMAN).

There was no objection.

Mr. WELLER. Mr. Speaker, I yield myself 4 minutes.

Mr. Speaker, I rise in support of increasing the minimum wage by a dollar. I also rise in support of helping small business and low-wage workers save for their retirement. This is a good package of legislation, raising the minimum wage and helping small employers and little guys and gals who work.

We give 100 percent deductibility for the self-employed, to make health insurance more affordable and increase access to health care. We expand the low-income housing tax credit, a public-private partnership to help provide affordable housing for low-income working families. We increase the meal deduction, which helps truck drivers and traveling salesmen who have to travel for their work. And we also expand pension opportunities, which particularly benefit working women, and that is one of our goals.

But, my colleagues, I wanted to talk about one particular provision in this legislation, and it is legislation that works towards the goals of this Congress, to make our Tax Code more fair, particularly for working Americans. This is an issue that has been brought to my attention usually by a spouse of a construction worker, someone who has seen their spouse get up early in the morning for the last 30 years, go out and work, come home dead tired from back-breaking construction labor. These are folks who work hard, get callouses on their hands, get their hands dirty, but they work hard.

This legislation addresses a fairness issue for the building trades, dealing with the section 415 pension limitations. Those are limitations on multi-employer pension funds usually managed by a building trade union, like the operating engineers or the laborers or the electricians, even maritime unions. It is important legislation because

what this legislation does is it gives those construction workers and those maritime workers the pension benefits they were promised and deserve. Currently we have limits in section 415 of the pension code that prevent them from getting what they were promised. In fact, no matter how many hours they work, no matter how many hours they put in each day, whether they have overtime and what is contributed, there is a cap. And, unfortunately, that cap is not fair.

And I want to thank the chairman of the Committee on Ways and Means, the gentleman from Texas (Mr. ARCHER), for including this important provision, which helps 10 million working Americans. When I think of the section 415 issue I think of the working couple that first brought it to my attention, Lori and Larry Kohr from Peru, Illinois. Larry's a retired laborer, and he recently told me, when he retired, that his benefit should have been just a little under \$40,000 a year in pension benefits from his laborer's pension fund, or about \$3,300 a month. But he was shocked to learn that once he retired he only got about half of it because of that 415 pension limitation.

My colleagues, this is a fairness issue. These individuals have worked hard. For people like Lori and Larry Kohr, where Larry Kohr should be getting about \$3,300 a month, Larry Kohr, like 10 million other construction workers, is seeing only about half what he should get. This Republican Congress is working to bring fairness so that these kind of construction workers, as well as maritime workers, get their full pension benefits. Right now they only get about half. We want to give them the full amount.

That is the goal of this legislation. That is why I urge my colleagues to support H.R. 3081, to fix the 415 pension limitations, to help couples like Lori and Larry Kohr of Peru, Illinois, to make our Tax Code more fair. Let us vote "aye" to help the self-employed make health insurance more affordable, with 100 percent deductibility; let us help the poor find affordable housing by expanding the low-income housing tax credit; and let us expand pension opportunities, particularly to help working women; and let us help those traveling salespeople and truck drivers who are forced to be on the road to work; and let us lift that 415 pension cap.

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

Mr. RANGEL. Mr. Speaker, I yield 3 minutes to the gentleman from Hawaii (Mr. ABERCROMBIE).

Mr. ABERCROMBIE. Mr. Speaker, I realize that not all of our colleagues are on the floor at the moment, but for those who are paying attention to this discussion here today, how is it possible for us to make any progress in this at all if we are going to sit here and talk about let us help. The gentleman who spoke previously knows perfectly well that the 415 provision he is talking about is in both bills.

This is not a Republican issue or a Democratic issue, and it has been made that way. If those of us who are genuinely interested in the minimum wage, and in tax breaks for businesses that deserve it with respect to the minimum wage, had been allowed to carry on our negotiations, Republicans and Democrats alike, we would have that legislation on this floor and we would not have this agonizing session that we are having today. The reason that we are not here today on a bill that Republicans and Democrats can get together on is because the Republican leadership has said they do not want that to happen.

How can we turn the poorest of the poor into an issue that we then utilize to try to hurt them because we think it is going to benefit us somehow? I appeal to my Republican colleagues and to those Democrats who may be concerned about it in terms of small business implications. We have crafted a bill which is essentially the Republican-Democratic compromise that we wanted in the first place. It is not our fault; it is not the fault of the gentleman from New York (Mr. RANGEL) that that is appearing as "the Democratic substitute."

I wish it would say just the substitute on this issue, because Republicans and Democrats can support it and take credit. The Democrats will say, hey, yes, we were for the minimum wage; but we were not hurting small business. We are actually benefiting small business with targeted tax credits for small business. That was not something I dreamed up as a Democrat. There is no such thing as a business meal entertainment deduction for Republicans and a spousal travel deduction for Democrats. It helps everybody connected with the travel industry, with the tourism industry, for those who want to take people off welfare and put them to work. That is Republicans and Democrats.

My plea to my colleagues, Mr. Speaker, is to pass the so-called Democratic substitute because it is really the congressional substitute, to see to it that small businesses and those directly affected by the minimum wage will have the benefit of it. Please take this off the ideological lines. Mr. Bush and Mr. Gore are going to beat each other up for 7 months and 27 days after today.

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The poor people in this country who deserve the tax break, the small business people who deserve the benefit of the minimum wage combination of tax incentives and a minimum wage raise will be the beneficiaries and we can all take credit.

My bottom line plea to you, Mr. Speaker, and to my colleagues, Republicans and Democrats alike, let us put this together, a minimum wage increase and a small business tax incentive that makes some sense, that blends together. We can all claim credit for it. We can all come out of this in-

stitution today feeling that we have accomplished something not as Democrats or Republicans but as Americans who are concerned about other Americans.

The SPEAKER pro tempore (Mr. PEASE). Without objection, the gentleman from Ohio (Mr. PORTMAN) will reclaim control of his time.

There was no objection.

Mr. PORTMAN. Mr. Speaker, I yield myself 30 seconds.

Mr. Speaker, I certainly agree with my colleague the gentleman from Hawaii (Mr. ABERCROMBIE) that we need to work together on these proposals. I would just suggest to him that many of the proposals that he talked about, the 415 changes from multi-employer plans that are so important to unions, the health care insurance for those who are self-employed, the provisions in here for community renewal I certainly think should be bipartisan. The pension provisions have been bipartisan from the start. We have 80 Democrat cosponsors and 80 Republican cosponsors. I think this is sort of America's bill. There are people who think the Democrat bill does not do that.

The Small Business Survival Committee has written us a letter saying that the Democrat alternative is a de facto tax increase on small businesses. We can talk more about that later.

Mr. Speaker, I yield 3 minutes to the distinguished gentleman from New York (Mrs. KELLY).

Mrs. KELLY. Mr. Speaker, I rise for the purpose of entering into a colloquy with my friend the gentleman from Ohio (Mr. PORTMAN).

Mr. Speaker, I am grateful for the hard work my colleagues on the Committee on Ways and Means have done in putting together a strong package of tax relief for America's small businesses.

Unfortunately, I have been contacted by constituents concerned about potential interpretations of sections 235, 241 and 281 of H.R. 3081. They fear these could negatively affect pension benefits.

I have written the distinguished gentleman from Texas (Mr. ARCHER) and the distinguished gentleman from Ohio (Mr. BOEHNER) detailing these concerns, which I will insert into the RECORD.

Over the past months, I appreciate the time the gentleman from Ohio and all the members of the committee concerned with pension issues have spent as we have worked to ensure that these concerns are properly addressed.

Mr. Speaker, I would like to get assurances from the gentleman from Ohio (Mr. PORTMAN) that these sections that I have mentioned are not intended to harm participants.

It is my understanding that these provisions are not intended to be interpreted in such a way as to reduce pension benefits, discourage companies from increasing pension benefits, or allow for violations of the Tax Code.

So I ask my friend from the State of Ohio (Mr. PORTMAN) is my understanding correct?

Mr. PORTMAN. Mr. Speaker, will the gentleman yield?

Mrs. KELLY. I yield to the gentleman from Ohio.

Mr. PORTMAN. Mr. Speaker, I thank the gentleman from New York (Mrs. KELLY) for yielding.

Mr. Speaker, I would say absolutely that her understanding is correct. In fact, just the opposite is intended by these provisions and will be the effect of these provisions, which is to say that they will expand pension coverage for American workers.

Mrs. KELLY. Mr. Speaker, reclaiming my time, I thank the gentleman very much for his comments. I really appreciate his assurances and his continuing efforts on this legislation.

With these efforts, we can assure concerned individuals that pensions are enhanced and protected by this legislation. We have the opportunity to level the playing field for small businesses today with this legislation that provides, among other things, millions of entrepreneurs with 100-percent health insurance deductibility next year and increases the business meal deduction to 60 percent.

Most importantly, the bill repeals the unfair installment sales tax that has already impacted small businesses by drastically reducing their value and blocking their sale.

I look forward to voting in favor of this important legislation today, and I urge all of my colleagues to join me in strong support.

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

Mr. Speaker, my friend, the gentleman from Ohio (Mr. PORTMAN) just got finished talking about the degree of bipartisanship that went into this bill; and if he is talking about his willingness to work with Democrats in order to reach bipartisanship, nobody in this House works harder than he does in order to accomplish that end.

But my friend knows that, as relates to this particular bill, that his colleagues on the other side of the aisle put tax cuts on top of tax cuts on top of tax cuts until they were convinced that the President of the United States would veto this bill.

This has nothing to do with the degree of cooperation that the gentleman from Ohio (Mr. PORTMAN) has given to us in the Committee on Ways and Means over the years. But that small bit of bipartisanship that is displayed in this bill is overwhelmingly knocked out by the degree of partisanship to make this bill be vetoed.

I look forward to the day that we will not be talking about one part of a bill but that we will be talking about an entire bill as we work together, Republicans and Democrats, not for our parties but for our Congress and for our country.

Mr. Speaker, I yield 2 minutes to the gentleman from Maine (Mr. ALLEN).

Mr. ALLEN. Mr. Speaker, I thank the gentleman for yielding me the time.

Mr. Speaker, we need to reject this Republican tax plan. Despite its title, this is no small business tax cut. Moreover, this proposal would cut taxes before we even have the outlines of a budget resolution.

In reality with this bill, the top one percent of taxpayers will get an average tax cut of \$6,000 and the top one percent of taxpayers of those earning over \$319,000 a year. The lower 60 percent get an average of \$4 each, \$4, not even enough to buy a movie ticket. For 60 percent of the public, this is no tax cut at all.

Now, we are used to seeing Republican tax plans that favor the wealthy, but this one has to set a record. Seventy-three percent of the benefits go to the wealthiest one percent in this country.

Moreover, this bill is premature. We have not passed a budget resolution, but the Republicans are coming in with yet another huge tax cut. We have done nothing in this House to secure the solvency of Social Security, nothing to protect the future of Medicare, nothing to provide prescription drug coverage for seniors, and nothing to pay down the national debt.

This bill jeopardizes our ability to achieve any of these goals. We should reject this misleading, irresponsible Republican tax plan. And I have to say, simple fairness would require that we be given a chance to vote on the Rangel alternative Democratic plan, which was a real small business tax cut and which would not disrupt our ability to achieve other important national priorities.

Mr. PORTMAN. Mr. Speaker, I yield 2 minutes to the gentleman from Illinois (Mr. MANZULLO).

Mr. MANZULLO. Mr. Speaker, as chairman of the Subcommittee on Tax, Finance and Exports of the Small Business Committee, this bill is the bare minimum we should do to help small businesses prosper. We must remember that our economy thrives and unemployment is low primarily because of small businesses.

I want to commend the gentleman from Texas (Chairman ARCHER) for quickly resolving the installment sales issue. Without this reform, thousands of small business owners will have seen their lifetime of investment and hard work erode all because the Federal Government wants to collect taxes early.

This legislation also addresses many of the unresolved priorities still left over from the 1995 White House Conference on Small Business. The number two issue at that conference was full deduction of meals expense. This bill increases the meals deduction to 60 percent. More importantly, it provides relief for our truckers by allowing them to deduct 80 percent of their meals expense.

The number four issue at the conference was estate, or death tax, relief. This bill provides meaningful death tax reform. This will help small businesses

pass their businesses on to the children.

The number five issue for the conference was health care reform. This bill provides immediate 100 percent deductibility of health insurance for the self-employed.

Finally, the number seven issue at the White House Conference on Small Business was pension reform. The bill contains many of the bipartisan reforms championed by the gentleman from Ohio (Mr. PORTMAN) and the gentleman from Maryland (Mr. CARDIN). The legislation is another in a series of tax relief bills by the Republicans.

Contrast this to the President's budget, where he proposes 106 separate tax increases totaling \$181 billion. I will not support the increase of the minimum wage, which is tampering with the free enterprise system. But to offset that, Mr. Speaker, let us help the small businesses by having a very modest tax cut.

Mr. RANGEL. Mr. Speaker, I yield 2 minutes to the gentleman from Texas (Ms. JACKSON-LEE).

Ms. JACKSON-LEE of Texas. Mr. Speaker, I thank the ranking member for his kindness.

Mr. Speaker, I hope that my staff accepts my apology for discarding the comments that have been prepared for me and allow me to speak from the heart. Though, when we begin to speak about tax issues, one would think that our focus should be basically on the analytical numbers. But this is an issue of the heart.

My hometown newspaper accounts for what we do up here every week and gives a recording of how we voted. Sometimes they do an excellent job, many times, but I take issue sometimes because they do not account for some of the very good legislative initiatives that are in fact alternatives or substitutes.

Today I rise to support the substitute for the minimum wage, because it is from the heart that I speak. Today I also rise to support the Democratic alternative to give small businesses a real tax cut. And the reason, Mr. Speaker, is because Americans want us to do business here. They do not want us to make political havoc.

Believe it or not, the Republican legislation does nothing to help small businesses with respect to tax cuts because it does not help the lowest of those at 2.5 million, but really this tax cut is for those whose net is \$30 million.

I support tax cuts for small businesses, and I go on record today supporting the alternative that the Democrats have offered that will provide estate tax relief for family farms and small businesses, give small businesses a greater tax increase. And, yes, I support the alternative for an increase in the minimum wage, Mr. Speaker. Because I asked a sixth grader today whether \$5 was any money. It is not. And that is what the minimum wage is right now, \$5.15.

The Democratic alternative will give us 50 cents for 2 years, which means a dollar to \$6.15. Can we do any less for a woman who works, has four children, and has a disabled husband?

Today I speak to the heart. Let us not play to the politics of this. Let us vote for real tax relief for small business and let us provide those with an income who need minimum wage.

I would say, Mr. Speaker, let us not support bills that will be vetoed by the President of the United States.

Mr. PORTMAN. Mr. Speaker, I yield 3½ minutes to the gentleman from Arizona (Mr. HAYWORTH) a member of the Committee on Ways and Means.

Mr. HAYWORTH. Mr. Speaker, I thank my colleague from Ohio for yielding me the time.

Mr. Speaker, let us speak from the heart. Let us engage in this debate. With the American people watching, Mr. Speaker, let us take a look at who benefits from tax reductions.

It is sad to hear my friends on the left reminiscent of that scene in motion pictures. "No tax relief, not for nobody, not for no how, not for no reason" seems to be the canard of the day.

Who do they think is helped by reducing the death tax? It is the family farmer. It is the small business person in rural communities throughout Arizona and throughout America. Because time after time we have seen it.

Gene Stenson, for example. His dad founded a railroad track manufacturing company down in Florida in 1967. But after his dad's death in 1976, the Stensons had to shut down a facility not in Florida but in North Carolina, laying off two-thirds of their 110 employees to pay the death tax.

Is that compassion? Is that a tax cut only for the wealthy? No. It exposes the canard of the left and their philosophy that was bent on bankrupting this country with deficit budget after deficit budget. Now that we are putting our House in order for Main Street and Wall Street, Mr. Speaker, we want to put it in order for every street.

Is it not compassionate to offer 100 percent health insurance deductibility for the self-employed? Of course it is compassionate. Again, we heard from my friend the gentleman from Maine (Mr. ALLEN) just a few minutes ago, saying, oh, listen, we need to get to work on these vital issues.

I hear from my friends on the left how important it is to have health insurance coverage. This is a major step forward. Time and again I hear from my constituents, why can we not enjoy what major corporations enjoy, 100 percent deductibility of health insurance?

This tax relief is offered. The community renewal portion of this tax relief legislation is something that is bipartisan in nature. It helps America's most low-income areas. Family development accounts help the working poor save for lifetime needs. The working poor, the family with two children earning just a little bit over \$12,000. Nineteen million Americans qualified

for the EIC in 1999, low-income housing tax credit.

1700

Pension reform that my colleague from Ohio has worked on, that the ranking member talked about being so important in a bipartisan fashion, the portability to take your benefits in your personal retirement and move them from job to job.

Mr. Speaker, we have a fundamental choice here. We can embrace the canards and the class warfare of the left to have issues to squabble about in the campaign, or we can embrace common sense tax relief, pension reform, health insurance deductibility for all Americans. That is the true measure of compassion, not the subjugation to the lowest rung of the economic ladder but the empowerment of all Americans. That is what we will do with this legislation.

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

The senior Senator from Arizona would be proud of the gentleman that represents the 6th Congressional District of Arizona as related to 100 percent deductibility of health insurance because that is in the Democratic bill and in the Republican bill and so many other things he speaks well of; but he would be sorely disappointed that you would just ignore the needs for Social Security and Medicare as you go on and take 75 percent of that amount, of the \$122 billion tax bill, and make certain that those who are the wealthiest benefit most. You did a fantastic job up until Tuesday, and I hate to see you losing those principles now.

Mr. Speaker, I yield 2 minutes to the gentleman from Vermont (Mr. SANDERS).

Mr. SANDERS. I thank the gentleman for yielding me this time.

Mr. Speaker, I rise in strong opposition to this Republican legislation and to all the proposals that the Republican Party is offering today. In fact, what they are offering is not only absurd but it is an insult to American working people. They are proposing a paltry increase in the minimum wage of \$1 over 3 years, and at the same time they are proposing a huge tax break for the richest people in this country.

Millions of low wage-workers are working 40 or 50 hours a week struggling to keep their heads above water. In terms of the purchasing power of the minimum wage, it is lower today than it was 20 years ago. And in hearing this cry of working people, the Republicans are proposing a 33-cent-an-hour increase in the minimum wage. But at the same time they are proposing a gigantic tax break for the people who do not need it, the people who are making over \$300,000 a year. And 75 percent of their tax proposal goes to those people.

To add insult to injury, in my State of Vermont where the legislature had the decency to raise the minimum wage to at least \$5.75 an hour, the Republican proposal will mean nothing

for the next 2 years. And Vermont is not alone. Many other States have moved to raise the minimum wage. So right now, at a time when this country has the greatest gap between the rich and the poor of any industrialized nation, where we have the richest 1 percent owning more wealth than the bottom 95 percent, where we have millions of workers working longer hours for lower wages than was the case 20 years ago, what the Republicans are saying is, that is not bad enough, let us make it worse.

Let us reject this proposal.

Mr. Speaker, I rise in strong opposition to H.R. 3832. This bill is being touted as a package of tax provisions designed to offset the impacts of an increase in the minimum wage on small business. Yet some of the pension provisions included in the bill don't have a single thing to do with small business tax relief and are simply new tax breaks that mostly accrue to the wealthiest Americans.

The pension provisions in this legislation will not increase pension coverage for millions of Americans that currently lack it, and may even reduce coverage for lower and middle-income employees according to the Center on Budget and Policy Priorities.

According to the non-partisan Institute for Taxation and Economic Policy:

The 20 percent of individuals with the highest incomes would receive 96.5 percent of the new pension tax breaks.

By contrast, the bottom 60 percent of the population would receive less than one percent of the benefits of the new pension provisions.

Last November, Treasury Secretary Summers and Labor Secretary Herman, criticized these pension provisions, saying that they "could lead to reductions in retirement benefits for moderate and lower-income workers."

Mr. Speaker, if the Congress is really concerned about protecting the pensions of American workers it should quickly address the cash balance pension rip off scheme being implemented by hundreds of large corporations all over this country. In fact if this Congress is really concerned about protecting the pensions of American workers it should pass H.R. 2902, the Pension Benefits Preservation and Protection Act, legislation that I authored and that now has a total of 80 co-sponsors.

Mr. Speaker, all across this country, American workers are deeply concerned about the status of their pension plans. That concern is well founded. Since 1985, despite large profits and growing surpluses in their pension funds, twenty percent of Fortune 500 companies and over 300 companies in all have slashed the retirement benefits that they promised their employees. Many more companies are contemplating similar action. Not only is this trend outrageous, it is also illegal under current law. Cash balance schemes violate age discrimination laws because they cut the accrual rate of pension benefits as a worker gets older. Workers should not have their pension benefits reduced just because of their age.

Frankly, it is simply unacceptable that during a time of record breaking corporate profits, huge pension fund surpluses, massive compensation for CEOs (including very generous retirement benefits), that corporate America renege on the commitments that they have made to workers by slashing their pensions.

Just last month I authored comments to the Internal Revenue Service stating that these cash balance schemes violate the pension age discrimination laws. 59 other Members of Congress joined me in signing on to these IRS comments. These comments detail how corporations are stealing the benefits of their most loyal and experienced workers.

Consider this: if a company reduced pension benefits based on race, or religion, or gender, the federal government would be sure to take appropriate action against the company. But, when it comes to enforcing the pension age discrimination laws, the federal government has clearly been asleep at the wheel. Fortunately, some of us in Congress are beginning to wake them up.

Corporations currently receive over \$80 billion a year in federal government subsidies through the tax code. American taxpayers have a right to expect that corporations who take advantage of this special tax treatment will not blatantly violate the law.

Yet, hundreds of corporations throughout the country from IBM to AT&T are doing just that by converting their traditional defined benefit pension plans to these cash balance schemes.

Cash balance schemes are nothing but a replay of the corporate pension raids we experienced during the 1980's. While these companies claim that they are converting to cash balance plans to attract younger workers into their workforce, the fact of the matter is that cash balance plans are intentional attempts to slash the pension benefits of older workers.

The reason why large corporations are targeting their older workers' pensions is easy to understand. Millions and millions of Americans in the so-called "baby boom" generation are rapidly approaching retirement age. Companies that reduce the pensions of older workers will thus realize tremendous cost savings when these people retire.

Companies claim that they are converting to cash balance schemes to attract a younger, more mobile workforce. But, worker mobility is not the rationale for converting to a cash balance plan, money is. As 11,000 people a day turn 50, which cash balance promoter Watson Wyatt claims will turn us into a "Nation of Floridas," employers are looking for any way possible to reduce older workers' promised benefits. This is outrageous.

But, what is even more outrageous is that they are not being honest to the employees whose pensions they are slashing. As Joseph Edmunds stated at a 1987 Conference of Consulting Actuaries, "It is easy to install a cash balance plan in place of a traditional defined benefit plan and cover up cutbacks in future benefits."

Despite the protestations of cash balance promoters, cash balance schemes are implemented to unlawfully cut the benefits of older employees and to disguise those cuts by implementing a plan that makes it virtually impossible for employees to make an "apples to apples" comparison of their benefits under the old and new plans.

Not only does the federal government need to enforce the laws that are on the books, Congress also must pass meaningful pension protections right now. That is why I introduced H.R. 2902. This legislation would primarily do three things:

First, it would send a directive to the Secretary of Treasury to enforce the laws that are already on the books;

Second, it would provide a safe harbor making cash balance plans legal only if employees are given the choice to remain in their old pension plan with detailed disclosure; and

Third, it would provide a major disincentive for companies to slash the future pension benefits of employees.

Mr. Speaker, H.R. 2902 would provide meaningful pension protection to millions of Americans, unlike the current bill being considered right now. My legislation is being supported by the Pension Rights Center, the National Council of Senior Citizens, the Communications Workers of America, the IBM Employees Benefits Action Coalition, and several other groups. I urge my colleagues to defeat H.R. 3832, and work with me to pass real pension protection.

I include my letter to the IRS signed by 50 other Members, as follows:

CONGRESS OF THE UNITED STATES,  
HOUSE OF REPRESENTATIVES,  
Washington, DC.

DEPARTMENT OF TREASURY,  
Internal Revenue Service, Ben Franklin Station  
Washington, DC.

Attn: CC:DOM:CORP:R (Cash Balance Plans  
and Conversions).

We, the undersigned Members of Congress, are pleased to respond to your request for comments on cash balance pension plans. (64 Fed. Reg. 56578.)

#### INTRODUCTION

We commend the Internal Revenue Service and Department of Treasury for the decision to further evaluate your position on the conversion of traditional defined benefit pension plans to so-called "cash balance" pension plans, and for soliciting public comments on this matter. Although such conversions have been occurring for many years, increased understanding of these conversions has raised serious questions, particularly whether they violate federal anti-age discrimination statutes.<sup>1</sup>

Prior to the recent, and growing, scrutiny of cash balance conversions by employees, Members of Congress, and some actuaries, the complexity of these plans have made it understandably difficult for the cognizant federal agencies to fairly evaluate the age discriminatory effect of these plans. In this instance, the problem has been exacerbated by what—in the most generous terms—can be described as an almost complete lack of candor on the part of many proponents of cash balance conversions in communications with their employees and the media.<sup>2</sup>

Numerous respected national journals have played a critical role in bringing to light not only the age discriminatory impact of these conversions but also the clear age discriminatory intent of at least some cash balance backers. Given the large volume of new information and concern about cash balance plan conversions, we urge the Department of Treasury, IRS, and all other cognizant federal agencies to thoroughly reexamine the existing legal requirements for defined benefit pension plans and the extent to which cash balance conversions fail to comply therewith. Workers and members of Congress do not have access to the full documentation related to these conversions on an individualized basis, making it critical that the key government oversight agencies use their access to plan documents to fully examine and understand the nature and effect of these conversions. We urge all of the involved agencies to act quickly within their respective regulatory authority to remedy the significant legal irregularities that appear to

permeate these conversions, and if it is concluded that the agencies do not have sufficient authority, to propose legislation to Congress to address any outstanding legal issues.

The comments that follow address the following topics:

(1) Cash balance conversions are often intentional attempts to cut the pension benefits of older employees and increase the operating income of employers.

(2) Cash balance plans are defined benefit plans, not defined contribution plans.

(3) Cash balance plans fail to meet the requirements for defined benefit plans and violate federal anti-age discrimination statutes.

(4) The "wear-away" feature of many cash balance conversions violate federal anti-age discrimination statutes.

(5) Cash balance conversions should therefore be disqualified under existing law.

(6) A safe harbor should be established allowing cash balance plans to meet existing legal requirements only if all employees are allowed to choose which pension plan works best for them with detailed disclosure.

Throughout your consideration of cash balance conversions, we ask the IRS and the Department of the Treasury to bear in mind, that while the United States has a "voluntary" pension system, that system is, and should be, subject to rigorous statutory and regulatory oversight. This voluntary pension system receives over \$80 billion a year in federal government subsidies through, inter alia, the tax code. It will always be the case that corporations will favor public subsidies without any governmental oversight. However, the taxpayers have a right to expect that corporations who take advantage of this special tax treatment will adhere to requirements of the law, including federal age discrimination statutes. Given the substantial sums of money in corporate pension plans, experience has repeatedly shown that, without governmental vigilance, corporations will attempt to manipulate their pension plans at the expense of their employees. Cash balance conversions are just the latest vehicle to accomplish that goal. In this case, federal age discrimination statutes provide the IRS and other federal agencies with the means to stop these schemes, which are intentional efforts to wring savings from the pensions of older employees.

(1) Cash balance conversions are often intentional attempts to cut the pension benefits of older employees and increase the operating income of employers.

Cash balance plans are a relatively recent innovation. The first cash balance plan was implemented in 1984, according to the consulting firm Watson Wyatt Worldwide.<sup>3</sup> Almost universally, companies implementing a cash balance plan are converting from some other type of defined benefit plan.<sup>4</sup> To date, 22% of the Fortune 100 companies have converted to some sort of hybrid pension plan, over 70% of which are cash balance plans.<sup>5</sup> It is estimated that 20% of those in the Fortune 500 have converted to a cash balance plan.<sup>6</sup>

Cash balance promoters explain the popularity of cash balance conversions by arguing that cash balance plans provide employers with a competitive advantage because these plans better suit the desires of an increasingly mobile workforce.<sup>7</sup> Promoters have also stated that cash balance plans are easier for employees to understand because the benefit is expressed in terms of a lump sum dollar amount as opposed to a monthly benefit under a traditional defined benefit plan.<sup>8</sup> These rationales for cash balance conversions are frequently pretextual.

In truth, a significant reason that corporations convert to a cash balance plan is to cut the pension benefits of older workers—workers who comprise a larger and larger percent-

age of the workforce.<sup>9</sup> That cash balance plans reduce the accrual rate for older workers is not a well-kept secret. Kyle N. Brown, a retirement and pension lawyer with Watson Wyatt Worldwide said to a Society of Actuaries Conference in October of 1998: "The economic value that is accrued, is different in hybrid plans than it is for traditional plans. In essence, that is part of the reason why you want to put these plans in. You know you are trying to get a different pattern of accrual. Well, what that means is that for your older, longer service workers, that their rate of accrual is going to go down. There is going to be a reduction in their rate of accrual."

The reason why large corporations are targeting their older workers' pensions is easy to understand. Millions and millions of Americans in the so-called "baby boomer" generation are rapidly approaching retirement age. In Watson Wyatt's July 1998 edition of its Insider newsletter, the aging of the U.S. labor market is carefully detailed.<sup>10</sup> As the newsletter demonstrates, the number of workers in the 55-64 age category is expected to grow by 54% in the decade from 1996 to 2006.<sup>11</sup> Companies that target the pensions of older workers will thus realize tremendous cost savings when these people retire.

In addition, Watson Wyatt's Insider dispels one of the other myths advanced by cash balance proponents, namely, that these plans are a response to an increasingly mobile American workforce: "Contrary to popular belief, Americans are not changing jobs faster than ever before. According to an in-depth study of employment records by Watson Wyatt, as baby boomers are driving up the average age of the workforce, job mobility is decreasing."<sup>12</sup>

Cash balance plans are thus not a response to a more mobile work force. In fact, as Watson Wyatt admits, the percentage of workers staying at a single employer for 10 years has risen in the last ten years, as has the percentage staying with the same company for 20 years.<sup>13</sup>

Worker mobility is not the rationale for converting to a cash balance plan, money is. As 11,000 people a day turn 50, which Watson Wyatt posits will turn us into a "Nation of Floridas," employers need to find ways to retain them. Instead of creating incentives to retain older workers, companies have turned to cash balance plans, which make it much more likely that older workers will have to delay retirement.<sup>14</sup> Employers who convert to a cash balance plan thus see a two-fold benefit. Companies retain older workers who can no longer afford to retire and the benefits the employees do receive at retirement will be significantly lower.

Just as with the worker mobility argument, cash balance promoters are disingenuous when they argue that the "lump sum" feature of cash balance plans are easier for employees to understand. To the contrary, cash balance proponents have argued in favor of these plans because they make it more difficult for employees to understand that their benefits are being reduced.<sup>15</sup>

Again, cash balance promoters have been very open amongst themselves about the ability of these plans to mask benefit cuts. In a July 27, 1989 letter from Kwasha Lipton to Onan Corporation, the consultant notes, "One feature which might come in handy is that it is difficult for employees to compare prior pension benefits formulas to the cash balance approach."

Similarly, Joseph Edmunds stated at a 1987 Conference of Consulting Actuaries, "[I]t is easy to install a cash balance plan in place of a traditional defined benefit plan and cover up cutbacks in future benefits."

Likewise, William Torrie of PriceWaterhouseCoopers at the October 18-

Footnotes at end of letter.

23, 1998 Society of Actuaries meeting said, "[C]onverting to a cash balance plan does have an advantage of it masks a lot of the changes. . . ."

In addition, current accounting rules actually encourage the practice of reducing pension benefits. Due to Financial Accounting Standard (FAS) 87, companies are able to report pension assets as operating income. By listing pension assets as operating income, companies can increase their bottom line by cutting the pension benefits of their workforce, which is exactly what is happening today.<sup>16</sup> This is wrong, and must be put to an end immediately.

We understand that the intended purpose of FAS 87 was to require the disclosure of pension liabilities. While transparency regarding an employer's pension situation—both as to liabilities and surpluses—would appear to be proper, clearly pension assets are not operating income.<sup>17</sup> And allowing them to be characterized as such creates two perverse incentives. First, it encourages employers to reduce pension benefits in order to create large pension surpluses. Second, it distorts the financial health of the company, making investors believe the company is more profitable than it actually is. Surplus pension assets should be used for cost of living increases for pensioned retirees, and other retirement benefits. Unfortunately, that is not happening today.<sup>18</sup> We believe that FAS 87 should be changed to require employers to list net pension cost as investment income instead of operating income.<sup>19</sup>

In summary, despite the protestations of cash balance promoters, these conversions are implemented to unlawfully cut the benefits of older employees and to disguise those cuts by implementing a plan that makes it virtually impossible for employees to make an "apples to apples" comparison of their benefits under the old and new plans.<sup>20</sup> We ask that the Treasury Department, the IRS, and other federal agencies keep the admissions of cash balance promoters in mind when evaluating cash balance plans' compliance with federal age discrimination statutes.<sup>21</sup>

(2) Cash balance plans are defined benefit plans, not defined contribution plans.

Although there seems to be little dispute that cash balance plans are defined benefit plans and not defined contribution plans, we address it briefly.<sup>22</sup> ERISA and the Code recognize only two types of pension plans: defined benefit and defined contribution plans. In the most basic terms, the distinction between the two is who bears the risk of investment gains and losses. In defined benefit plans, the employer bears the risk and in defined contribution plans, it is the participant. ERISA defines a defined contribution or individual account plan as, "[A] pension plan which provides for an individual account for each participant and for benefits based solely on the amount contributed to the participant's account, and any income, expenses, gains, and losses, and any forfeitures of accounts of other participants which may be allocated to such participant's account."<sup>23</sup>

A defined benefit plan is any other pension plan which is not a defined contribution plan.<sup>24</sup>

Cash balance pension plans are not defined contribution plans because they are employer-funded and participants do not bear the risk (nor reap the benefits) of investment gains and losses. Nor, despite the fact that participants are presented with hypothetical "cash balances" do they have segregated accounts.

Employer cash balance contributions are typically comprised of two components: a pay credit and an interest credit. The pay credit is generally a fixed rate of an employ-

ee's salary. The interest credit is designed to mimic defined contribution plans by providing a hypothetical investment return, usually calculated as a fixed interest rate or tied to an index such as the yield on 30-year U.S. Treasury Bonds. Because this interest credit is calculated based on the difference between an employee's age and normal retirement age, the amount of this interest credit relative to the pay credit decreases as the employee ages.

(3) Cash balance plans fail to meet the requirements for defined benefit plans and violate federal anti-age discrimination statutes.

Because cash balance plans are defined benefit plans, they must comply with the letter of the relevant provisions of ERISA, the Internal Revenue Code and the ADEA. All three legal regimes provide that the rate of pension benefit accruals not be reduced based on the employee's age.<sup>25</sup> Cash balance pension conversions violate these provisions because the rate of benefit accrual is reduced and is reduced because of the employee's age. This problem is exacerbated by plan provisions commonly referred to as "wear away," which prevents older workers from earning new benefits under the new plan until they exceed those that the employee accrued under the former plan.

As the IRS is aware, the Code and ERISA contains a detailed set of standards with which defined benefit plans must comply. Those standards include rules for reporting and disclosure, participation and vesting, funding, fiduciary responsibility, and administration and enforcement. The benefit accrual requirements, which are contained in the participation and vesting requirements, are fundamental and critical protections to ensure that pension plan participants fairly accrue and receive benefits under their pension plans. The benefit accrual rules are an important assurance that participants are treated fairly and that the plan sponsor does not design the plan to benefit only certain types of workers.

Under section 204(b)(1)(G) of ERISA, defined benefit plans are not in compliance with the law ". . . if the participant's accrued benefit is reduced on account of an increase in his age or service." Furthermore, under ERISA §204(b)(1)(H)(i) and Code §411(b)(1)(H)(i) and ADEA §4(i)(1)(A), a defined benefit shall not be treated as in compliance ". . . if, under the plan, an employee's benefit accrual is ceased, or the rate of an employee's benefit accrual is reduced, because of the attainment of any age."

In addition, one of the key elements of a defined benefit plan is that it promises and provides benefits in the form of an annuity, a monthly or regular stream of payments at retirement. ERISA §3(23) expressly requires that defined benefit plans determine an individual's accrued benefit ". . . expressed in the form of an annual benefit commencing at normal retirement age." And, Code §411(a)(7), for purposes of section 411 vesting and accrual rules, defines "accrued benefit" in the case of a defined benefit plan as "the employee's accrued benefit determined under the plan and, except as provided in subsection 9(c)(3), expressed in the form of an annual benefit commencing at normal retirement age." We firmly believe that the age-neutrality of benefit accruals must be assessed based upon a normal retirement age annuity and not on the basis of cash balance plan "hypothetical accounts" which have no legal status under current law.

Based upon these requirements, cash balance conversions are in violation of ERISA, the Internal Revenue Code and ADEA. By definition, older participants accrue benefits at a lesser rate because they have a shorter period of time to earn interest than younger workers do. Under a cash balance scheme,

the interest credit is tied directly to the employee's age.

As Lee Sheppard observed in her January 11, 1999 article in *Tax Notes Today* (emphasis added), "Whether a cash balance plan would satisfy the proposed [IRS] regulation depends on the definition of 'rate of accrual.' If rate of accrual is defined by projecting the participant's benefit to an annual benefit beginning at normal retirement age, then cash balance plans flunk, because the size of the participant's actuarially determined benefit is purely a function of his or her age. Indeed, it is impossible to estimate a cash balance plan participant's pension benefit without knowing his or her age."

Professor Edward Zelinsky of the Benjamin N. Cardozo School of Law came to the same conclusion in his October 1999 paper, entitled, "The Cash Balance Controversy" (emphasis added), "As a matter of law, the typical cash balance plan violates the statutory prohibition on age-based reductions in the rate at which participants accrue their benefits \* \* \*. There is no dispute about the underlying arithmetic: as cash balance participants age, the contributions made for them decline in value in annuity terms. Moreover, cash balance arrangements are defined benefit plans and therefore measure accrued benefits in terms of annuity equivalents, not in terms of the contributions themselves."

Cash balance promoters attempt to counter conclusions such as Ms. Sheppard's and Professor Zelinsky's by arguing that the rate of benefit accrual under a cash balance plan should not be calculated by projecting the pension benefits into an annuity beginning at normal retirement age. They point out that neither the Code nor ERISA define "rate of benefit accrual." Instead, some suggest that the IRS should look at the absolute dollar amount "credited" to employees' cash balance "accounts" annually or that the IRS should remove cash balance interest credits from its analysis.

This argument is generally founded on statutory construction that is nonsensical. The accepted canons of statutory construction dictate that words and phrases should not be interpreted in isolation, but rather in the context in which they are used. Section 411(a)(7) of the Code requires an employee's "accrued benefit" to be expressed in terms of an annual benefit commencing at normal retirement age \* \* \*." The term "accrued benefit" is used throughout section 411(b)(1). Cash balance promoters opine that, because the term "rate of benefit accrual" is used instead of "accrued benefit" in section 411(b)(1)(H)(i), Congress did not intend that the IRS should evaluate compliance with §411(b)(1)(H)(i) by projecting an employee's annual benefit beginning at normal retirement age.

It is not surprising that the term accrued benefit is not used in §411(b)(1)(H)(i). This subparagraph is concerned with the pace at which the accrued benefit grows. To insert the term "accrued benefit" in this section would make it nonsensical. However, by reference to the provisions in the same paragraph, it is obvious that the benefit that is accruing is the projected annual benefit at normal retirement age.<sup>26</sup>

Any doubt about the meaning of the language of §411(b)(1)(H)(i) is resolved by comparing it to the §411(b)(2)(A), which states in relevant part, "A defined contribution plan satisfies the requirements of this paragraph if \* \* \* the rate at which amounts are allocated to the employee's account is not reduced, because of the attainment of any age."

In essence, cash balance promoters argue that the IRS should apply §411(b)(2)(A) in determining whether cash balance conversions violate the age discrimination statute. But,



cash balance plans are defined benefit plans, not defined contribution plans. As such, cash balance plans must comply with §411(b)(1)(H)(i). A comparison of the language of these two sections evidences a different standard. The only interpretation that makes sense given the context of §411(b)(1)(H)(i) and a comparison with the language of §411(b)(2)(A) is that the rate of benefit accrual is evaluated in terms of the projected annual benefit at normal retirement age.

This interpretation is borne out in the comments of Paul Strella—currently at the pension consultant firm of William M. Mercer and formerly a Tax Benefit Counsel at the Department of Treasury—at a 1992 Enrolled Actuaries Meeting: “There is a rule in the Internal Revenue Code, along with ERISA, that says that the rate of accrual, the rate of benefit accrual in a pension plan can not decline merely on account of increasing age. Well, a cash balance plan does exactly that.”

This view is also apparently shared by some within the IRS. For example, a September 3, 1998 memorandum from the District Director of the Ohio Key District in Cincinnati, Ohio to the Director of Employee Plans Division in Washington, DC states that at least one cash balance plan “does not satisfy the clear and straightforward requirement of §411(b)(1)(H)(i) of the Code because the plan’s benefit accrual rate decreases as a participant attains each additional year of age.”

(4) The “wear-away” feature of many cash balance conversions violate federal anti-age discrimination statutes.

In addition to violating Code §411(b)(1)(H)(i), and related sections of ERISA and the ADEA, by reducing benefit accruals based on age, many cash balance plans violate federal age discrimination law, including §411(d)(6) of the Code, through their use of the wear-away mechanism. It was only during the past year that members of Congress became aware that in many cash balance conversions, older workers do not accrue new pension benefits until they have “worn away” their previously earned benefits. To permit pension plans to include “wear away” violates both the letter and spirit of two key ERISA [and ADEA] principles: (1) that accrued benefits cannot be reduced, and (2) that pension plans cannot discriminate on the basis of age. To deny participants additional accruals on the basis of years of service and benefits already accrued under the plan before the amendment is contrary to public policy. In this situation, benefits accrued based on years of service absolutely is a proxy for age. Plan wear-away provisions do not meet the ERISA/IRC exception for explicit uniform limitations on benefit accruals for all workers based upon a maximum number of years of service. Under wear-away clauses, the only workers who do not receive continued accruals are the oldest workers. To claim that they always remain entitled to their accrued benefit, even though every day it is being eroded and used against their ability to earn new benefits, makes a mockery of ERISA’s accrued benefit protections.

There is little doubt that the wear-away feature of cash balance plans is targeted at older workers. The wear-away takes place because the benefits the employee is entitled to under the traditional defined benefit plan are greater than those under the cash balance plan. By definition, the employees that fit this profile are older workers because benefits under a traditional defined benefit plan accrue more quickly for the older, more senior workers while the rate of accrual under a cash balance plan accrue more slowly for this group of employees. Given the age

discriminatory intent of cash balance promoters, the IRS should cast a jaundiced eye at their claims that the disproportionate impact of wear-away on older workers is not by design.

In our mind, the practice of wear-away is contrary to the law and public policy and cannot be allowed to continue. The fact that the IRS has not objected to these provisions in the past, and may have given some plan sponsors prefatory language refuting any age discrimination questions, should not stand in the way of the IRS and other agencies fresh assessment of whether cash balance plans comply with the law. In light of the wealth of new information that has become public in the past year, it is critical that the IRS take all needed steps to ensure that all pension plans comply with the law.

(5) Cash balance conversions should therefore be disqualified under existing law.

As we have discussed, cash balance pension conversion are illegal under §411(b)(1)(H) of the Internal Revenue Code, §204(b)(1)(H) of ERISA, and §4(i)(1)(A) of ADEA in terms of accrual rates. We have also indicated that most cash balance conversions are in violation of §411(d)(6) of the Internal Revenue Code dealing with wear away.

Since, cash balance conversions are in violation of these laws, we believe that the IRS should disqualify these conversions under current law. Cash balance promoters have appealed for regulatory relief on the grounds that they were lulled into a false sense of security about the legality of cash balance conversions. We have little sympathy for their arguments. Much of the difficulty in uncovering the age discriminatory nature of cash balance conversions lies with the promoters themselves and they are entitled to no benefit from the confusion of their own making.

Finally on this point, we note that most of the arguments made by cash balance promoters are policy arguments for why hybrid pension plans, including cash balance plans, are a positive development that deserve the support of the federal government. Even if those arguments had some merit, which in our strong view they do not, those arguments are inappropriate in this regulatory context. Cash balance conversions violate federal anti-age discrimination statutes.

(6) A safe harbor should be established allowing cash balance plans to meet existing legal requirements only if all employees are allowed to choose which pension plan works best for them with detailed disclosure.

In consideration of the goals of the age discrimination regimes in the Code, ERISA, and the ADEA, and based on our considerable consultation with employees affected by cash balance conversions, we also believe that a safe harbor should be established that would protect the tax-exempt status of cash balance conversions if the employers offer all current employees the choice to remain in the traditional defined benefit plan. We believe that such a safe harbor would come the closest to proverbial “win-win” outcome for all stakeholders in the cash balance pension debate.

The safe harbor that we are recommending would necessarily require the employer to provide a detailed individualized statement allowing the employees to easily compare between the traditional defined benefit plan and the cash balance plan. If the company does not want to provide these individualized statements, the company may be exempted from this requirement only if they allow their employees to choose which pension plan works best for them on the date that they leave the company. On this date, the company must also allow the employees to compare exactly how much they would receive under the traditional defined benefit plan and the cash balance plan.

Due to the complexities involved, we believe that companies that have already converted to cash balance plans should be given at least 90 days to make the above changes in their pension plan. As we noted above, from a policy standpoint we believe this represents a middle ground that would most effectively address the concerns of all involved. For the employers, their pension plans would continue to enjoy tax-exempt status. And, for the employees, they would be able to continue to receive the pension benefits that were promised to them.

We do not, however, offer here an opinion about whether the IRS has the authority to implement such a safe harbor under current federal law. If the IRS determines that it does not have the authority to do so, we stand ready to support an IRS request to implement the necessary statutory changes.

Thank you for giving us this opportunity to express our views. We look forward to working with you to address the serious age discriminatory impact of cash balance conversions.

Sincerely,

Bernard Sanders, George Miller, William Clay, Martin Frost, Barney Frank, Edward J. Markey, Patsy Mink, Marcy Kaptur, Peter J. Visclosky, Rush D. Holt, Carolyn B. Maloney, Lynn C. Woolsey, Sherrod Brown, John Conyers, Jr., Jerrold Nadler, Martin Olav Sabo, Nancy Pelosi, Luis V. Gutierrez, John Elias Baldacci, Cynthia A. McKinney, Donald M. Payne, Peter A. DeFazio.

Tammy Baldwin, Lane Evans, Frank Pallone, Jr., Sheila Jackson-Lee, Tom Lantos, Steven R. Rothman, Dennis J. Kucinich, Janice D. Schakowsky, Eleanor Holmes Norton, Robert A. Brady, Corrine Brown, Michael P. Forbes, Gary L. Ackerman, John Joseph Moakley, James P. McGovern, John F. Tierney, Neil Abercrombie, Bob Filner, Michael F. Doyle, Major R. Owens, Michael E. Capuano, Danny K. Davis, Alcee L. Hastings, Carolyn McCarthy, Bobby Rush, Barbara Lee, Ron Klink, Tom Barrett, John W. Olver, Bennie G. Thompson, Sanford D. Bishop, Jr., Ted Strickland, Jesse L. Jackson, Jr., Bobby Scott, Stephanie Tubbs Jones, Pat Danner, James Traficant, Bill Luther.

#### FOOTNOTES

<sup>1</sup>These anti-age discrimination statutes include not only the ADEA, but also the Internal Revenue Code, and ERISA as amended.

<sup>2</sup>Outside pension advisors who promote the cash balance concept as a way to cut pension benefits were well aware of the age discriminatory impact of these conversions as evidenced by comments made in correspondence and at actuarial meetings. For instance, comments made at numerous American Society of Actuaries meetings bear out the widespread understanding that cash balance conversions targeted the benefits of older workers. This does not, however, in any way absolve the many corporations—including many Fortune 500 companies—who have made these conversions and who all ostensibly have sufficient inhouse expertise to understand the impact of these plans. We are not aware of any companies who have implemented a cash balance conversion based on the advice of outside consultations but who lacked a full understanding of the ramifications for their older workers. If they do exist, they have yet to come forward.

<sup>3</sup>See [www.watsonwyatt.com/homepage/us/news/pres\\_rel/Jan99/hybrid-tm.htm](http://www.watsonwyatt.com/homepage/us/news/pres_rel/Jan99/hybrid-tm.htm).

<sup>4</sup>Based on unconfirmed anecdotal evidence, there may be one or two companies that have implemented a cash balance “from scratch.” However, given the hundreds of companies that have implemented conversions, federal agencies’ review of cash balance plans should focus on them in the context of conversions.

<sup>5</sup>See [www.watsonwyatt.com/homepage/us/news/pres\\_rel/Jan99/hybrid-tm.htm](http://www.watsonwyatt.com/homepage/us/news/pres_rel/Jan99/hybrid-tm.htm).

<sup>6</sup>Daniel Eisenberg, “The Big Pension Swap,” *Time Magazine* (April 19, 1999) at 36 (“20% of Fortune 500

companies, including AT&T and Xerox, now offer these plans which cover close to 10 million workers nationwide.”).

<sup>7</sup>Ellen Schultz, “The Young and Vestless,” *The Wall Street Journal* (December 16, 1999) at A1. (“Employers . . . increasingly acknowledge that switching to the new plans does reduce benefits for many veteran employees. But compensating for this, they say, is that the plans are better for a younger, more mobile workforce.”).

<sup>8</sup>The ERISA Industry Committee, *Understanding Cash Balance Plan*: (“Unlike traditional defined benefit plans, cash balance plans provide an easily understood account balance for each participant.”).

<sup>9</sup>There is also growing evidence that cash balance conversions do not benefit younger workers. Ellen Schultz, “The Young and Vestless,” *The Wall Street Journal* (December 16, 1999) at A1. (“Many younger workers are no more likely to collect a benefit from these new-fangled plans than they are from traditional pensions. And when they do collect, they often fare only a little better under a cash-balance system.”).

<sup>10</sup>See [www.watsonwyatt.com/homepage/us/new/Insider/6\\_98.HTM](http://www.watsonwyatt.com/homepage/us/new/Insider/6_98.HTM).

<sup>11</sup>See *id.*

<sup>12</sup>See *id.* (emphasis added).

<sup>13</sup>See *id.*

<sup>14</sup>See [www.watsonwyatt.com/homepage/us/res/workmgmt-tm.htm](http://www.watsonwyatt.com/homepage/us/res/workmgmt-tm.htm) (“Are you paying for performance or for tenure and age?”) (emphasis added).

<sup>15</sup>The authors understand that no current federal law prevents a company from reducing future pension benefits. However, federal law prohibits such cuts from being implemented in an age discriminatory fashion. In this case, companies are using cash balance plans to conceal impermissible age discrimination.

<sup>16</sup>Ellen Schultz, “Joy of Overfunding: Companies Reap a Gain Off Fat Pension Plans,” *The Wall Street Journal* (June 15, 1999) at A1. (“Thanks to an accounting rule that is little known to either shareholders or analysts, and that was written for a very different era, there is a way to gain from the pension surplus. The rule provides that if investment returns on pension assets exceed the pension plans’ current costs, a company can report the excess as a credit on its income statement. Voila: higher earnings.”).

<sup>17</sup>Ellen Schultz, “How Pension Surpluses Lift Profits,” *The Wall Street Journal* (September 20, 1999) at C1. (“Pension income isn’t what you would consider operating income at these companies; it is more along the lines of investment income.”).

<sup>18</sup>Ellen Schultz, “Joy of Overfunding: Companies Reap a Gain Off Fat Pension Plans,” *The Wall Street Journal* (June 15, 1999) at A1. (“In the early 1980s, 60% of large companies provided regular cost-of-living increases for pensioned retirees; today, with the plans in better financial shape, fewer than 4% do.”).

<sup>19</sup>A September 17, 1999 Bear Stearns Study, entitled “Retirement Benefits Impact Operating Income,” reached a similar conclusion. (“We . . . recommend that the components of net pension cost be disaggregated for purposes of financial analysis.”)

<sup>20</sup>While not the focus of these comments, the authors do believe that current federal law needs to be amended to increase the disclosure requirements when companies decrease their employees’ future pension benefits.

<sup>21</sup>In light of these statements, in the event of litigation challenging the legality of cash balance conversions, the authors believe plaintiffs would have little difficulty establishing the discriminatory intent of the actuaries and companies promoting cash balance plans.

<sup>22</sup>The authors have omitted a lengthy discussion of the differences between defined contribution and defined benefit plans because the IRS is well versed in those distinctions.

<sup>23</sup>ERISA §3(34).

<sup>24</sup>ERISA §3(35) (describing a defined benefit plan as “a pension plan other than an individual account plan.”)

<sup>25</sup>See ERISA §204(b)(1)(H)(i), Code §411(b)(1)(H)(i) and ADEA §4(i)(1)(A).

<sup>26</sup>See, e.g., *NRLB v. Federbush Co. Inc.*, 121 F. 2d 954, 957 (2d 1941) (“Words are not pebbles in alien juxtaposition; they have only a communal existence; and not only does the meaning of each interpenetrate the other, but all in their aggregate take their purport from the setting in which they are used. . . .”)

Mr. PORTMAN. Mr. Speaker, I yield myself 1 minute to respond briefly. We are going to hear a lot about tax cuts for the rich from the other side apparently. I would just like to remind Mem-

bers about what is actually in this legislation. There is health insurance for those who are self-employed. Those are people who are primarily small businesspeople. These are not the rich. There is community renewal here for our very poorest neighborhoods, rural and urban neighborhoods around America. Those are the people who will benefit. With regard to the low-income tax credit, that is going to benefit not the rich; it is going to benefit people who need the benefit of government help in housing.

With regard to pensions, and I see my colleague here from North Dakota. Let us look at the benefits. Seventy-seven percent of the people who are currently participating in pensions make less than \$50,000 a year. These are not rich people. These are people who need our help. I would just say, I have now had a chance to look at the Democratic alternative, as I have been sitting here, in more detail. It provides a net \$8 million in tax relief as I see it over 5 years. The Republican alternative provides through all those items I just mentioned about \$48 billion worth of needed tax relief that is going to help all Americans.

Mr. Speaker, I yield 1 minute to the gentleman from New York (Mr. REYNOLDS).

Mr. REYNOLDS. Mr. Speaker, I think my colleague from Ohio outlined specifically that anyone who tries to sell this tax plan as a tax cut for the rich has not read the legislation introduced by my Republican colleagues. This bill clearly goes after taking an opportunity to take care of middle America and our low-income families, whether it is addressing low-income tax credits or housing or more particularly looking at those people who pay insurance.

To have an opportunity as self-employed individuals to begin to have some relief on the cost of paying for that insurance while self-employed is an opportunity that this bill begins to address. Quite frankly we need to do more than what the \$28 billion that has been afforded in this tax package has done for Americans.

Mr. RANGEL. Mr. Speaker, I yield 2 minutes to the distinguished gentleman from North Dakota (Mr. POMEROY).

Mr. POMEROY. Mr. Speaker, I thank the gentleman for yielding me the time. I want to begin by commending the gentleman from Ohio (Mr. PORTMAN), who is truly a leader in retirement savings initiatives. How I wish that the provisions in this bill that reflect his very good work were before us in a fair and thoroughly considered way. I think we could have a 100 percent vote out of this House as we advance the opportunities for Americans to save for retirement. But unfortunately, that is anything but the bill that is in front of us.

They will talk about this good thing, and they will talk about that good thing and let us recognize them for

what they are, window dressing on a bill, the heart of which is an estate tax cut giving direct tax benefit to the wealthiest people in the country. It is a fine thing to do, but is that our first priority for tax relief?

Some will say our farmers need this, and I want to contrast in the balance of my remarks their plan versus our plan as it regards farmers. An analysis of their proposal shows that farms under \$13 million, farms and small businesses with assets under \$13 million fare better under the Democrat substitute. The Democrat substitute effectively takes up to \$4 million for estate tax relief. Checking with the census on data in North Dakota, the State I represent, 99.7 percent of the farms fare better under the Democrat plan because they are under that \$13 million figure. That lets us know the amount in their plan that goes toward the wealthiest, the very wealthiest people in this country.

Only this majority could take what was initially designed to be minimum wage legislation and lard it up with a huge windfall for the wealthiest people in this country. I particularly resent saying that theirs is the one that helps the family farmer. If Members want to help the family farmer, vote for the Democrat substitute that effectively takes estate tax relief to \$4 million, not their plan.

The SPEAKER pro tempore (Mr. PEASE). Without objection, the gentleman from Arizona (Mr. HAYWORTH) will control the time of the gentleman from Ohio (Mr. PORTMAN).

There was no objection.

Mr. HAYWORTH. Mr. Speaker, I yield myself 1 minute to make a couple of points in response to my good friend from North Dakota. I am pleased that he embraces the notion of death tax relief for family farms. I am sorry he neglected to offer us the name of the source for his analysis that smaller farms would be helped. I look forward to a response on their side on their time with that information.

What I would also like to point out is correspondence that the Speaker has received from the Small Business Survival Committee, Mr. Speaker. It reads, and I quote, “The alternative offered by the minority, the alternative is a de facto tax increase on small businesses, that are the leading source of new jobs and economic expansion in America. The alternative to the tax plan being considered today would severely jeopardize the financial security of the small business community.”

I would reiterate that when we take a look at the package being offered as the alternative, Mr. Speaker, it offers a net \$8 million of tax relief as opposed to the majority common sense plan, \$48 billion in tax relief.

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

Mr. RANGEL. Mr. Speaker, I yield 2 minutes to the gentleman from California (Mr. SHERMAN).

Mr. SHERMAN. Mr. Speaker, this budget-busting, Social Security-risking tax bill would cause the sheriff of Nottingham to cringe in embarrassment because it is the most regressive tax bill in recent history. Three-quarters of the benefits go to the top 1 percent, a group of people with an average income of \$900,000. Its estate tax provisions are even more regressive. We are denounced for class warfare rhetoric, but this bill is a sneak attack against working Americans.

Mr. Speaker, in the spirit of today's game shows, this bill does not ask who wants to be a millionaire, nor does it ask who wants to marry a multimillionaire. It asks who wants to give huge tax breaks to multi-multimillionaires. And I emphasize "million heirs," because the breaks go chiefly not to those who are rich because of their efforts but those who become rich because of their clever selection of parents.

Ninety-five percent of Americans get 13 bucks out of this bill. There are some pennies for average Americans. But the top 1 percent get \$6,000 of tax relief, or as we say in L.A., dinner at Spagos. This bill is so obnoxious, so regressive, that it is being packaged in the rhetoric of talking about the average beauty shop owner. But to get the benefits, you need an estate of \$4 million and more. That is a lot of beauty shops. And then they take this deceptively packaged tax bill and they feel they cannot conceal it enough, so they wrap it in an increase in the minimum wage. This bill provides over \$100 bil-

lion of tax relief to the superrich, and it provides \$11 billion of wage increases to those who make \$5.15 an hour.

Mr. Speaker, I include for the RECORD the following documents from the Citizens for Tax Justice:

**HOUSE GOP MINIMUM WAGE PLAN OFFERS \$11 IN UPPER-INCOME TAX BREAKS FOR EVERY \$1 IN WAGE HIKES FOR LOW EARNERS**

The House GOP leadership's \$123 billion tax-cut/minimum wage plan, to be voted on this week, would give upper-income taxpayers \$11 in tax breaks over the next decade for every dollar in increased wages paid to low-wage workers.

*Unbalanced Acts*, a joint analysis of the GOP proposal by Citizens for Tax Justice and the *Economic Policy Institute*, finds:

Over the next decade, the proposed tax cuts will total \$122.8 billion. Over the same period, wage increases stemming from the \$1 boost in the minimum wage will total only \$11.2 billion. This means that over ten years, for every dollar in higher wages for low-wage workers, \$10.90 in upper-income tax breaks will be provided.

Almost all the tax cuts (91.4%) would go to the best-off tenth of all taxpayers. In fact, the top one percent of all taxpayers, those making more than \$319,000 a year, would get almost three-quarters of the tax reductions. Their average annual tax cut under the plan would be \$6,128 each (in 1999 dollars). That compares to only a \$4 average tax cut for the bottom 60 percent.

While the tax bill's permanent tax cuts grow to \$17.6 billion by 2010, the effect of the minimum wage proposals will be totally eroded by inflation after 2006.

"The minimum wage hike will allow low-wage workers to share in the gains of this economic recovery, while the proposed tax cuts will needlessly provide a second helping of the economic pie to the wealthiest tax-

payers," said EPI Vice President Lawrence Mishel.

"It's ridiculous that a minimum wage bill supposedly designed to aid low-wage workers would actually give its biggest benefits to the highest-income people in the country," said Citizens for Tax Justice, director Robert S. McIntyre.

EPI's minimum wage analysis compares the wage hikes under the GOP plan, which would boost the minimum wage by \$1 over three years, to the wages that affected workers would earn if their wages merely keep up with inflation over the next decade. The GOP's three-year phase-in of the wage boost provides an \$11.2 billion gain to these workers over ten years—\$3.8 billion less than the Bonior-Kennedy proposal's two-year implementation plan, which would produce a total of \$15 billion in higher wages.

The distributional effects of the tax cuts were analyzed by CTJ using the Institution on Taxation and Economic Policy Tax Model. The \$123 billion estimated ten-year cost of the tax cuts is based on preliminary, March 1, 2000 estimates from the Joint Committee on Taxation. (The tax cut plan would, among other things: cut estate taxes by \$79 billion over ten years—representing almost two-thirds of the total proposed tax cuts; increase the write-off for business meals to 60% of cost from 50% under current law; provide added tax breaks for pensions and 401(k) plans; increase the limits on immediate write-offs of business capital investments; speed up the date when 100% of self-employed health insurance can be deducted; restore a loophole for installment sales that was repealed in 1999; expand enterprise zones; expand the tax credit for investors in low-income housing; expand the tax credit for investors in low-income housing; and augment tax breaks for private tax-exempt bonds.)

A table detailing the distributional effects of the tax cuts follows:

**EFFECTS OF THE TAX CUTS IN THE HOUSE GOP 2000 MINIMUM WAGE BILL**

[Annual effects at 1999 levels; \$-billion except averages.]

Income group	Income range	Average income	Estate tax cuts	Corporate tax breaks	Pensions & 401Ks	Total tax cuts	Average tax cut	Percent of total tax cut
Lowest 20%	Less than \$13,600	\$8,600	-0.0	-0.0	-0.0	-0.0	-1	0.3%
Second 20%	13,600-24,400	18,800	-0.0	-0.1	-0.0	-0.1	-4	0.9%
Middle 20%	24,400-39,300	31,100	-0.0	-0.2	-0.0	-0.2	-7	1.7
Fourth 20%	39,300-64,900	50,700	-0.0	-0.3	-0.0	-0.3	-13	3.0
Next 15%	64,900-130,000	86,800	-0.0	-0.4	-0.1	-0.6	-29	5.3%
Next 4%	130,000-319,000	183,000	-0.8	-0.5	-0.4	-1.7	-329	15.7%
Top 1%	319,000 or more	915,000	-5.7	-1.4	-0.7	-7.7	-6,128	73.1%
All			-6.5	-2.8	-1.2	-10.6	-83	100.0%
Addendum:								
Bottom 60%	Less than \$39,300	\$19,500	0.0	-0.3	-0.0	-0.3	-4	2.8%
Top 10%	92,500 or more	218,000	-6.5	-2.0	-1.1	-9.7	-765	91.4%

Notes: Figures show the annual effects of the approximately \$123 billion in tax cuts over the next 10 years included in the GOP minimum wage increase plan to be voted on by the House on March 9 or 10. All provisions are measured as fully effective, at 1999 income levels. Distributional figures do not include the faster phase-in of the self-employed health insurance deduction. Source: Institute on Taxation and Economic Policy Tax Model. Citizens for Tax Justice, March 7, 2000.

The report, *Unbalanced Acts*, is available on-line at both [www.epinet.org](http://www.epinet.org) and [www.ctj.org](http://www.ctj.org). It can also be obtained by calling 1-800-374-4844.

**UNBALANCED ACTS**

**A COMPARISON OF THE PROPOSED MINIMUM WAGE AND TAX BILLS**

(By Jared Bernstein, Robert S. McIntyre, and Lawrence Mishel)

The good news is that an increase in the federal minimum wage looks like a real possibility. How good the news is, however, depends on which of the two competing proposals wins out. The differences between the two proposals are not insignificant, especially when considering the billions of dollars in tax cuts in which the GOP leadership has couched its minimum wage proposal. A comparison of the size and phase-in periods of the competing minimum wage proposals

in relation to the proposed \$123 billion GOP tax cut package finds that:

The \$123 billion in tax reductions proposed by the House GOP leadership over the 2000-10 period is nearly 11 times greater than the \$11.2 billion in wage hikes that would be generated by its accompanying minimum wage proposal.

Over the course of a decade, for every dollar in higher wages generated for low-wage workers by the House GOP plan, \$10.90 in tax cuts will be provided, mostly for those with the highest incomes.

While the tax bill's permanent tax cuts grow to \$17.6 billion in fiscal year 2010, the effect of both of the minimum wage proposals will be totally eroded by inflation after fiscal year 2006.

The Bonior-Kennedy minimum wage proposal's two-year implementation plan provides a total of \$15 billion in higher wages, while the GOP plan's three-year schedule

provides an \$11.2 billion gain to these workers, or \$3.8 billion less.

Ninety-one percent of the gains from the GOP's proposed tax reductions are targeted to the wealthiest 10%, with 73.1% accruing to the richest 1% of households. In contrast, the minimum wage proposals are designed to aid the lowest-income workers.

**AN ANALYSIS OF THE GAINS FROM THE TAX AND MINIMUM WAGE PROPOSALS**

Quantifying the aggregate wage gains over the next 10 years under both the Bonior-Kennedy and the House GOP minimum wage proposals (see appendix for methodology) allows for a clear comparison of the proposed minimum wage increases and the proposed tax legislation (Table 1).

TABLE 1.—COMPARISON OF ANNUAL AND CUMULATIVE IMPACT OF HOUSE GOP TAX AND MINIMUM WAGE PLANS, 2000–10

[amounts in billions]

Fiscal year	House GOP		Comparison of House GOP tax and min wage plan	
	Tax cuts	Min wage	Ratio of tax cuts to MW plan (in percent) (1)/(2)	
			(1) – (2)	(1)/(2)
<b>Annual impact:</b>				
2000	\$0.5	\$0.7	–\$0.2	73
2001	2.4	1.7	0.7	142
2002	9.2	3.2	6.1	292
2003	10.6	2.7	7.9	395
2004	10.8	1.7	9.1	626
2005	12.3	0.9	11.4	1,301
2006	13.4	0.4	13.0	3,421
2007	14.4	.....	14.4	(1)
2008	15.2	.....	15.2	(1)
2009	16.3	.....	16.3	(1)
2010	17.6	.....	17.5	(1)
<b>Cumulative impact:</b>				
2000–10	122.8	11.2	111.6	1,093
2000–05	45.8	10.8	35.0	422

<sup>1</sup> Cannot calculate ratio with zero as denominator. Source: EPI/Joint Committee on Taxation.

The GOP minimum wage proposal would be phased in over three years, with two annual increases of \$0.33 and one of \$0.34; the Bonior-Kennedy plan would involve two annual \$0.50 increases. After the full implementation of these increases, the effects of the minimum wage hike will decline as inflation continues its ongoing erosion of the value of the minimum wage. After fiscal year 2006, inflation will have eroded the new minimum to the point that it will represent no improvement over the current level. Since it takes the

GOP plan an additional year to push the minimum wage to the \$6.15 level, the \$11.2 billion in cumulative gains under the House GOP plan are significantly less than the \$15 billion impact of the Bonior-Kennedy plan.

Ultimately, though, the size of the GOP's proposed tax cuts quickly dwarfs that of either minimum wage proposal. By fiscal year 2002, the \$9.2 billion in proposed tax cuts are nearly three times as large as the cumulative \$3.2 billion in minimum wage hikes up to that point. The annual tax cuts eventually rise to \$17.6 billion in 2010, but the minimum wage increase's effect falls to zero after 2006. Thus, the tax cuts grow over time and are permanent, but the minimum wage legislation, while important, has but a temporary impact because neither of the current proposals guarantee further increases after the \$6.15 level is reached. (Indexing the minimum wage to inflation or wage growth would remedy this problem of minimum wage erosion.)

The 10-year impact of the House GOP tax legislation—\$122.8 billion over the 2000–10 period—is 10.9 times as large as the \$11.2 billion in total wage hikes that the GOP's minimum wage boost would produce. Thus, over the course of 10 years, for every dollar in higher wages generated for low-wage workers by the House GOP plan, \$10.90 in tax cuts will be provided for mostly those with the highest incomes in the nation.

THE DISTRIBUTIONAL IMPACT OF THE GOP TAX PROPOSAL

The distributional assessment of the tax plan (Table 2) is based on the Institute on Taxation and Economic Policy Tax Model. Among other things, the GOP tax cuts would:

- Cut the top estate tax rate from 55% to 48%; eliminate the 5% surtax that recaptures the benefits of the lower estate tax rates; reduce other estate tax rates by 2 percentage points; and replace the credit against estate taxes with an exemption (worth more to the largest estates). The \$79 billion in estate tax cuts over 10 years are almost two-thirds of the total tax cuts proposed in the bill.

- Increase the write-off for business meals from 50% to 60% of cost under current law.

- Provide added tax breaks for pensions and 401(k) plans.

- Increase the limits on immediate write-offs of business capital investments.

- Speed up the date when 100% of self-employed health insurance can be deducted.

- Restore a loophole for installment sales that was repealed in 1999.

- Expand enterprise zones.

- Provide tax breaks for timber companies.

- Expand the tax credit for investors in low-income housing.

- Augment tax breaks for private tax-exempt bonds.

Table 2 shows that almost all of the benefits of the tax legislation (91.4%) would accrue to the wealthiest 10% of the population. In fact, the wealthiest 1% would get 73.1% of the proposed tax reductions.

A one-dollar increase in the minimum wage provides no economic rationale for tax cuts of the magnitude proposed in the GOP legislation. Yet, as with the last minimum wage increase, Congress again intends to use this opportunity to implement a regressive tax cut. As the above analysis has shown, the benefits to the wealthy from this proposal far outweigh the benefits of the wage increase.

TABLE 2.—EFFECTS OF THE TAX CUTS IN THE HOUSE GOP 2000 MINIMUM WAGE BILL

[Annual effects at 1999 levels; \$ billion except averages]

Income group	Income range	Average income	Estate tax cuts	Corporate tax breaks	Pensions & 401Ks	Total tax cuts	Average tax cut	Percent of total tax cut
Lowest 20%	Less than \$13,600	\$8,600	\$0.0	\$0.0	\$0.0	\$0.0	\$–1	0.3
Second 20%	13,600–24,400	18,800	0.0	–0.1	0.0	–0.1	–4	0.9
Middle 20%	24,400–39,300	31,100	0.0	–0.2	0.0	–0.2	–7	1.7
Fourth 20%	39,300–64,900	50,700	0.0	–0.3	0.0	–0.3	–13	3.0
Next 15%	64,900–130,000	86,800	0.0	–0.4	–0.1	–0.6	–29	5.3
Next 4%	130,000–319,000	183,000	–0.8	–0.5	–0.4	–1.7	–329	15.7
Top 1%	319,000 or more	915,000	–5.7	–1.4	–0.7	–7.7	–6,128	73.1
All			–6.5	–2.8	–1.2	–10.6	–83	100.0
<b>Addendum:</b>								
Bottom 60%	Less than \$39,300	19,500	0.0	–0.3	0.0	–0.3	–4	2.8
Top 10%	\$92,500 or more	218,000	–6.5	–2.0	–1.1	–9.7	–765	91.4

Figures show the annual effects of the approximately \$123 billion in tax cuts over the next 10 years included in the GOP minimum wage increase plan to be voted on by the House on March 9 or 10. All provisions are measured as fully effective, at 1999 income levels. Distributional figures do not include the faster phase-in of the self-employed health insurance deduction. Source: Institute on Taxation and Economic Policy Tax Model. Citizens for Tax Justice, March 7, 2000.

APPENDIX: MINIMUM WAGE SIMULATION METHODOLOGY

To determine the aggregate wages generated by a minimum wage increase, one needs to identify the hourly wages and weekly hours of workers in the "affected range," i.e., those whose wages fall below the proposed new minimum wage. We identify those in the "affected range" by "aging" the 1999 hourly wage distribution found in the Outgoing Rotation Group files of the Current Population Survey by a 2.5% rate of inflation (the long-term rate projected by the Congressional Budget Office). Our analysis assumes that in the absence of a minimum wage increase, low-wage workers would maintain their real wage, seeing no improvement or deterioration. This assumes wage growth depletes the size of the working population in the affected range, as some workers' wages will eventually exceed that of the newly established minimum wage. (The minimum wage would rise in two annual \$0.50 increments in the Bonior-Kennedy version and two \$0.33 annual increments and a \$0.34 increment in House GOP plan). When those earning \$5.15 in 1999 see their earnings reach \$6.15, then the minimum wage legislation no longer has any effect, which under our assumptions would take place eight years from

now. We assume that the minimum wage increases take effect in April of the relevant year.

The aggregate wage benefit is computed for workers in the affected range as the difference between their simulated wage level and the new minimum (\$6.15 in later years; other values in the transition years) multiplied by their average weekly hours for 52 weeks. We increase the wage gain to reflect a labor force growing by 1% annually.

The wage gains associated with minimum wage increases in this simulation would be smaller (larger) if we assumed either a faster (slower) inflation rate or real wage gains (declines).

Mr. HAYWORTH. Mr. Speaker, I yield myself 1 minute in brief response to my colleague from California. Mr. Speaker, it was interesting to listen to the litany of game shows. Perhaps one we might call on our friends on the left to actually watch and live up to is the game show "To Tell the Truth" because that seems to be sadly, noticeably absent from the litany of lines we are hearing today from the left.

My friend from California and others in this Chamber are well aware that

small business owners, family farmers, actually create jobs for other Americans, so reducing the tax bite, saying death to the death tax actually empowers Americans to keep their jobs, rather than seeing family farms sold off to pay off a huge tax bill, and the same thing with businesses.

Mr. Speaker, I yield 4½ minutes to the gentleman from New York (Mr. LAZIO), a member of the Committee on Commerce.

Mr. LAZIO. Mr. Speaker I want to thank the gentleman from Arizona, I want to thank the chairman of the Committee on Ways and Means for his leadership in bringing this to the floor, and I want to thank the Republicans and Democrats that helped shape this bill. These tax provisions that represent, let us put this in perspective,

about 1 percent of the non-Social Security surplus that we will generate, about one penny out of every dollar.

This Small Business Tax fairness Act that is under debate today was drafted in the spirit of mutual respect, Republicans and Democrats not presuming to know what the final product was; but we have come together to try and craft something from the start. This bill was introduced by myself and cosponsored by colleagues from both sides of the aisle. I want to, if I can, pay special tribute to the gentleman from Illinois (Mr. SHIMKUS), who played a key role in drafting this legislation. Additional Republican cosponsors included the gentleman from Illinois (Mr. WELLER), the gentleman from Pennsylvania (Mr. SHERWOOD), and the gentleman from Mississippi (Mr. PICKERING). And on the Democratic side of the aisle, the gentleman from California (Mr. CONDIT) and the gentleman from Alabama (Mr. CRAMER) helped craft this bill, were involved from the beginning. Additional Democratic cosponsors, including the gentleman from Georgia (Mr. BISHOP), the gentleman from Mississippi (Mr. SHOWS), and the gentleman from Minnesota (Mr. PETERSON), also played key roles.

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These Members came together in the spirit of bipartisan cooperation. They gathered with goodwill to come to grips with a complex and tangible problem.

This bill represents a credible and honest effort to find a workable balance between the contending viewpoints that are found both in this House and in the American public at large.

We came to the table with the realization that a wage increase was fair but we also came to the table with a desire to protect the small business people who will end up bearing the direct burden of any wage increase that we pass here today. We wanted to avoid the real life situations in which low-wage workers would be laid off because of the increased pressure this bill places on small employers' bottom lines.

In short, we wanted to find a win/win. In fact, Mr. Speaker, that is exactly what we have done.

Mr. Speaker, we all wish to ensure that American workers at the bottom of the economic ladder are fairly compensated for their hard and honest labor. Yet we must also recognize that Federal wage mandates imposed from on high in Washington can have a particularly negative impact on the small businesses where these very same low-wage earners are employed.

For those who wish to say that they want to balance the minimum wage increase with tax relief for America's small businesses, they can do that here today. For those who say that they favor letting the self-employed deduct health insurance costs, they can do precisely that today. For those who

say they wish to vote for low-income housing tax credits, they can do precisely that today. If, however, they wish to conjure up reasons to vote against this bill, they may be able to do that.

Mr. Speaker, we here in Washington are about to impose higher payroll payments upon mom and pop stores throughout the country. Is it not only fair that we should also offer these same small business owners Federal help and not make them shoulder this burden alone?

I would like to know what the opponents of this bill find so objectionable about provisions that help small business owners offer pensions to their workers. I would like to understand why anyone would oppose the community renewal provisions of this bill that help bring hope to America's most economically troubled regions. What is wrong with balancing this wage increase that elevates salaries at double the rate of inflation, with aid to the small businesses who in the end will be forced to pay the bill for what we pass here on Capitol Hill?

Mr. Speaker, the energy of entrepreneurs, people who have the courage to risk all to realize their vision and dreams, should be rewarded, not punished. Do we really wish to leave the owners of small computer firms, restaurants, and mom and pop stores hanging out on a limb where we shove them off alone? I think not, Mr. Speaker. Let us offer those owners of mom and pop stores a helping hand.

In the beginning, I must admit that I was a bit perturbed and perplexed and even puzzled by the opposition to this bill; but upon reflection, I am not so perplexed after all.

No, Mr. Speaker, I am neither perplexed nor puzzled by the opposition to this bill.

I remain, however, perturbed. I am perturbed by the fact that many of the people in opposition would be motivated by the other "P" word: Politics, to injure the small business owners and workers who form the backbone of the American economy.

This bill represents an honest and good faith effort in which representatives from both sides of the partisan divide came together to achieve the best possible results, and the best possible result is precisely what we shall achieve here on the floor of the Chamber today when we pass this bill.

Mr. Speaker, we are first and foremost public servants. Let us put election year political jockeying aside and do what the people of America expect us to do. Let us do what we came here to Washington to do. Let us make people's lives better. Let us pass this bill.

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

Mr. Speaker, I do not care how much time they give my friend, the gentleman from New York (Mr. LAZIO), to speak. He has to be pretty hard put to find any bipartisanship on the tax provisions in this bill. We can rest assured

if there was any attempt, we would not find 90 percent of the tax cuts going to 10 percent of the highest income people here. If we did have a bipartisanship, we would not find three-fourths of the tax cuts going to the highest income people.

Let me say this to my friend, the gentleman from Arizona (Mr. HAYWORTH). He came pretty close to calling one of our colleagues a liar that was speaking. He came very, very close. I do hope that a reflection on the RECORD might bring out the best that he has in his personality and his character so that we can continue to work together as friends in this legislature, notwithstanding the TV shows that he watches.

Mr. Speaker, I yield 2 minutes to my friend, the gentleman from California (Mr. FILNER).

Mr. FILNER. Mr. Speaker, there they go again. The majority is once again bringing up legislation that purports to help the average hard-working, tax-paying American but in reality is just more relief for their well-to-do friends and business partners.

The gentleman from Arizona (Mr. HAYWORTH) watches television. He is telling his friends that the price is right, yet he is putting all of America into jeopardy.

We cannot continue to widen the gap between those who have and those who have less. Just like the majority's so-called marriage penalty relief, this tax cut/minimum wage increase does just that. It actually widens the income gap.

Billions and billions in tax cut benefits for the majority's rich friends and one dollar to America's working people; one dollar to America's working people.

All Americans should share in the prosperity of this booming economy, not just America's corporate CEOs. The Democratic substitute would allow those at the low end of the wage scale to share in this prosperity. I urge my colleagues on both sides of the aisle to remember the priorities of the average American. Let us raise the minimum wage, save Social Security and Medicare, pay down the national debt and stop helping the wealthy under the pretense of helping the average hard-working American.

Mr. Speaker, the saying goes, a rising tide lifts all boats but it is very clear that if this is approved the majority's proposal will leave an awful lot of smaller boats stuck in the muck of economic misery.

Defeat this bill and let us have all America set sail on the ship of prosperity.

Mr. HAYWORTH. Mr. Speaker, I yield myself 1 minute to respond to some of the rhetorical fireworks in the past couple of minutes.

Mr. Speaker, I appreciate my good friend, the ranking member of the committee, the gentleman from New York (Mr. RANGEL), and I am sorry that he felt it necessary to offer a personal attack by way of rhetoric, but we will

look past that and go to the facts because as we know facts are stubborn things.

When we examine the alternative offered by the minority, it is actually cruel because it offers tax relief with one hand and takes it away with the other. I point specifically to two increases, two estate tax increases, in the Democratic alternative; and I would point out, Mr. Speaker, that Americans for Tax Reform have sent a letter to the chairman of the Committee on Ways and Means where they state specifically the Democratic alternative would result in new taxes on estates, corporate income, and capital gains alone.

So I think that is important to remember.

Mr. RANGEL. Mr. Speaker, I yield 1 minute to the gentleman from Maryland (Mr. CUMMINGS).

Mr. CUMMINGS. Mr. Speaker, America's labor force is the backbone of our flourishing economy. Without the efforts of workers in America's industries, big business could not thrive. When we do our job, we receive due compensation. The American people should be no different. It is our job to ensure that America's workers are not taken advantage of.

It is convenient for big business to forget those whose labor helps their companies thrive. Well, it is our job to remind them. It is our job to ensure that the minimum wage levels will afford our Nation's workforce with a decent life-style. It is our job to ensure that the Social Security trust fund is intact when they retire.

It amazes me that while colleagues on the other side of the aisle profess to raise the minimum wage, they continue in their quest to provide careless tax benefits to the wealthy and threaten the Social Security trust fund.

Raising the minimum wage over the course of 3 years is not enough. Our workers deserve more. Our workers deserve better. America's workers are doing their jobs and now is the time that we do ours.

Mr. Speaker, I urge that we reject this bill and fully support the Democratic alternative.

Mr. HAYWORTH. Mr. Speaker, I yield 2 minutes to the gentleman from California (Mr. ROYCE).

Mr. ROYCE. Mr. Speaker, I thank the gentleman from Arizona (Mr. HAYWORTH) for yielding me this time.

Mr. Speaker, small businesses are the backbone of our economy. They employ over half the private workforce in this country. They contribute half of all sales. They are responsible for half the private gross domestic product in the United States.

Now, what this bill will provide is needed relief for small business and for America's workers. The new tax relief provisions will create new jobs. They will promote continued economic growth. They will continue to promote the type of employment policies in which people can find jobs.

The reforms in the pension system will enhance retirement security. The acceleration of the 100 percent health deduction for the self-employed will help ensure that workers will be able to afford quality health care in the private marketplace.

It is time to remove some of the government ties that still bind the engine behind America's unprecedented economic prosperity. It is small business that leads to this prosperity, and I urge my colleagues to pass this bill.

Mr. RANGEL. Mr. Speaker, I yield 1½ minutes to the distinguished gentleman from Mississippi (Mr. TAYLOR).

Mr. TAYLOR of Mississippi. Mr. Speaker, on the 29th of September, 1.4 million Americans will go to the mailbox looking for their paycheck. They are the young people who serve in the Army, the Navy, the Air Force and the Marines. It will not be there because the same people who claim to be for national defense, the same people who claim that there is this huge surplus out there, have seen to it that they are not going to get paid until two days later, October 1. That is so there can be an accounting gimmick and their pay counts against next year's budget and not this year's budget.

Now, if one is a Congressman and they make about \$130,000, waiting 2 extra days for their pay is no big deal but if one is an E-4 with a child and a wife waiting that extra weekend to buy the Pampers or the baby formula, it is a big deal.

So the same folks who did this are saying we have over \$100 billion to give away in tax breaks, 90 percent of which is going to the richest Americans, but we do not have enough for someone if they serve in the Armed Forces, and we are going to delay their pay. That is how much we think of them.

It gets even worse. If one served their Nation honorably, they were promised health care for the rest of their life if they served 20 years. Those same people who show up at the base hospitals they are being told, we are sorry, there is not enough money to take care of them; they are to go out and fend for themselves on Medicare; but there is \$120 billion in tax breaks for the wealthiest Americans.

It gets even worse. For 3 years the same folks who are saying there is all this money laying around, that is why we have to have these tax breaks, froze the budget for the VA. They froze it.

Mr. Speaker, if there is not enough money to take care of those who need it the most, then there is not tax breaks for the least.

Mr. HAYWORTH. Mr. Speaker, I yield myself 1 minute in response to my colleague, the gentleman from Mississippi (Mr. TAYLOR), with whom I see eye to eye on many issues of national security.

I appreciate his points but it is interesting that it is somewhat of a selective outrage at the majority in this legislative body because I can remember the President of the United States,

Mr. Speaker, visiting this Chamber for a State of the Union message and in outlining budget priorities failed to even articulate just a bit of rhetoric for those veterans who have served our country.

Indeed, as the record reflects, it was the majority adding \$1,700,000,000 in health care benefits for our veterans. The other irony, I would point out to my friends in the minority, is this, just a few short months ago they embraced tax relief to the tune of \$300 billion and yet now, Mr. Speaker, they tell us it is risky to propose real tax relief of even \$48 billion to help America's working families.

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Mr. RANGEL. Mr. Speaker, I yield 1½ minutes to the gentleman from Texas (Mr. STENHOLM).

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

Mr. STENHOLM. Mr. Speaker, I need to remind my colleague from Arizona that it is the House's responsibility to deal with the House's business. The gentleman from Mississippi was talking about what we do, not what the President does, and that needs to be taken into account.

What we are about to do today is add-to. When we add up all of the tax cuts that have now been proposed by the majority in the House and the Senate, it is \$500 billion. This is money that is saying our debt continues to go up and the risk to Social Security increases with every bill that is passed like the one before us today.

Mr. Speaker, we do not with small businesses any favors or family farmers any favors by enacting a tax cut which brings them minimal relief, minimal relief at the same time it undermines the fiscal discipline that has produced the longest economic expansion period in the history of our country. The Democratic alternative would provide an immediate \$4 million exclusion for estate tax that would exempt more than 90 percent of the family farms from paying any estate tax at all.

I would welcome the opportunity today on this floor to debate between the bill of the majority and the bill of the minority on a line-by-line basis. Then the rhetoric would stop, I say to my friend from Arizona, and we could have an honest discussion. Why would you not permit an honest discussion of these issues? Why do you pass over the fact that the statement of the gentleman from Mississippi was 100 percent true? Why do you continue to do that with rhetoric? Why is it so important to continue to discuss tax cuts when we ought to be debating the very issues that we seem to all be agreed to.

Vote against this bill and vote for the motion to recommit.

Mr. Speaker, I rise in opposition to this fiscally irresponsible tax bill and in strong support of the Democratic alternative which will be offered as the motion to recommit.

I said on many occasions that the tax bill that this body passed and the President vetoed last year was the most fiscally irresponsible legislation in my 21 years in Congress. We are well on our way to replicating that dubious achievement this year. If we pass this bill today, the total cost of tax bills passed by the House or the Senate to date will total nearly \$500 billion when the interest costs are taken into account. More costly tax bills stand in line to follow.

The tax bill before us is simply a political document that never will become law. Worse, this tax bill put forward by the Majority does not provide meaningful relief from the estate taxes for small businesses and farmers. It may be a good deal for wealthy individuals with estates of \$10 million or more, but it doesn't do much for the vast majority of small businesses and family farmers in my district.

We do small businesses, family farmers and ranchers no favor by enacting a tax cut which brings them minimal relief at the same time it undermines the fiscal discipline which has produced the longest economic expansion period in the history of our country.

The Democratic alternative developed by CHARLIE RANGEL and JOHN TANNER is a fiscally responsible tax proposal which would provide real and meaningful tax relief for the largest number of small businesses. Incidentally, it also could be signed into law.

The Democratic alternative would provide an immediate \$4 million exclusion for the estate tax which would exempt more than 90% of family owned farms from paying any estate tax at all. There are 193,024 family farmers in the State of Texas with farms valued at less than 5 million dollars who would benefit from the estate tax relief in the Democratic substitute. The bill before us does very little for these family farms.

The Democratic alternative contains several other important tax breaks for small businesses that I have long supported. It immediately implements the 100% deduction of health insurance for the self-employed. It makes permanent both the Work Opportunity Credit and the Welfare-to-Work Credit for businesses which hire disadvantaged workers. It increases the business meal deduction and the first-year 100% deduction for investment expenses. And, importantly, the Democratic alternative will maintain the fiscal discipline that has produced our strong economy because the tax cuts in the Democratic alternative are paid for. No wonder the small business community has been so impressed with this proposal.

The President has promised that he will sign into law the Democratic tax package. The fact that the leadership left only a procedural vote to indicate support of this amendment raises the question of what is more important to them: actually providing tax relief to small businesses or keeping a political issue alive.

Vote against this bill and vote for the motion to recommit so we can pass business tax relief which genuinely has been targeted towards small businesses and which can be signed into law.

Mr. HAYWORTH. Mr. Speaker, I yield myself 1 minute.

In response to my colleague from Texas, the reason we engage in this debate, and it is good that there are honest, philosophical differences; but I think all Members of the House, Mr.

Speaker, need to be reminded that the money we are talking about does not belong to the Federal Government; it serves no higher purpose when we leave it in the hands of Washington bureaucrats, and the best way to empower all Americans is to make sure that all Americans hold on to more of their hard-earned money.

I would be happy to point out again that if we examine the alternative offered by the minority, it offers tax relief in one hand, it takes it away with estate tax increases on the other hand. The net tax relief of the minority package is a total of \$8 million as opposed to \$48 billion of comprehensive relief offered by a bipartisan majority. Again, I would point out that many Members of the minority, just a few short weeks ago, embraced a \$300 billion tax relief package.

Mr. RANGEL. Mr. Speaker, I yield 10 seconds to the gentleman from Texas (Mr. STENHOLM) to respond to what the gentleman from Arizona just alleged.

Mr. STENHOLM. Mr. Speaker, I appreciate my friend's comments. I would also point out that we have a \$5.6 trillion debt that needs to be addressed. That is what we are talking about on this side. Pay down the debt first, and then let us deal with tax cuts and other priorities.

Mr. HAYWORTH. Mr. Speaker, I yield myself 30 seconds.

The SPEAKER pro tempore (Mr. PEASE). The gentleman from New York (Mr. RANGEL) controls the time.

Mr. RANGEL. Mr. Speaker, I yield 1 minute to the gentleman from California (Mr. BACA).

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

Mr. BACA. Mr. Speaker, I rise in behalf of the working families. I am speaking about the \$1 increase in the minimum wage over the next 2 years, and I oppose the passage of the tax scheme provision, the Republican tax bill, H.R. 3081, that benefits the wealthy. We are talking about a cost over 10 years of \$122 billion. That is not being fiscally responsible. We are talking about the need to be fiscally responsible, and we have that responsibility. We have the responsibility to do the death tax reduction. This bill is not dealing with the death tax reduction. We have the responsibility to working families, families right now that need an increase. There are many individuals that are struggling right now.

I myself come from a poor family and know what it is like to struggle, when one is just making minimum wage. Many of our students that are up in the gallery and others are saying look, we need an increase right now. We want to make sure that we can afford to put food on the table. We want to enjoy the same things that other individuals enjoy. We want to enjoy the quality of life. We want to make sure that we do not have to struggle like many others. We are very fortunate in our country that we have the ability for those of us

who earn the money, but for those individuals that are poor and disadvantaged, we need to help them.

Mr. Speaker, I rise today to speak on behalf of working families across America.

I am speaking about a one-dollar increase in minimum wage over the next two years and opposing the passage of the tax provisions of the Republican tax bill, H.R. 3081.

The minimum wage proposal would benefit millions of families and allow them some comfort and economic dignity.

40% of minimum wage workers are the sole breadwinners in their families.

It is our responsibility to allow everyone—everyone—a chance at the American Dream and opportunity to bridge together and help improve the quality of life for all Americans.

The working people of America—the ones who built this country—deserve the opportunity to provide for themselves and their family.

You can't raise a family on \$5.15 an hour.

You can't house a family on \$5.15 an hour.

And you certainly can't put a decent roof over their heads for \$5.15 an hour.

Parents who are forced to work two jobs are unable to spend much time with their children. That is wrong.

Democrats have been pushing for an increase since January of 1998 and it has taken the Republican leadership too long to respond.

How can they give themselves a \$4,600 pay raise last year and then deny Labor a \$1 pay raise over two years?

Republicans have used up all their excuses. Now is the time to give these Americans a raise.

This issue is not about politics but about women . . . about children . . . and most importantly . . . about fairness.

Why should we vote for open markets in China and then deny the American worker his overdue benefits?

Why should we vote for a tax bill that will benefit only the wealthy and do nothing for the working class?

These votes are simple . . . yes to minimum wage and no to the tax.

I say we pass the minimum wage bill and change the slanted tax bill . . . and give laboring Americans the dignity to live.

ANNOUNCEMENT BY THE SPEAKER PRO TEMPORE

The SPEAKER pro tempore. Members are reminded not to address comments about occupants of the gallery.

Mr. HAYWORTH. Mr. Speaker, I yield myself 1 minute. Welcome, my colleague from California, to this Chamber and to the debate. To my colleagues on the left and my friend from Texas, whom I guess left the Chamber, I would simply point out again that facts are stubborn things.

It is a fact that we have paid down over \$140 billion of this debt. It is a fact that the budgeteers not here in Congress, but down at the other end of Pennsylvania Avenue at the White House who assessed what has transpired here with our budget, say that in 1999, for the first time since 1960, the United States Government offered a budget surplus over and above those funds of the Social Security Trust Fund. I would remind my colleagues that it was the efforts of this majority to lock away 100 percent of the Social

Security surplus for Social Security in stark contrast to previous majorities in earlier years where that Social Security money was spent just as fast as it could be printed.

Mr. RANGEL. Mr. Speaker, I yield 1½ minutes to the gentleman from New Jersey (Mr. HOLT).

Mr. HOLT. Mr. Speaker, this week I visited a beautiful farm, 85 acres in Holmdel, New Jersey, the Garden State. This property is one of the largest parcels of undeveloped land in that township. The farm has survived two world wars, the Great Depression, the advent of the technological revolution, and the factory farm. But today, because of the estate tax, family members may have to sell the property to developers. This is true even though some of the survivors would like to keep the land in the family and preserve it as open space and farmland.

Well, when a government policy robs families of their heritage and forces communities to develop land instead of preserving it, something needs to be changed. I am proud to cosponsor the legislation introduced by the gentleman from New York (Mr. RANGEL) that would help mitigate this unfair tax which hits so many in New Jersey.

The Rangel small business tax package would relieve the estate tax burden for family-owned farms and small businesses, and also includes other helpful tax cuts, including a provision to make permanent the work opportunity and welfare-to-work tax credits. The proposal would also accelerate 100 percent health insurance deduction for the self-employed and increase the tax deductions for business expenses. This is a responsible package to preserve family farms and small businesses and is compatible with efforts to shore up Social Security and Medicare and pay down the debt.

Central New Jersey supports eliminating the estate tax for family-owned farms and businesses. I urge my colleagues to support responsible estate tax relief.

Mr. HAYWORTH. Mr. Speaker, I yield 2 minutes to the gentleman from California (Mr. GARY MILLER).

Mr. GARY MILLER of California. Mr. Speaker, this bill is about cleaning up neighborhoods and helping people afford housing. It would increase the State authority for the low-income housing tax credit from \$1.25 per person to \$1.65 per person, and it will index that cap to inflation. What does that mean to people in your district and mine struggling to afford housing?

Here are some statistics: the current credit on caps is \$1.25 per person. It has not been changed since 1986, which means that while housing is currently affordable and the buying power of taxpayers has been decreased by almost 50 percent, it is not what it used to be. Mr. Speaker, 12 million Americans who are eligible for this program are not benefiting, which means that they are paying a very high portion of their income for rent or they are living in substandard housing.

Also, this legislation helps distressed areas by creating renewal communities with pro-growth tax initiatives to create jobs, encourage personal savings, and clean up neighborhoods on former industrial sites so new businesses can grow.

Some people have said this tax cut is for the rich, but obviously that is not true. The truth is that those who argue against this kind of a tax cut are simply against any kind of a tax cut. They are terrified about letting any money get away from the Government because they honestly believe government is a solution to all of our problems.

Mr. Speaker, I urge all of my colleagues to support this bill that will help people improve their communities and afford housing.

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

For someone to say that Democrats are against any tax cuts, they obviously did not read the substitute. We have \$36 billion worth of tax cuts here. The only difference is that we give a clear, no-tax status to those people who have estates that are \$4 million tax free and we give relief up to \$13 million. The Republicans have most all of their tax cut going to people in higher incomes. So one cannot say that when we look at the substitute, we have a \$36 billion tax cut there, that we do not believe in tax cuts.

The truth of the matter is that the majority does not believe in a one-dollar increase in the minimum wage, because if they did believe in it, they would have worked out in a bipartisan way how we could bring the President to sign a bill. It is as simple as that. As a matter of fact, if they had just stopped at \$36 billion, we could have walked out of here, men and women, Republican and Democrats, going to our home districts and saying, not only did we help those that work every day, even though it is at near-poverty wages, but we gave relief to small employers who may not be able to afford that \$1. That is what we could have done. That could have been the beginning of us working together toward other tax cuts after we take care of Social Security and Medicare and affordable drugs, after we make certain that we protect the patient's right to be able to sue, after we do those basic things, again, not as the majority and minority, not as Republicans and Democrats, but as Members of Congress working together to improve the quality of life for most Americans, especially working Americans.

There will be enough differences for us to go to the polls and to campaign, but we do not have to fight on each and every issue. Why cannot the majority take a deep breath, get a life, and try to do some of the things that the senior Senator from Arizona was saying. Be responsible. Stop thinking only in terms of tax cuts.

The American people say, I want a tax cut. They are saying, that is my money. But we have a responsibility to

take care of that over \$5 billion of Federal debt that we have to pay down. We have to take care of Medicare. We have to take care of Social Security. While we are at it, they say, yes, take care of cutting my taxes; but during this period of prosperity, do not deny the working poor a \$1 increase in the minimum wage.

So I suggest to the other side that they know that they have begged for a veto. The worst thing that could happen to my colleagues is for the President to decide not to be held hostage and to swallow these irresponsible tax cuts, but that is not going to happen. Because it was this President that has led us to this period of prosperity and he is not going to allow politically motivated Members of this House to drive them into doing something this irresponsible because he wants a minimum wage.

Mr. Speaker, it is not too late for my colleagues to change their wayward ways and to attempt to sit down and to work with Democrats and to work with the President and to do the right thing. My Republican colleagues could not get this 800-pound gorilla off the floor last year, and you will not be able to do it this year.

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

I thank my colleague from New York. I thought for a moment there he was engaged in self-analysis when he talked about playing politics and who was holding whom hostage over reasonable relief for working Americans when it comes to taxation.

Again, facts are stubborn things. It is worth noting that this Congress together, in a bipartisan fashion, joined to create a lockbox for Social Security that kept the Social Security surplus, 100 percent of it, intact and reserved for Social Security; that it is this Congress, working together, that paid down \$143 billion of a \$5 trillion national debt that hangs over the heads of our children; that it is this common sense Congress, working in a bipartisan fashion, with sober, business-minded friends in the minority in a bipartisan fashion to offer reasonable tax relief and search for a way to find common ground. Indeed, that is what this legislation provides.

Mr. Speaker, we offer tax relief for working Americans. We offer empowerment for the economically downtrodden. We offer a way to say death to the death tax and make sure that people stay gainfully employed and that family farms and small businesses are not sold off to satisfy the insatiable desire of those who always seek for the public Treasury personal funds. That, in the final analysis, is what this debate comes down to, Mr. Chairman. It is this question: To whom does the money belong? Does it belong to Washington bureaucrats, or does it belong to the American people who work hard, pay their taxes, and play by the rules?



Mr. Speaker, a bipartisan majority supports the notion that the money belongs to the people who earn it, who work hard and play by the rules, and who deserve to have a good chunk of their money stay in their pockets.

In conclusion, I would simply point out that the minority alternative offers, are we ready for this, a net tax relief package of \$8 million as opposed to broad-based tax relief of \$48 billion under the bipartisan majority plan.

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That is what we must work for, economic empowerment, not only through wages, but allowing all Americans to keep more of their hard-earned money. That is why I am pleased to support the commonsense majority plan that passed out of the Committee on Ways and Means and comes to this floor for the consideration of all my colleagues.

Mr. MOORE. Mr. Speaker, I rise today in support of H.R. 3832, the Small Business Tax Fairness Act of 2000.

I have long been a supporter of targeted tax relief that will help sustain the growth of economy, support the continued health of our nation's small businesses, restore and rehabilitate our rural and urban communities, and provide incentives for individuals to save for their retirement.

While I would have included provisions that differ somewhat from this version had I drafted this bill myself, I strongly support the following provisions that will benefit small businesses and the self employed, low-income and rural areas, and the working poor and middle-income America:

100 Percent Deductibility of Health Insurance Costs: This provision will level the playing field for the self-employed and reduce the burden on the over 44 million Americans currently without health insurance.

Small Business Expensing: A majority of our nation's small businesses exceed the current small-business expensing limits in only three months. This bill would raise the threshold from \$20,000 to \$30,000, which will free up capital resources for additional investment in small businesses to expand and create new jobs.

Installment Sales Tax Correction: Last year, Congress passed and the President signed into law a bill that provided much needed tax relief to individuals and businesses through extending certain tax credits. Unfortunately, this law contained a provision, which will be repealed by H.R. 3832, that prohibits small businesses that use accrual accounting methods from selling assets in installments.

Community Development and Low-Income Assistance: The measure also provides for the creation of "renewal communities" to assist low-income and rural areas with tax relief that will help spur economic growth. Additionally, the bill includes an expansion of the low-income housing tax credit to help build and support more low-income housing for the working poor.

Enhancing Retirement Security: In an increasingly mobile workforce, it is critically important that we allow for shorter vesting schedules and increased portability of retirement benefits between jobs. This bill does that. By removing artificial and administrative barriers, these provisions will make it signifi-

cantly easier for working Americans to save and invest for their retirement. Other provisions in this bill will increase limits on employer-sponsored retirement plans, increase pension opportunities for women who have historically been left out of retirement savings plans, and provide new and expanded opportunities for all Americans to save and invest for their future.

This bill also reduces the estate tax. While I support providing estate tax relief to American families, small business owners, and farmers who have worked their entire lives to transfer a portion of their estates upon their death, I do not advocate a full repeal of the estate tax. I therefore object to the provision in Section 302 of the bill that expresses the sense of Congress that the estate tax should be repealed. Simply, a full repeal of the estate tax will have budget implications that this country simply cannot afford. With over \$200 billion in lost revenue, this has the potential to put this country back on the wrong fiscal track of increased deficit spending and an exploding national debt.

Mr. Speaker, this year the House of Representatives has already passed a \$182 billion marriage penalty relief bill. I supported that measure because that bill provided needed tax relief for married couples by reducing the marriage tax penalty while strengthening the financial resources of the American family and fostering economic prosperity into the 21st century. Today, we will likely pass a \$122 billion tax relief bill. That brings the total tax relief approved by the House to date up to \$304 billion or a little more than 30 percent of the projected on budget surplus of \$930 billion.

I warned the House when we passed the marriage penalty tax and I will warn the House again today: This Congress has yet to act on a budget resolution and, as such, has no knowledge about how this legislation will fit into our other collective commitments to extend the solvency of Social Security and Medicare and reduce our national debt. Although the majority claims to support retiring the publicly held debt, they have begun the session by scheduling several tax bills funded by the projected budget surplus without giving any consideration to the impact that the bills will have on the ability to retire our \$5.6 trillion national debt.

We can, we should, and we have cut taxes. I have supported these bills because each has had a relatively modest cost when considered in isolation; and I will support one more bill—clean legislation that will increase the deductible contribution limits to Individual Retirement Accounts. Today, the Wall Street Journal reported that the majority is contemplating bringing a bill to the floor that would increase IRA limits to \$5000. I have such a bill and I urge the leadership in both parties to consider H.R. 802 because it will help increase national savings and encourage individual private retirement accounts to supplement Social Security benefits.

I am concerned, however, that the total costs of these bills will be nearly as much as the vetoed tax bill, and could even be more expensive. These tax cuts, however, must be made in the context of a fiscally responsible budget that eliminated the publicly held debt, strengthens Social Security and Medicare, and addresses our other other priorities. While I will be supporting this legislation, I will also be redoubling my efforts to push fiscal responsi-

bility—to call for a plan I voted for last summer that would reserve 50 percent of on-budget surpluses for debt reduction, 25 percent for securing Social Security and protecting Medicare, and 25 percent for tax cuts.

We have exceeded that threshold and I urge the leadership to recognize that enough is enough. I urge my colleagues to move forward in a bipartisan manner to address these other important issues and place all of our priorities in context of a responsible budget resolution.

Ms. JACKSON-LEE of Texas. Mr. Speaker, today I rise in strong opposition to the Small Business Tax Legislation coupled with the Minimum Wage Increase bill. This Republican Tax Bill is a poison pill designed to defeat the increase in the minimum wage—the President has indicated that he would veto the Republican tax bill even if it were included in legislation increasing minimum wage.

I have long supported estate tax relief for American families; however, this bill is not a responsible measure in providing such relief. I reject the Republican bill and its solution to estate tax relief and strongly support the Democratic alternative.

The Democratic alternative provides greater tax relief to small businesses in the following respects:

A. It liberalizes and makes permanent the Work Opportunity Tax Credit, a credit that will directly benefit many small businesses employing minimum wage workers. The Republican bill does nothing.

B. It provides far greater estate tax relief for family farms and small businesses than the Republican bill. The overwhelming percentage of estates with farms and small business interests will receive greater estate tax relief.

C. It provides small businesses a greater increase in the business meal deduction than the Republican bill.

D. It contains provisions identical to those contained in the Republican bill on priority issues such as 100% deductibility for health insurance premiums for the self employed, increase in small business expensing, and repeal of the provision enacted last year changing installment method.

E. The Democratic alternative will be signed by the President. Therefore, these priority provisions actually could become law if the Democratic alternative passes. Otherwise, they merely will be contained in yet another bill vetoed by the President.

During 1995 and 1996, the House Republicans alone defeated meaningful reforms that would have stopped a few extraordinarily wealthy individuals from gaining large tax benefits by renouncing their allegiance to this country.

The House Republicans succeeded in overcoming the opposition of the Senate Republicans and Democrats, the Administration, and the House Democrats. They insisted on tax expatriation legislation with many loopholes that enable wealthy individuals to turn their backs on this country and walk away with large accumulations of wealth.

The Democratic alternative contains provisions that effectively will eliminate the tax expatriation loophole. Voting for the Republican bill will be a vote to place the interests of wealthy expatriates ahead of minimum wage workers.

The Democratic alternative also contains provisions to close down the aggressive use

of corporate tax shelters. Again, voting for the Republican bill is a vote to place the interests of large corporations using aggressive tax avoidance schemes ahead of minimum wage workers.

The Republican bill would cost approximately \$122 billion over the next 10 years and is part of their strategy to enact their irresponsible \$800 billion tax bill in a piecemeal fashion. The Republicans once again are asking the House to vote for tax cuts before knowing whether there is a budget framework that will protect Social Security and Medicare, provide a prescription drug benefit, and pay down the national debt. These are the priorities of our constituents. How can we support a bill that threatens fiscal discipline and the welfare of our families?

The Small Business Tax Legislation bill, is highly misleading. The overwhelming bulk of the tax relief contained in the Republican bill will go to the estates of extremely wealthy individuals and not to small businesses.

According to the Center On Budget and Policy Priorities this Republican sponsored bill contains an array of tax cuts that would mostly benefit high-income individuals, and likely lead to reductions in pension benefits for lower-income working families.

The pension provisions mentioned in this bill would be a major expansion of pension-related tax preferences for high-income persons. The proposed pension changes relax some provisions of current law that limit contributions that highly paid individuals may make to pension plans, as well as the amount of the pension payments that such high-income individuals receive when they retire.

Some of the pension provisions in this bill would reduce the pension coverage for lower- and middle-income workers. For example, increasing pension contribution limits for well compensated executives and owners, then they could maintain contributions for their own pension plans while reducing contributions for other employees.

The estate tax reductions in this legislation would go to the estates of wealthy people who are investors with extensive holdings in real estate and/or stocks or other financial instruments and who were NOT owners of small businesses. An estate tax reduction of this magnitude would not justify an offset for the effects of a higher minimum wage on small businesses.

The Minimum Wage legislation rightfully seeks to increase the minimum wage from \$5.15 to \$6.15 an hour for the millions of hard working people in our country. However, the coupling of this minimum wage increase with alleged small business tax measures is a poor match. According to the Center On Budget and Policy Priorities there is little evidence that modest minimum-wage increases have significant negative effects on small businesses.

Voting for this Republican bill is a vote to place the interests of large corporations using aggressive tax avoidance schemes ahead of minimum wage workers. I will always advocate for the benefit of those hardworking Americans that so desperately need a minimum wage increase and tax cut.

Mr. BENTSEN. Mr. Speaker, I rise in opposition to H.R. 3081, the "Wage Employment Growth Act of 1999." The short title of the Republican bill is highly misleading. My Republican colleagues assert that this measure is targeted to offset the financial hardship on

small businesses resulting from increasing the minimum wage.

The GOP bill would cost approximately \$122 billion over the next ten years and is part of Republicans' strategy to enact their failed and irresponsible \$800 billion tax bill incrementally. This is the second tax bill the House has considered this year, spending the projected surplus before we have even passed a budget resolution to determine the nation's overall tax spending and debt reduction plans. The Republican leadership seems intent on scoring political points rather than governing. They determine fiscal policy by election strategy not financial prudence.

H.R. 3081 also purports to promote the establishment of pension plans by small employers. As an advocate for removing barriers to employer-sponsored pension programs, I am disappointed with what the Republicans have set out before us. Mr. BLUNT (D-Mo.) and I have sponsored H.R. 352, a measure aimed at helping small business owners set up pension plans so their employees may save for their retirement. H.R. 352 proposes to ease the regulatory and administrative burdens on small businesses and includes a five-year tax credit for employers that establishes any type of qualified retirement plan. Many of the main concepts in H.R. 352 were incorporated in H.R. 1102 which was supposedly subsumed into H.R. 3081. Unfortunately, what has emerged from the Republicans does not resemble H.R. 352 nor does it encourage small business employers to help their employees save for retirement.

Today, only 21 percent of all individuals employed by small businesses with less than 100 employees participate in an employer-sponsored plan, compared to 64 percent of those who work for businesses with more than 100 employees. The Republican bill squanders an unprecedented opportunity to address an impending crisis—the retirement of nearly 76 million Baby Boomers. Even as incomes rise, we have an abysmally low savings rate of 3.8 percent of disposable personal income. If the economy slows in the near future, that figure may rise by only one or two percentage points, which is still low by historical standards.

There are many provisions in H.R. 3081 which are meritorious and should be enacted by the House including resolving the question of installment sales, estate tax which really helps family-owned businesses and farms and expands pension opportunities. But, Congress must first adopt a budget plan which prudently allocates the projected budget surplus which does not lead us toward renewed deficit spending.

As a member of the Budget Committee, I continue to advocate that Congress preserve the budget surplus and use it to pay off the national debt while strengthening Social Security. The \$3.7 trillion dollar public debt is a tremendous burden on the economy. By forcing the government to borrow money in private markets, the debt drives up interest rates and takes investment capital away from private companies, thereby reducing productivity. As interest payments on the debt grow, it saps both private investment and vital programs such as Medicare and education. Regrettably, H.R. 3081 jeopardizes our ability to protect Social Security and Medicare and pay down the national debt.

Mr. WELDON of Florida. Mr. Speaker, today I rise in support of the Small Business Tax

Fairness Act and increasing the federal minimum wage one dollar over three years.

The nearly 3 million small business owners and their employees in the state of Florida deserve this tax fairness package, which will save American small businessowners \$45.3 billion over the next five years. Let's remember that most Americans work for small businesses and strengthening them will help us create good jobs here in America. Liberals who oppose this package use outrageous language to describe our proposal which will help not only the owners of small businesses and farms, but their employees.

The Small Business Tax Fairness Act continues the Republican commitment to rework the tax code to provide tax fairness to all hardworking Americans. Tragically, owners of mom and pop stores, restaurants, and farms have been unfairly saddled with these tax burdens for decades. They are called "rich" because of their holdings; but almost all of them would agree that those holdings are necessary tools and materials for the success of their businesses.

For example a tractor and a plow can easily cost upwards of \$50,000. Helping farmers to purchase new farm equipment may be labeled as a tax cut for the rich by liberal opponents of this bill. But, because of their narrow vision and interest in partisan rhetoric they fail to acknowledge and see everyone who benefits. I can guarantee you that the benefits flow to American workers who manufactured the tractor, the truckers who shipped it, the miners who mined the raw materials, and those who work in the factory where the tires and other components are made. The tax relief package clearly is good for all Americans.

With regard to estate taxes, as someone who represents Florida, I know about the loss of farm land and open spaces. Estate taxes force too many families to sell the farmland to developers just to pay the taxes. I have seen it time and again in my congressional district where families have been forced to sell citrus farms in order to pay estate taxes when a parent dies. The bill provides some tax relief that will help farmers and their families keep the family farm.

The bill also encourages savings. We have the lowest savings rate in American history. Our bill helps Americans save money for the future. It helps make pension plans more portable so that Americans workers who have placed money in a company pension plan can move to another job more easily without losing all that they have put in a pension plan. This will help all American workers and their families.

We provide Americans with a tax deduction for the purchase of health insurance so that they are not impoverished when faced with a serious illness. I am disappointed that the liberals have labeled as a "tax break for the rich," a bill that allows the uninsured to fully deduct the costs of purchasing health insurance premiums. I think we should be about helping the uninsured, not sticking it to them.

We also authorize HUD to designate 15 "renewal communities" in both urban and rural areas. This will help these economically depressed communities recover.

We also increase the business meal deduction to 60%. This will spur economic growth. It will help the waiter, the waitress, and the cook who will have more customers.

Not only does our package spur economic growth by providing this tax relief, but it provides a reasonable increase in the minimum wage. As in the base bill, I support raising the minimum wage by a dollar over the next three years. The phased-in wage increase will help employees and it will give those small businesses who operate at the margins an opportunity to adjust so that they can remain competitive and ensure that jobs are not lost.

I would ask my colleagues to support this bill.

Mrs. MINK of Hawaii. Mr. Speaker, I rise in opposition to the H.R. 3081.

H.R. 3081 provides irresponsible tax cuts that will do nothing to help the people that need it the most—the working families.

Instead, H.R. 3081 will spend over \$100 billion of the taxpayer's money over the next ten years to provide tax relief to some of the wealthiest families.

In contrast, the Democratic tax proposal focuses on working families.

It would raise the estate tax exclusion for family farms and businesses to \$4 million. Under current law, it is now \$1.3 million. With this change, the Democrats would be helping families save their businesses so it can be passed on to the next generation.

This would help the neighborhood pharmacist pass his drug store on to his daughter. It would help the Mom and Pop store continue thriving with a son or daughter. It would allow the family farm to stay in the family.

The Democratic substitute will repeal a provision that currently disallows a business deduction for travel expenses incurred when your spouse or child accompanies you on a business trip. This deduction would allow the family to spend more time together. It would make it easier for a working mom to take her daughter on a business trip with her. It would make it easier for a husband and father to include his family. It would help keep the family together.

The Democrats are committed to putting families first. Our tax proposals focus on the family.

In addition, it provides an exclusion for post-secondary educational benefits provided for employee's children; it provides funding for school construction; it extends the Work Opportunity and the welfare-to-work tax credits. And it makes changes to Section 415 affecting pensions to help workers save for retirement.

And it does all of this and more at a cost of \$30 billion over ten years—a fraction of the cost of the Republican bill.

Perhaps that is why the Republicans would not allow the Democrats to offer this tax proposal as a substitute to their bill. We have targeted our tax cuts to help the people that really need it and at a cost that is much more reasonable.

The Republicans want their bill or no bill. We have another choice. The motion to recommit will give you the opportunity to vote for the Democratic substitute.

We are experiencing great financial times right now; some Americans are getting rich, but most poor working families are getting nowhere.

Since 1979, 98 percent of the increase in incomes in America has gone to the top 20 percent.

We must not enact irresponsible tax cuts that will benefit only the wealthiest families in this country as a trade-off for a \$1 minimum wage increase spread over 3 years.

I urge a "no" vote on H.R. 3081 and an "aye" vote on the motion to recommit.

Mr. BALLENGER. Mr. Speaker, I am pleased that the House is voting on a package of tax relief designed to help America's small businessmen and women shoulder the burden of another increase in the federal minimum wage.

Congress has already voted on many of the changes contained in the Small Business Tax Fairness Act (H.R. 3081) in the context of previous Republican-authored tax relief bills which either died in the other body or were vetoed by President Clinton. In the interest of protecting the small businesses and the jobs they create in my congressional district and around the nation, I believe this bill is needed and must accompany any proposed increase in the federal minimum wage. As such, I applaud Ways and Means Committee Chairman BILL ARCHER for his persistence in fighting for tax relief in this context as well as for measures which he championed to relieve the tax burden on working families.

Although I believe the \$45.8 billion price tag of H.R. 3081 is modest in comparison to earlier bills, it makes some important changes in the tax code which will help to insure the strength of the small business sector, the backbone of the American economy. First, the bill further reduces over five years a tax, created in 1916 in order to break up and redistribute a concentration of the nation's wealth, which was used to help fund World War I. This war was won in 1918, but the tax on estates remains. It is important to note that this tax penalizes not only so-called rich families, but the workers employed by these family businesses or farms if the 55% federal tax rate destroys or financially cripples these enterprises. I found this fact to be startling, only one-third of family-owned businesses survive into the next generation in many cases because of this so-called death tax.

In addition, Congress needs to correct a problem created by Public Law 106-170 and once again allow accrual basis businesses to use the installment method of accounting on the sale of assets and the business. Congressional Republicans have continued the fight to provide the self-employed with 100 percent deductibility for their health insurance costs and have included it in this bill. As a small businessman myself, I know the importance of the increase from \$19,000 to \$30,000 in the amount of equipment eligible for expensing which H.R. 3081 seeks. Needless to say, the comprehensive package of pension reforms in the bill have widespread support and include provisions which in the past enjoyed the support of business and labor.

I've mentioned the changes in H.R. 3081 which my constituents have consistently advocated. I hope we will see a large bipartisan majority voting for this tax relief package today. It is in everyone's interest to see to it that our nation's small businesses continue to flourish.

The SPEAKER pro tempore (Mr. PEASE). All time having expired, pursuant to House Resolution 434, the previous question is ordered on the bill, as amended.

The question is on the engrossment and third reading of the bill.

The bill was ordered to be engrossed and read a third time, and was read the third time.

#### MOTION TO RECOMMIT

Mr. RANGEL. Mr. Speaker, I offer a motion to recommit.

The SPEAKER pro tempore. Is the gentleman opposed to the bill?

Mr. RANGEL. Yes, Mr. Speaker.

The SPEAKER pro tempore. The Clerk will report the motion.

The Clerk read as follows:

Mr. RANGEL moves to recommit the bill, H.R. 3081, to the Committee on Ways and Means with instructions to report the same forthwith back to the House with the following amendment:

Strike all after the enacting clause, and insert the following:

#### TITLE II—AMENDMENTS OF INTERNAL REVENUE CODE OF 1986

##### SEC. 200. SHORT TITLE.

(a) SHORT TITLE.—This title may be cited as the "Small Business Tax Relief Act of 2000".

(b) TABLE OF CONTENTS.—

#### TITLE II—AMENDMENTS OF INTERNAL REVENUE CODE OF 1986

Sec. 200. Table of contents.

Subtitle A—Permanent Extension of Work Opportunity Credit and Welfare-to-Work Credit

Sec. 201. Work opportunity credit and welfare-to-work credit; repeal of age limitation on eligibility of food stamp recipients.

Subtitle B—Deduction for 100 Percent of Health Insurance Costs of Self-Employed Individuals

Sec. 211. Deduction for 100 percent of health insurance costs of self-employed individuals.

#### Subtitle C—Pension Provisions

Sec. 221. Treatment of multiemployer plans under section 415.

Sec. 222. Early retirement limits for certain plans.

Sec. 223. Certain post-secondary educational benefits provided by an employer to children of employees excludable from gross income as a scholarship.

#### Subtitle D—Business Tax Relief

Sec. 231. Increase in expense treatment for small businesses.

Sec. 232. Small businesses allowed increased deduction for meal and entertainment expenses.

Sec. 233. Restoration of deduction for travel expenses of spouse, etc. accompanying taxpayer on business travel.

Sec. 234. Increased credit and amortization deduction for reforestation expenditures.

Sec. 235. Repeal of modification of installment method.

#### Subtitle E—Expansion of Incentives for Public Schools

Sec. 241. Expansion of incentives for public schools.

#### Subtitle F—Increased Estate Tax Relief for Family-Owned Business Interests

Sec. 251. Increase in estate tax benefit for family-owned business interests.

#### Subtitle G—Revenue Offsets

#### PART I—REVISION OF TAX RULES ON EXPATRIATION

Sec. 261. Revision of tax rules on expatriation.

**PART II—DISALLOWANCE OF NONECONOMIC TAX ATTRIBUTES**

**SUBPART A—DISALLOWANCE OF NONECONOMIC TAX ATTRIBUTES; INCREASE IN PENALTY WITH RESPECT TO DISALLOWED NONECONOMIC TAX ATTRIBUTES**

- Sec. 266. Disallowance of noneconomic tax attributes.
- Sec. 267. Increase in substantial underpayment penalty with respect to disallowed noneconomic tax attributes.
- Sec. 268. Penalty on marketed tax avoidance strategies which have no economic substance, etc.
- Sec. 269. Effective dates.

**SUBPART B—LIMITATIONS ON IMPORTATION OR TRANSFER OF BUILT-IN LOSSES**

- Sec. 271. Limitation on importation of built-in losses.
- Sec. 272. Disallowance of partnership loss transfers.

**PART III—ESTATE AND GIFT TAX OFFSETS**

- Sec. 276. Valuation rules for transfers involving nonbusiness assets.
- Sec. 277. Correction of technical error affecting largest estates.

**PART IV—OTHER OFFSETS**

- Sec. 281. Consistent amortization periods for intangibles.
- Sec. 282. Modification of foreign tax credit carryover rules.
- Sec. 283. Recognition of gain on transfers to swap funds.

(c) **COORDINATION WITH BUDGET RULES.**—If, without regard to this sentence, any provision of this Act would result in an increase or decrease in revenue in fiscal year 2001, notwithstanding any other provision of this Act, such provision shall be first effective on October 1, 2001, except that the determination of amounts required to be paid (or refunds required to be allowed) on or after such date shall be made as if this sentence had not been enacted.

**Subtitle A—Permanent Extension of Work Opportunity Credit and Welfare-to-Work Credit**

**SEC. 201. WORK OPPORTUNITY CREDIT AND WELFARE-TO-WORK CREDIT; REPEAL OF AGE LIMITATION ON ELIGIBILITY OF FOOD STAMP RECIPIENTS.**

**(a) PERMANENT EXTENSION.**—

**(1) IN GENERAL.**—

(A) Section 51(c) of the Internal Revenue Code of 1986 is amended by striking paragraph (4).

(B) Section 51A of such Code is amended by striking subsection (f).

(2) **EFFECTIVE DATE.**—The amendments made by this subsection shall apply to individuals who begin work for the employer after December 31, 2001.

(b) **REPEAL OF AGE LIMITATION ON ELIGIBILITY OF FOOD STAMP RECIPIENTS.**—

(1) **IN GENERAL.**—Subparagraph (A) of section 51(d)(8) of such Code is amended to read as follows:

“(A) **IN GENERAL.**—The term ‘qualified food stamp recipient’ means any individual who is certified by the designated local agency as being a member of a family—

“(i) receiving assistance under a food stamp program under the Food Stamp Act of 1977 for the 6-month period ending on the hiring date, or

“(ii) receiving such assistance for at least 3 months of the 5-month period ending on the hiring date, in the case of a member of a family who ceases to be eligible for such assistance under section 6(o) of the Food Stamp Act of 1977.”

(2) **EFFECTIVE DATE.**—The amendment made by this subsection shall apply to individuals who begin work for the employer after the date of the enactment of this Act.

**Subtitle B—Deduction for 100 Percent of Health Insurance Costs of Self-Employed Individuals**

**SEC. 211. DEDUCTION FOR 100 PERCENT OF HEALTH INSURANCE COSTS OF SELF-EMPLOYED INDIVIDUALS.**

(a) **IN GENERAL.**—Paragraph (1) of section 162(l) of the Internal Revenue Code of 1986 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.

**Subtitle C—Pension Provisions**

**SEC. 221. TREATMENT OF MULTIEMPLOYER PLANS UNDER SECTION 415.**

(a) **COMPENSATION LIMIT.**—Paragraph (11) of section 415(b) of the Internal Revenue Code of 1986 (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 of such Code (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, except that such plan shall be combined or aggregated with another plan which is not such a multiemployer plan solely for purposes of determining whether such other plan meets the requirements of subsection (b)(1)(A).”

(2) **CONFORMING AMENDMENT FOR AGGREGATION OF PLANS.**—Subsection (g) of section 415 of such Code (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, 1999.

**SEC. 222. EARLY RETIREMENT LIMITS FOR CERTAIN PLANS.**

(a) **IN GENERAL.**—Subparagraph (F) of section 415(b)(2) of the Internal Revenue Code of 1986 is amended to read as follows:

“(F) **MULTIEMPLOYER PLANS AND PLANS MAINTAINED BY GOVERNMENTS AND TAX EXEMPT ORGANIZATIONS.**—In the case of a governmental plan (within the meaning of section 414(d)), a plan maintained by an organization (other than a governmental unit) exempt from tax under this subtitle, a multiemployer plan (as defined in section 414(f)), or a qualified merchant marine plan—

“(i) subparagraph (C) shall be applied—

“(I) by substituting ‘age 62’ for ‘social security retirement age’ each place it appears, and

“(II) as if the last sentence thereof read as follows: ‘The reduction under this subparagraph shall not reduce the limitation of paragraph (1)(A) below (i) 80 percent of such limitation as in effect for the year, or (ii) if the benefit begins before age 55, the equivalent of such 80 percent amount for age 55.’, and

“(ii) subparagraph (D) shall be applied by substituting ‘age 65’ for ‘social security retirement age’ each place it appears.

For purposes of this subparagraph, the term ‘qualified merchant marine plan’ means a plan in existence on January 1, 1986, the participants in which are merchant marine officers holding licenses issued by the Secretary of Transportation under title 46, United States Code.”

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

**SEC. 223. CERTAIN POST-SECONDARY EDUCATIONAL BENEFITS PROVIDED BY AN EMPLOYER TO CHILDREN OF EMPLOYEES EXCLUDABLE FROM GROSS INCOME AS A SCHOLARSHIP.**

(a) **IN GENERAL.**—Section 117 of the Internal Revenue Code of 1986 (relating to qualified scholarships) is amended by adding at the end the following:

“(e) **EMPLOYER-PROVIDED POST-SECONDARY EDUCATIONAL BENEFITS PROVIDED TO CHILDREN OF EMPLOYEES.**—

“(1) **IN GENERAL.**—In determining whether any amount is a qualified scholarship for purposes of subsection (a), the fact that such amount is provided in connection with an employment relationship shall be disregarded if—

“(A) such amount is provided by the employer to a child (as defined in section 151(c)(3)) of an employee or former employee of such employer,

“(B) such amount is provided pursuant to a plan which meets the nondiscrimination requirements of subsection (d)(3), and

“(C) amounts provided under such plan are in addition to any other compensation payable to employees and such plan does not provide employees with a choice between such amounts and any other benefit.

For purposes of subparagraph (C), the business practices of the employer (as well as such plan) shall be taken into account.

“(2) **DOLLAR LIMITATIONS.**—

“(A) **PER CHILD.**—The amount excluded from the gross income of the employee by reason of paragraph (1) for a taxable year with respect to amounts provided to each child of such employee shall not exceed \$2,000.

“(B) **AGGREGATE LIMIT.**—The amount excluded from the gross income of the employee by reason of paragraph (1) for a taxable year (after the application of subparagraph (A)) shall not exceed the excess of the dollar amount contained in section 127(a)(2) over the amount excluded from the employee's gross income under section 127 for such year.

“(3) **PRINCIPAL SHAREHOLDERS AND OWNERS.**—Paragraph (1) shall not apply to any amount provided to any child of any individual if such individual (or such individual's spouse) owns (on any day of the year) more than 5 percent of the stock or of the capital or profits interest in the employer.

“(4) **SPECIAL RULES OF APPLICATION.**—In the case of an amount which is treated as a qualified scholarship by reason of this subsection—

“(A) subsection (a) shall be applied without regard to the requirement that the recipient be a candidate for a degree, and

“(B) subsection (b)(2)(A) shall be applied by substituting ‘section 529(e)(5)’ for ‘section 170(b)(1)(A)(ii)’.

“(5) **CERTAIN OTHER RULES TO APPLY.**—Rules similar to the rules of paragraphs (4), (5), and (7) of section 127(c) shall apply for purposes of this subsection.”

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

**Subtitle D—Business Tax Relief****SEC. 231. INCREASE IN EXPENSE TREATMENT FOR SMALL BUSINESSES.**

(a) IN GENERAL.—Paragraph (1) of section 179(b) of the Internal Revenue Code of 1986 (relating to dollar limitation) is amended to read as follows:

“(1) DOLLAR LIMITATION.—The aggregate cost which may be taken into account under subsection (a) for any taxable year shall not exceed \$30,000.”

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

**SEC. 232. SMALL BUSINESSES ALLOWED INCREASED DEDUCTION FOR MEAL AND ENTERTAINMENT EXPENSES.**

(a) IN GENERAL.—Subsection (n) of section 274 (relating to only 50 percent of meal and entertainment expenses allowed as deduction) is amended by adding at the end the following new paragraph:

“(4) SPECIAL RULE FOR SMALL BUSINESSES.—“(A) IN GENERAL.—In the case of any taxpayer which is a small business, paragraph (1) shall be applied by substituting for ‘50 percent’—

“(i) ‘55 percent’ in the case of taxable years beginning in 2001 and 2002, and

“(ii) ‘60 percent’ in the case of taxable years beginning in 2003, 2004, 2005 and 2006, and

“(iii) ‘65 percent’ in the case of taxable years beginning after 2006.

“(B) SMALL BUSINESS.—For purposes of this paragraph, the term ‘small business’ means, with respect to expenses paid or incurred during any taxable year—

“(i) any C corporation which meets the requirements of section 55(e)(1) for such year, and

“(ii) any S corporation, partnership, or sole proprietorship which would meet such requirements if it were a C corporation.”

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

**SEC. 233. RESTORATION OF DEDUCTION FOR TRAVEL EXPENSES OF SPOUSE, ETC. ACCOMPANYING TAXPAYER ON BUSINESS TRAVEL.**

(a) IN GENERAL.—Subsection (m) of section 274 of the Internal Revenue Code of 1986 (relating to additional limitations on travel expenses) is amended by striking paragraph (3).

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

**SEC. 234. INCREASED CREDIT AND AMORTIZATION DEDUCTION FOR REFORESTATION EXPENDITURES.**

(a) INCREASE IN CREDIT.—Paragraph (1) of section 48(b) of the Internal Revenue Code of 1986 (relating to reforestation credit) is amended by striking “10 percent” and inserting “20 percent”.

(b) REDUCTION IN AMORTIZATION PERIOD.—Subsection (a) of section 194 of such Code (relating to amortization of reforestation expenditures) is amended—

(1) by striking “84 months” and inserting “36 months”, and

(2) by striking “84-month period” and inserting “36-month period”.

(c) INCREASE IN MAXIMUM AMOUNT WHICH MAY BE AMORTIZED.—Paragraph (1) of section 194(b) of such Code is amended by striking “\$10,000 (\$5,000)” and inserting “\$20,000 (\$10,000”.

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

**SEC. 235. REPEAL OF MODIFICATION OF INSTALLMENT METHOD.**

(a) IN GENERAL.—Subsection (a) of section 536 of the Ticket to Work and Work Incentives Improvement Act of 1999 (relating to

modification of installment method and repeal of installment method for accrual method taxpayers) is repealed effective with respect to sales and other dispositions occurring on or after the date of the enactment of such Act.

(b) APPLICABILITY.—The Internal Revenue Code of 1986 shall be applied and administered as if that subsection (and the amendments made by that subsection) had not been enacted.

**Subtitle E—Expansion of Incentives for Public Schools****SEC. 241. EXPANSION OF INCENTIVES FOR PUBLIC SCHOOLS.**

(a) IN GENERAL.—Chapter 1 of the Internal Revenue Code of 1986 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 zone academy bond, and

“(B) a qualified school construction 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—

“(A) any stadium or other facility primarily used for athletic contests or exhibitions or other events for which admission is charged to the general public, or

“(B) 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).

“(l) PENALTY ON CONTRACTORS FAILING TO PAY PREVAILING WAGE.—

“(1) IN GENERAL.—If any contractor on any project funded by any qualified public school modernization bond has failed, during any portion of such contractor’s taxable year, to pay prevailing wages that would be required under section 439 of the General Education Provisions Act if such funding were an applicable program under such section, the tax imposed by chapter 1 on such contractor for such taxable year shall be increased by 200 percent of the amount involved in such failure.

“(2) AMOUNT INVOLVED.—For purposes of paragraph (1), the amount involved with respect to any failure is the excess of the amount of wages such contractor would be so required to pay under such section over the amount of wages paid.

“(3) ABATEMENT OF TAX IF FAILURE CORRECTED.—If a failure to pay prevailing wages is corrected within a reasonable period, then any tax imposed by paragraph (1) with respect to such failure (including interest, additions to the tax, and additional amounts) shall not be assessed, and if assessed the assessment shall be abated, and if collected shall be credited or refunded as an overpayment.

“(4) NO CREDITS AGAINST TAX.—The tax imposed by paragraph (1) shall not be treated as a 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 minimum tax imposed by section 55.

“(m) TERMINATION.—This section shall not apply to any bond issued after December 31, 2004.

## “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) \$11,000,000,000 for 2001,

“(2) except as provided in subsection (f), zero after 2001.

“(d) HALF OF LIMITATION ALLOCATED AMONG STATES.—

“(1) IN GENERAL.—One-half 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 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) HALF OF LIMITATION ALLOCATED AMONG LARGEST SCHOOL DISTRICTS.—

“(1) IN GENERAL.—One-half 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 capacity of the agency’s 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), 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 2000,

“(D) \$1,400,000,000 for 2001,

“(E) except as provided in paragraph (3), zero after 2001.

“(2) ALLOCATION OF LIMITATION.—

“(A) ALLOCATION AMONG STATES.—

“(i) 1998, 1999, and 2000 LIMITATIONS.—The national zone academy bond limitations for calendar years 1998, 1999, and 2000 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 2000.—The national zone academy bond limitation for any calendar year after 2000 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)).

“(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 such Code (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) OTHER CONFORMING AMENDMENTS.—

(1) Subchapter U of chapter 1 of such Code 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) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as otherwise provided in this subsection, the amendments made by this section shall apply to obligations issued after December 31, 2000.

(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.

#### Subtitle F—Increased Estate Tax Relief for Family-Owned Business Interests

##### SEC. 251. INCREASE IN ESTATE TAX BENEFIT FOR FAMILY-OWNED BUSINESS INTERESTS.

(a) TRANSFER TO CREDIT PROVISIONS.—Section 2057 of the Internal Revenue Code of 1986 (relating to family-owned business interests) is hereby moved to part II of subchapter A of chapter 11 of such Code, inserted after section 2010, and redesignated as section 2010A.

(b) INCREASE IN CREDIT; SURVIVING SPOUSE ALLOWED UNUSED CREDIT OF DECEDENT.—Subsection (a) of section 2010A of such Code, as redesignated by subsection (a) of this section, is amended to read as follows:

“(a) INCREASE IN UNITED CREDIT.—For purposes of determining the unified credit under section 2010 in the case of an estate of a decedent to which this section applies—

“(1) IN GENERAL.—The applicable exclusion amount under section 2010(c) shall be increased (but not in excess of \$2,000,000) by the adjusted value of the qualified family-owned business interests of the decedent which are described in subsection (b)(2) and for which no deduction is allowed under section 2056.

“(2) TREATMENT OF UNUSED LIMITATION OF PREDECEASED SPOUSE.—In the case of a decedent—

“(A) having no surviving spouse, but

“(B) who was the surviving spouse of a decedent—

“(i) who died after December 31, 2000, and

“(ii) whose estate met the requirements of subsection (b)(1) other than subparagraph (B) thereof,

there shall be substituted for ‘\$2,000,000’ in paragraph (1) an amount equal to the excess of \$4,000,000 over the exclusion equivalent of the credit allowed under section 2010 (as increased by this section) to the estate of the

decedent referred to in subparagraph (B). For purposes of the preceding sentence, the exclusion equivalent of the credit is the amount on which a tentative tax under section 2001(c) equal to such credit would be imposed.”

(c) CONFORMING AMENDMENTS.—

(1) The table of sections for part IV of subchapter A of chapter 11 of such Code is amended by striking the item relating to section 2057.

(2) Paragraph (10) of section 2031(c) of such Code is amended by striking “section 2057(e)(3)” and inserting “section 2010A(e)(3)”.

(3) The table of sections for part II of subchapter A of chapter 11 of such Code is amended by inserting after the item relating to section 2010 the following new item:

“Sec. 2010A. Family-owned business interests.”

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to estates of decedents dying after December 31, 2000.

#### Subtitle G—Revenue Offsets

##### PART I—REVISION OF TAX RULES ON EXPATRIATION

##### SEC. 261. REVISION OF TAX RULES ON EXPATRIATION.

(a) IN GENERAL.—Subpart A of part II of subchapter N of chapter 1 of the Internal Revenue Code of 1986 is amended by inserting after section 877 the following new section:

##### “SEC. 877A. TAX RESPONSIBILITIES OF EXPATRIATION.

“(a) GENERAL RULES.—For purposes of this subtitle—

“(1) MARK TO MARKET.—Except as provided in subsection (f), all property of a covered expatriate to whom this section applies shall be treated as sold on the day before the expatriation date for its fair market value.

“(2) RECOGNITION OF GAIN OR LOSS.—In the case of any sale under paragraph (1)—

“(A) notwithstanding any other provision of this title, any gain arising from such sale shall be taken into account for the taxable year of the sale, and

“(B) any loss arising from such sale shall be taken into account for the taxable year of the sale to the extent otherwise provided by this title, except that section 1091 shall not apply to any such loss.

Proper adjustment shall be made in the amount of any gain or loss subsequently realized for gain or loss taken into account under the preceding sentence.

“(3) EXCLUSION FOR CERTAIN GAIN.—The amount which would (but for this paragraph) be includible in the gross income of any individual by reason of this section shall be reduced (but not below zero) by \$600,000. For purposes of this paragraph, allocable expatriation gain taken into account under subsection (f)(2) shall be treated in the same manner as an amount required to be includible in gross income.

“(b) ELECTION TO DEFER TAX.—

“(1) IN GENERAL.—If the taxpayer elects the application of this subsection with respect to any property treated as sold by reason of subsection (a), the payment of the additional tax attributable to such property shall be postponed until the due date of the return for the taxable year in which such property is disposed of (or, in the case of property disposed of in a transaction in which gain is not recognized in whole or in part, until such other date as the Secretary may prescribe).

“(2) DETERMINATION OF TAX WITH RESPECT TO PROPERTY.—For purposes of paragraph (1), the additional tax attributable to any property is an amount which bears the same ratio to the additional tax imposed by this chapter for the taxable year solely by reason of subsection (a) as the gain taken into ac-

count under subsection (a) with respect to such property bears to the total gain taken into account under subsection (a) with respect to all property to which subsection (a) applies.

“(3) TERMINATION OF POSTPONEMENT.—No tax may be postponed under this subsection later than the due date for the return of tax imposed by this chapter for the taxable year which includes the date of death of the expatriate (or, if earlier, the time that the security provided with respect to the property fails to meet the requirements of paragraph (4), unless the taxpayer corrects such failure within the time specified by the Secretary).

“(4) SECURITY.—

“(A) IN GENERAL.—No election may be made under paragraph (1) with respect to any property unless adequate security is provided with respect to such property.

“(B) ADEQUATE SECURITY.—For purposes of subparagraph (A), security with respect to any property shall be treated as adequate security if—

“(i) it is a bond in an amount equal to the deferred tax amount under paragraph (2)(A) for the property, or

“(ii) the taxpayer otherwise establishes to the satisfaction of the Secretary that the security is adequate.

“(5) WAIVER OF CERTAIN RIGHTS.—No election may be made under paragraph (1) unless the taxpayer consents to the waiver of any right under any treaty of the United States which would preclude assessment or collection of any tax imposed by reason of this section.

“(6) ELECTIONS.—An election under paragraph (1) shall only apply to property described in the election and, once made, is irrevocable. An election may be under paragraph (1) with respect to an interest in a trust with respect to which gain is required to be recognized under subsection (f)(1).

“(7) INTEREST.—For purposes of section 6601, the last date for the payment of tax shall be determined without regard to the election under this subsection.

“(c) COVERED EXPATRIATE.—For purposes of this section—

“(1) IN GENERAL.—The term ‘covered expatriate’ means an expatriate who meets the requirements of subparagraph (A) or (B) of section 877(a)(2).

“(2) EXCEPTIONS.—An individual shall not be treated as a covered expatriate if—

“(A) the individual—

“(i) became at birth a citizen of the United States and a citizen of another country and, as of the expatriation date, continues to be a citizen of, and is taxed as a resident of, such other country, and

“(ii) has been a resident of the United States (as defined in section 7701(b)(1)(A)(ii)) for not more than 8 taxable years during the 15-taxable year period ending with the taxable year during which the expatriation date occurs, or

“(B)(i) the individual’s relinquishment of United States citizenship occurs before such individual attains age 18½, and

“(ii) the individual has been a resident of the United States (as so defined) for not more than 5 taxable years before the date of relinquishment.

“(d) SECTION NOT TO APPLY TO CERTAIN PROPERTY.—This section shall not apply to the following property:

“(1) UNITED STATES REAL PROPERTY INTERESTS.—Any United States real property interest (as defined in section 897(c)(1)), other than stock of a United States real property holding corporation which does not, on the day before the expatriation date, meet the requirements of section 897(c)(2).

“(2) INTEREST IN CERTAIN RETIREMENT PLANS.—



“(A) IN GENERAL.—Any interest in a qualified retirement plan (as defined in section 4974(c)), other than any interest attributable to contributions which are in excess of any limitation or which violate any condition for tax-favored treatment.

“(B) FOREIGN PENSION PLANS.—

“(i) IN GENERAL.—Under regulations prescribed by the Secretary, interests in foreign pension plans or similar retirement arrangements or programs.

“(ii) LIMITATION.—The value of property which is treated as not sold by reason of this subparagraph shall not exceed \$500,000.

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

“(1) EXPATRIATE.—The term ‘expatriate’ means—

“(A) any United States citizen who relinquishes his citizenship, and

“(B) any long-term resident of the United States who—

“(i) ceases to be a lawful permanent resident of the United States (within the meaning of section 7701(b)(6)), or

“(ii) commences to be treated as a resident of a foreign country under the provisions of a tax treaty between the United States and the foreign country and who does not waive the benefits of such treaty applicable to residents of the foreign country.

“(2) EXPATRIATION DATE.—The term ‘expatriation date’ means—

“(A) the date an individual relinquishes United States citizenship, or

“(B) in the case of a long-term resident of the United States, the date of the event described in clause (i) or (ii) of paragraph (1)(B).

“(3) RELINQUISHMENT OF CITIZENSHIP.—A citizen shall be treated as relinquishing his United States citizenship on the earliest of—

“(A) the date the individual renounces his United States nationality before a diplomatic or consular officer of the United States pursuant to paragraph (5) of section 349(a) of the Immigration and Nationality Act (8 U.S.C. 1481(a)(5)),

“(B) the date the individual furnishes to the United States Department of State a signed statement of voluntary relinquishment of United States nationality confirming the performance of an act of expatriation specified in paragraph (1), (2), (3), or (4) of section 349(a) of the Immigration and Nationality Act (8 U.S.C. 1481(a)(1)-(4)),

“(C) the date the United States Department of State issues to the individual a certificate of loss of nationality, or

“(D) the date a court of the United States cancels a naturalized citizen's certificate of naturalization.

Subparagraph (A) or (B) shall not apply to any individual unless the renunciation or voluntary relinquishment is subsequently approved by the issuance to the individual of a certificate of loss of nationality by the United States Department of State.

“(4) LONG-TERM RESIDENT.—The term ‘long-term resident’ has the meaning given to such term by section 877(e)(2).

“(f) SPECIAL RULES APPLICABLE TO BENEFICIARIES' INTERESTS IN TRUST.—

“(1) IN GENERAL.—Except as provided in paragraph (2), if an individual is determined under paragraph (3) to hold an interest in a trust on the day before the expatriation date—

“(A) the individual shall not be treated as having sold such interest,

“(B) such interest shall be treated as a separate share in the trust, and

“(C)(i) such separate share shall be treated as a separate trust consisting of the assets allocable to such share,

“(ii) the separate trust shall be treated as having sold its assets on the day before the expatriation date for their fair market value

and as having distributed all of its assets to the individual as of such time, and

“(iii) the individual shall be treated as having recontributed the assets to the separate trust.

Subsection (a)(2) shall apply to any income, gain, or loss of the individual arising from a distribution described in subparagraph (C)(ii).

“(2) SPECIAL RULES FOR INTERESTS IN QUALIFIED TRUSTS.—

“(A) IN GENERAL.—If the trust interest described in paragraph (1) is an interest in a qualified trust—

“(i) paragraph (1) and subsection (a) shall not apply, and

“(ii) in addition to any other tax imposed by this title, there is hereby imposed on each distribution with respect to such interest a tax in the amount determined under subparagraph (B).

“(B) AMOUNT OF TAX.—The amount of tax under subparagraph (A)(ii) shall be equal to the lesser of—

“(i) the highest rate of tax imposed by section 1(e) for the taxable year which includes the day before the expatriation date, multiplied by the amount of the distribution, or

“(ii) the balance in the deferred tax account immediately before the distribution determined without regard to any increases under subparagraph (C)(i) after the 30th day preceding the distribution.

“(C) DEFERRED TAX ACCOUNT.—For purposes of subparagraph (B)(ii)—

“(i) OPENING BALANCE.—The opening balance in a deferred tax account with respect to any trust interest is an amount equal to the tax which would have been imposed on the allocable expatriation gain with respect to the trust interest if such gain had been included in gross income under subsection (a).

“(ii) INCREASE FOR INTEREST.—The balance in the deferred tax account shall be increased by the amount of interest determined (on the balance in the account at the time the interest accrues), for periods after the 90th day after the expatriation date, by using the rates and method applicable under section 6621 for underpayments of tax for such periods.

“(iii) DECREASE FOR TAXES PREVIOUSLY PAID.—The balance in the tax deferred account shall be reduced—

“(I) by the amount of taxes imposed by subparagraph (A) on any distribution to the person holding the trust interest, and

“(II) in the case of a person holding a nonvested interest, to the extent provided in regulations, by the amount of taxes imposed by subparagraph (A) on distributions from the trust with respect to nonvested interests not held by such person.

“(D) ALLOCABLE EXPATRIATION GAIN.—For purposes of this paragraph, the allocable expatriation gain with respect to any beneficiary's interest in a trust is the amount of gain which would be allocable to such beneficiary's vested and nonvested interests in the trust if the beneficiary held directly all assets allocable to such interests.

“(E) TAX DEDUCTED AND WITHHELD.—

“(i) IN GENERAL.—The tax imposed by subparagraph (A)(ii) shall be deducted and withheld by the trustees from the distribution to which it relates.

“(ii) EXCEPTION WHERE FAILURE TO WAIVE TREATY RIGHTS.—If an amount may not be deducted and withheld under clause (i) by reason of the distributee failing to waive any treaty right with respect to such distribution—

“(I) the tax imposed by subparagraph (A)(ii) shall be imposed on the trust and each trustee shall be personally liable for the amount of such tax, and

“(II) any other beneficiary of the trust shall be entitled to recover from the dis-

tributee the amount of such tax imposed on the other beneficiary.

“(F) DISPOSITION.—If a trust ceases to be a qualified trust at any time, a covered expatriate disposes of an interest in a qualified trust, or a covered expatriate holding an interest in a qualified trust dies, then, in lieu of the tax imposed by subparagraph (A)(ii), there is hereby imposed a tax equal to the lesser of—

“(i) the tax determined under paragraph (1) as if the day before the expatriation date were the date of such cessation, disposition, or death, whichever is applicable, or

“(ii) the balance in the tax deferred account immediately before such date.

Such tax shall be imposed on the trust and each trustee shall be personally liable for the amount of such tax and any other beneficiary of the trust shall be entitled to recover from the covered expatriate or the estate the amount of such tax imposed on the other beneficiary.

“(G) DEFINITIONS AND SPECIAL RULE.—For purposes of this paragraph—

“(i) QUALIFIED TRUST.—The term ‘qualified trust’ means a trust—

“(I) which is organized under, and governed by, the laws of the United States or a State, and

“(II) with respect to which the trust instrument requires that at least 1 trustee of the trust be an individual citizen of the United States or a domestic corporation.

“(ii) VESTED INTEREST.—The term ‘vested interest’ means any interest which, as of the day before the expatriation date, is vested in the beneficiary.

“(iii) NONVESTED INTEREST.—The term ‘nonvested interest’ means, with respect to any beneficiary, any interest in a trust which is not a vested interest. Such interest shall be determined by assuming the maximum exercise of discretion in favor of the beneficiary and the occurrence of all contingencies in favor of the beneficiary.

“(iv) ADJUSTMENTS.—The Secretary may provide for such adjustments to the bases of assets in a trust or a deferred tax account, and the timing of such adjustments, in order to ensure that gain is taxed only once.

“(3) DETERMINATION OF BENEFICIARIES' INTEREST IN TRUST.—

“(A) DETERMINATIONS UNDER PARAGRAPH (1).—For purposes of paragraph (1), a beneficiary's interest in a trust shall be based upon all relevant facts and circumstances, including the terms of the trust instrument and any letter of wishes or similar document, historical patterns of trust distributions, and the existence of and functions performed by a trust protector or any similar advisor.

“(B) OTHER DETERMINATIONS.—For purposes of this section—

“(i) CONSTRUCTIVE OWNERSHIP.—If a beneficiary of a trust is a corporation, partnership, trust, or estate, the shareholders, partners, or beneficiaries shall be deemed to be the trust beneficiaries for purposes of this section.

“(ii) TAXPAYER RETURN POSITION.—A taxpayer shall clearly indicate on its income tax return—

“(I) the methodology used to determine that taxpayer's trust interest under this section, and

“(II) if the taxpayer knows (or has reason to know) that any other beneficiary of such trust is using a different methodology to determine such beneficiary's trust interest under this section.

“(g) TERMINATION OF DEFERRALS, ETC.—In the case of any covered expatriate, notwithstanding any other provision of this title—

“(1) any period during which recognition of income or gain is deferred shall terminate on the day before the expatriation date, and

“(2) any extension of time for payment of tax shall cease to apply on the day before the expatriation date and the unpaid portion of such tax shall be due and payable at the time and in the manner prescribed by the Secretary.

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

(b) TAX ON GIFTS AND BEQUESTS RECEIVED BY UNITED STATES CITIZENS AND RESIDENTS FROM EXPATRIATES.—

(1) IN GENERAL.—Subtitle B of the Internal Revenue Code of 1986 (relating to estate and gift taxes) is amended by inserting after chapter 13 the following new chapter:

**“CHAPTER 13A—GIFTS AND BEQUESTS FROM EXPATRIATES**

“Sec. 2681. Imposition of tax.

**“SEC. 2681. IMPOSITION OF TAX.**

“(a) IN GENERAL.—If, during any calendar year, any United States citizen or resident receives any covered gift or bequest, there is hereby imposed a tax equal to the product of—

“(1) the highest rate of tax specified in the table contained in section 2001(c) as in effect on the date of such receipt, and

“(2) the value of such covered gift or bequest.

“(b) TAX TO BE PAID BY RECIPIENT.—The tax imposed by subsection (a) on any covered gift or bequest shall be paid by the person receiving such gift or bequest.

“(c) EXCEPTION FOR CERTAIN GIFTS.—Subsection (a) shall apply only to the extent that the covered gifts and bequests received during the calendar year exceed \$10,000.

“(d) TAX REDUCED BY FOREIGN GIFT OR ESTATE TAX.—The tax imposed by subsection (a) on any covered gift or bequest shall be reduced by the amount of any gift or estate tax paid to a foreign country with respect to such covered gift or bequest.

“(e) COVERED GIFT OR BEQUEST.—

“(1) IN GENERAL.—For purposes of this chapter, the term ‘covered gift or bequest’ means—

“(A) any property acquired by gift directly or indirectly from an individual who, at the time of such acquisition, was an expatriate, and

“(B) any property acquired by bequest, devise, or inheritance directly or indirectly from an individual who, at the time of death, was an expatriate.

“(2) EXCEPTIONS FOR TRANSFERS OTHERWISE SUBJECT TO ESTATE OR GIFT TAX.—Such term shall not include—

“(A) any property shown on a timely filed return of tax imposed by chapter 12 which is a taxable gift by the expatriate, and

“(B) any property shown on a timely filed return of tax imposed by chapter 11 of the estate of the expatriate.

“(3) TRANSFERS IN TRUST.—Any covered gift or bequest which is made in trust shall be treated as made to the beneficiaries of such trust in proportion to their respective interests in such trust (as determined under section 877A(f)(3)).

“(f) EXPATRIATE.—For purposes of this section, the term ‘expatriate’ has the meaning given to such term by section 877A(e)(1).”

(2) CLERICAL AMENDMENT.—The table of chapters for subtitle B of such Code is amended by inserting after the item relating to chapter 13 the following new item:

“Chapter 13A. Gifts and bequests from expatriates.”

(c) DEFINITION OF TERMINATION OF UNITED STATES CITIZENSHIP.—Section 7701(a) of such Code is amended by adding at the end the following new paragraph:

“(47) TERMINATION OF UNITED STATES CITIZENSHIP.—

“(A) IN GENERAL.—An individual shall not cease to be treated as a United States citizen before the date on which the individual’s citizenship is treated as relinquished under section 877A(e)(3).

“(B) DUAL CITIZENS.—Under regulations prescribed by the Secretary, subparagraph (A) shall not apply to an individual who became at birth a citizen of the United States and a citizen of another country.”

(d) CONFORMING AMENDMENT.—Paragraph (1) of section 6039G(d) of such Code is amended by inserting “or 877A” after “section 877”.

(e) CLERICAL AMENDMENT.—The table of sections for subpart A of part II of subchapter N of chapter 1 of such Code is amended by inserting after the item relating to section 877 the following new item:

“Sec. 877A. Tax responsibilities of expatriation.”

(f) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in this subsection, the amendments made by this section shall apply to expatriates (within the meaning of section 877A(e) of the Internal Revenue Code of 1986, as added by this section) whose expatriation date (as so defined) occurs on or after March 9, 2000.

(2) GIFTS AND BEQUESTS.—Chapter 13A of the Internal Revenue Code of 1986 (as added by subsection (b)) shall apply to covered gifts and bequests (as defined in section 2681 of such Code, as so added) received on or after March 9, 2000.

**PART II—DISALLOWANCE OF NONECONOMIC TAX ATTRIBUTES**

**Subpart A—Disallowance of Noneconomic Tax Attributes; Increase in Penalty With Respect to Disallowed Noneconomic Tax Attributes**

**SEC. 266. DISALLOWANCE OF NONECONOMIC TAX ATTRIBUTES.**

Section 7701 of the Internal Revenue Code of 1986 is amended by redesignating subsection (m) as subsection (n) and by inserting after subsection (l) the following new subsection:

“(m) DISALLOWANCE OF NONECONOMIC TAX ATTRIBUTES.—

“(1) IN GENERAL.—In determining liability for any tax under subtitle A, noneconomic tax attributes shall not be allowed.

“(2) NONECONOMIC TAX ATTRIBUTE.—For purposes of this subsection, a noneconomic tax attribute is any deduction, loss, or credit claimed to result from any transaction unless—

“(A) the transaction changes in a meaningful way (apart from Federal income tax consequences) the taxpayer’s economic position, and

“(B)(i) the present value of the reasonably expected potential income from the transaction (and the taxpayer’s risk of loss from the transaction) are substantial in relationship to the present value of the tax benefits claimed, or

“(ii) in the case of a transaction which is in substance the borrowing of money or the acquisition of financial capital, the deductions claimed with respect to the transaction for any period are not significantly in excess of the economic return for such period realized by the person lending the money or providing the financial capital.

“(3) PRESUMPTION OF NONECONOMIC TAX ATTRIBUTES.—For purposes of paragraph (2), the following factors shall give rise to a presumption that a transaction fails to meet the requirements of paragraph (2):

“(A) The fact that the payments, liabilities, or assets that purport to create a loss (or other benefit) for tax purposes are not reflected to any meaningful extent on the taxpayer’s books and records for financial reporting purposes.

“(B) The fact that the transaction results in an allocation of income or gain to a tax-indifferent party which is substantially in excess of such party’s economic income or gain from the transaction.

“(4) TREATMENT OF BUILT-IN LOSS.—The determination of whether a transaction results in the realization of a built-in loss shall be made under subtitle A as if this subsection had not been enacted. For purposes of the preceding sentence, the term ‘built-in loss’ means any loss or deduction to the extent that such loss or deduction had economically been incurred before such transaction is entered into and to the extent that the loss or deduction was economically borne by the taxpayer.

“(5) DEFINITION AND SPECIAL RULES.—For purposes of this subsection—

“(A) TAX-INDIFFERENT PARTY.—The term ‘tax-indifferent party’ means any person or entity exempt from tax under subtitle A. A person shall be treated as a tax-indifferent party with respect to a transaction if, by reason of such person’s method of accounting, the items taken into account with respect to the transaction have no substantial impact on such person’s liability under subtitle A.

“(B) SERIES OF RELATED TRANSACTION.—A transaction which is part of a series of related transactions shall be treated as meeting the requirements of paragraph (2) only if—

“(i) such transaction meets such requirements without regard to the other transactions, and

“(ii) such transactions, if treated as 1 transaction, would meet such requirements. A similar rule shall apply to a multiple step transaction with each step being treated as a separate related transaction.

“(C) NORMAL BUSINESS TRANSACTIONS.—In the case of a transaction which is an integral part of a taxpayer’s trade or business and which is entered into in the normal course of such trade or business, the determination of the potential income from such transaction shall be made by taking into account its relationship to the overall trade or business of the taxpayer.

“(D) TREATMENT OF FEES.—In determining whether there is risk of loss from a transaction (and the amount thereof), potential loss of fees and other transaction expenses shall be disregarded.

“(E) TREATMENT OF ECONOMIC RETURN ENHANCEMENTS.—The following shall be treated as economic returns and not tax benefits:

“(i) The credit under section 29 (relating to credit for producing fuel from a nonconventional source).

“(ii) The credit under section 42 (relating to low-income housing credit).

“(iii) The credit under section 45 (relating to electricity produced from certain renewable resources).

“(iv) The credit under section 1397E (relating to credit to holders of qualified zone academy bonds) or any similar program hereafter enacted.

“(v) Any other tax benefit specified in regulations.

“(F) EXCEPTIONS FOR NONBUSINESS TRANSACTIONS.—

“(i) INDIVIDUALS.—In the case of an individual, this subsection shall only apply to transactions entered into in connection with a trade or business or activity engaged in for profit.

“(ii) CHARITABLE TRANSFERS.—This subsection shall not apply in determining the amount allowable as a deduction under section 170, 545(b)(2), 556(b)(2), or 642(c).

“(6) ECONOMIC SUBSTANCE DOCTRINE, ETC., NOT AFFECTED.—The provisions of this subsection shall not be construed as altering or supplanting any rule of law referred to in

section 6662(i)(2)(B) and the requirements of this subsection shall be construed as being in addition to any such rule of law."

**SEC. 267. INCREASE IN SUBSTANTIAL UNDERPAYMENT PENALTY WITH RESPECT TO DISALLOWED NONECONOMIC TAX ATTRIBUTES.**

(a) IN GENERAL.—Section 6662 of the Internal Revenue Code of 1986 (relating to imposition of accuracy-related penalty) is amended by adding at the end the following new subsection:

"(i) INCREASE IN PENALTY IN CASE OF DISALLOWED NONECONOMIC TAX ATTRIBUTES.—

"(I) IN GENERAL.—In the case of the portion of the underpayment to which this subsection applies—

"(A) subsection (a) shall be applied with respect to such portion by substituting '40 percent' for '20 percent', and

"(B) subsection (d)(2)(B) and section 6664(c) shall not apply.

"(2) UNDERPAYMENTS TO WHICH SUBSECTION APPLIES.—This subsection shall apply to an underpayment to which this section applies by reason of paragraph (1) or (2) of subsection (b) but—

"(A) only to the extent that such underpayment is attributable to—

"(i) the disallowance of any noneconomic tax attribute (determined under section 7701(m)), or

"(ii) the disallowance of any other benefit—

"(I) because of a lack of economic substance or business purpose for the transaction giving rise to the claimed benefit,

"(II) because the form of the transaction did not reflect its substance, or

"(III) because of any other similar rule of law, and

"(B) only if the underpayment so attributable exceeds \$1,000,000.

"(3) INCREASE IN PENALTY NOT TO APPLY IF COMPLIANCE WITH DISCLOSURE REQUIREMENTS.—Paragraph (1)(A) shall not apply if the taxpayer—

"(A) discloses to the Secretary within 30 days after the closing of the transaction appropriate documents describing the transaction, and

"(B) files with the taxpayer's return of tax imposed by subtitle A—

"(i) a statement verifying that such disclosure has been made,

"(ii) a detailed description of the facts, assumptions of facts, and factual conclusions with respect to the business or economic purposes or objectives of the transaction that are relied upon to support the manner in which it is reported on the return,

"(iii) a description of the due diligence performed to ascertain the accuracy of such facts, assumptions, and factual conclusions,

"(iv)(I) a statement (signed by the senior financial officer of the corporation under penalty of perjury) that the facts, assumptions, or factual conclusions relied upon in reporting the transaction are true and correct as of the date the return is filed, to the best of such officer's knowledge and belief, and

"(II) if the actual facts varied materially from the facts, assumptions, or factual conclusions relied upon, a statement describing such variances,

"(v) copies of any written material provided in connection with the offer of the transaction to the taxpayer by a third party,

"(vi) a full description of any express or implied agreement or arrangement with any advisor, or with any offeror, that the fee payable to such person would be contingent or subject to possible reimbursement, and

"(vii) a full description of any express or implied warranty from any person with respect to the anticipated tax results from the transaction."

(b) MODIFICATIONS TO PENALTY ON SUBSTANTIAL UNDERSTATEMENT OF INCOME TAX.—

(1) MODIFICATION OF THRESHOLD.—Subparagraph (A) of section 6662(d)(2) of such Code is amended to read as follows:

"(A) IN GENERAL.—For purposes of this section, there is a substantial understatement of income tax for any taxable year if the amount of the understatement for the taxable year exceeds the lesser of—

"(i) \$1,000,000, or

"(ii) the greater of 10 percent of the tax required to be shown on the return for the taxable year or \$5,000."

(2) REDUCTION OF PENALTY ON ACCOUNT OF DISCLOSURE NOT TO APPLY TO TAX SHELTERS.—Subparagraph (C) of section 6662(d)(2) of such Code is amended by striking clause (ii), by redesignating clause (iii) as clause (ii), and by striking clause (i) and inserting the following new clause:

"(i) IN GENERAL.—Subparagraph (B) shall not apply to any item attributable to a tax shelter."

(c) TREATMENT OF AMENDED RETURNS.—Subsection (a) of section 6664 of such Code is amended by adding at the end the following new sentence: "For purposes of this subsection, an amended return shall be disregarded if such return is filed on or after the date the taxpayer is first contacted by the Secretary regarding the examination of the return."

**SEC. 268. PENALTY ON MARKETED TAX AVOIDANCE STRATEGIES WHICH HAVE NO ECONOMIC SUBSTANCE, ETC.**

(a) PENALTY.—

(1) IN GENERAL.—Section 6700 of the Internal Revenue Code of 1986 (relating to promoting abusive tax shelters, etc.) is amended by redesignating subsection (c) as subsection (d) and by inserting after subsection (b) the following new subsection:

"(c) PENALTY ON SUBSTANTIAL PROMOTERS FOR PROMOTING TAX AVOIDANCE STRATEGIES WHICH HAVE NO ECONOMIC SUBSTANCE, ETC.—

"(1) IMPOSITION OF PENALTY.—Any substantial promoter of a tax avoidance strategy shall pay a penalty in the amount determined under paragraph (2) with respect to such strategy if any tax benefit attributable to such strategy (or any similar strategy promoted by such promoter) is not allowable by reason of any rule of law referred to in section 6662(i)(2)(A).

"(2) AMOUNT OF PENALTY.—The penalty under paragraph (1) with respect to a promoter of a tax avoidance strategy is an amount equal to 100 percent of the gross income derived (or to be derived) by such promoter from such strategy.

"(3) TAX AVOIDANCE STRATEGY.—For purposes of this subsection, the term 'tax avoidance strategy' means any entity, plan, arrangement, or transaction a significant purpose of the structure of which is the avoidance or evasion of Federal income tax.

"(4) SUBSTANTIAL PROMOTER.—For purposes of this subsection —

"(A) IN GENERAL.—The term 'substantial promoter' means, with respect to any tax avoidance strategy, any promoter if—

"(i) such promoter offers such strategy to more than 1 potential participant, and

"(ii) such promoter may receive fees in excess of \$1,000,000 in the aggregate with respect to such strategy.

"(B) AGGREGATION RULES.—For purposes of this paragraph—

"(i) RELATED PERSONS.—A promoter and all persons related to such promoter shall be treated as 1 person.

"(ii) SIMILAR STRATEGIES.—All similar tax avoidance strategies of a promoter shall be treated as 1 tax avoidance strategy.

"(C) PROMOTER.—The term 'promoter' means any person who participates in the

promotion, offering, or sale of the tax avoidance strategy.

"(D) RELATED PERSON.—Persons are related if they bear a relationship to each other which is described in section 267(b) or 707(b).

"(4) COORDINATION WITH SUBSECTION (a).—No penalty shall be imposed by this subsection on any promoter with respect to a tax avoidance strategy if a penalty is imposed under subsection (a) on such promoter with respect to such strategy."

(2) CONFORMING AMENDMENT.—Subsection (d) of section 6700 of such Code is amended—

(A) by striking "PENALTY" and inserting "PENALTIES", and

(B) by striking "penalty" the first place it appears in the text and inserting "penalties".

(b) INCREASE IN PENALTY ON PROMOTING ABUSIVE TAX SHELTERS.—The first sentence of section 6700(a) of such Code is amended by striking "a penalty equal to" and all that follows and inserting "a penalty equal to the greater of \$1,000 or 100 percent of the gross income derived (or to be derived) by such person from such activity."

**SEC. 269. EFFECTIVE DATES.**

(a) IN GENERAL.—Except as provided in subsections (b) and (c), the amendments made by this subpart shall apply to transactions after the date of the enactment of this Act.

(b) SECTION 267.—The amendments made by subsections (b) and (c) of section 267 shall apply to taxable years ending after the date of the enactment of this Act.

(c) SECTION 268.—The amendments made by subsection (a) of section 268 shall apply to any tax avoidance strategy (as defined in section 6700(c) of the Internal Revenue Code of 1986, as amended by this title) interests in which are offered to potential participants after the date of the enactment of this Act.

**Subpart B—Limitations on Importation or Transfer of Built-in Losses**

**SEC. 271. LIMITATION ON IMPORTATION OF BUILT-IN LOSSES.**

(a) IN GENERAL.—Section 362 of the Internal Revenue Code of 1986 (relating to basis to corporations) is amended by adding at the end the following new subsection:

"(e) LIMITATION ON IMPORTATION OF BUILT-IN LOSSES.—

"(1) IN GENERAL.—If in any transaction described in subsection (a) or (b) there would (but for this subsection) be an importation of a net built-in loss, the basis of each property described in paragraph (2) which is acquired in such transaction shall (notwithstanding subsections (a) and (b)) be its fair market value immediately after such transaction.

"(2) PROPERTY DESCRIBED.—For purposes of paragraph (1), property is described in this paragraph if—

"(A) gain or loss with respect to such property is not subject to tax under this subtitle in the hands of the transferor immediately before the transfer, and

"(B) gain or loss with respect to such property is subject to such tax in the hands of the transferee immediately after such transfer.

In any case in which the transferor is a partnership, the preceding sentence shall be applied by treating each partner in such partnership as holding such partner's proportionate share of the property of such partnership.

"(3) IMPORTATION OF NET BUILT-IN LOSS.—For purposes of paragraph (1), there is an importation of a net built-in loss in a transaction if the transferee's aggregate adjusted bases of property described in paragraph (2) which is transferred in such transaction would (but for this subsection) exceed the fair market value of such property immediately after such transaction."

(b) COMPARABLE TREATMENT WHERE LIQUIDATION.—Paragraph (1) of section 334(b) of such Code (relating to liquidation of subsidiary) is amended to read as follows:

“(1) IN GENERAL.—If property is received by a corporate distributee in a distribution in a complete liquidation to which section 332 applies (or in a transfer described in section 337(b)(1)), the basis of such property in the hands of such distributee shall be the same as it would be in the hands of the transferor; except that the basis of such property in the hands of such distributee shall be the fair market value of the property at the time of the distribution—

“(A) in any case in which gain or loss is recognized by the liquidating corporation with respect to such property, or

“(B) in any case in which the liquidating corporation is a foreign corporation, the corporate distributee is a domestic corporation, and the corporate distributee’s aggregate adjusted bases of property described in section 362(e)(2) which is distributed in such liquidation would (but for this subparagraph) exceed the fair market value of such property immediately after such liquidation.”

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

**SEC. 272. DISALLOWANCE OF PARTNERSHIP LOSS TRANSFERS.**

(a) TREATMENT OF CONTRIBUTED PROPERTY WITH BUILT-IN LOSS.—Paragraph (1) of section 704(c) of the Internal Revenue Code of 1986 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) if any property so contributed has a built-in loss—

“(i) such built-in loss shall be taken into account only in determining the amount of items allocated to the contributing partner, and

“(ii) except as provided in regulations, in determining the amount of items allocated to other partners, the basis of the contributed property in the hands of the partnership shall be treated as being equal to its fair market value immediately after the contribution.

For purposes of subparagraph (C), the term ‘built-in loss’ means the excess of the adjusted basis of the property over its fair market value immediately after the contribution.”

(b) ADJUSTMENT TO BASIS OF PARTNERSHIP PROPERTY ON TRANSFER OF PARTNERSHIP INTEREST IF THERE IS SUBSTANTIAL BUILT-IN LOSS.—

(1) ADJUSTMENT REQUIRED.—Subsection (a) of section 743 of such Code (relating to optional adjustment to basis of partnership property) is amended by inserting before the period “or unless the partnership has a substantial built-in loss immediately after such transfer”.

(2) ADJUSTMENT.—Subsection (b) of section 743 of such Code is amended by inserting “or with respect to which there is a substantial built-in loss immediately after such transfer” after “section 754 is in effect”.

(3) SUBSTANTIAL BUILT-IN LOSS.—Section 743 of such Code is amended by adding at the end the following new subsection:

“(d) SUBSTANTIAL BUILT-IN LOSS.—For purposes of this section, a partnership has a substantial built-in loss with respect to a transfer of an interest in a partnership if the transferee partner’s proportionate share of the adjusted basis of the partnership property exceeds 110 percent of the basis of such partner’s interest in the partnership.”

(4) CLERICAL AMENDMENTS.—

(A) The section heading for section 743 of such Code is amended to read as follows:

**“SEC. 743. ADJUSTMENT TO BASIS OF PARTNERSHIP PROPERTY WHERE SECTION 754 ELECTION OR SUBSTANTIAL BUILT-IN LOSS.”**

(B) The table of sections for subpart C of part II of subchapter K of chapter 1 of such Code is amended by striking the item relating to section 743 and inserting the following new item:

“Sec. 743. Adjustment to basis of partnership property where section 754 election or substantial built-in loss.”

(c) ADJUSTMENT TO BASIS OF UNDISTRIBUTED PARTNERSHIP PROPERTY IF THERE IS SUBSTANTIAL BASIS REDUCTION.—

(1) ADJUSTMENT REQUIRED.—Subsection (a) of section 734 of such Code (relating to optional adjustment to basis of undistributed partnership property) is amended by inserting before the period “or unless there is a substantial downward adjustment”.

(2) ADJUSTMENT.—Subsection (b) of section 734 of such Code is amended by inserting “or unless there is a substantial downward adjustment” after “section 754 is in effect”.

(3) SUBSTANTIAL DOWNWARD ADJUSTMENT.—Section 734 of such Code is amended by adding at the end the following new subsection:

“(d) SUBSTANTIAL DOWNWARD ADJUSTMENT.—For purposes of this section, there is a substantial downward adjustment with respect to a distribution if the sum of the amounts described in subparagraphs (A) and (B) of subsection (b)(2) exceeds 10 percent of the aggregate adjusted basis of partnership property immediately after the distribution.”

(4) CLERICAL AMENDMENTS.—

(A) The section heading for section 734 of such Code is amended to read as follows:

**“SEC. 734. ADJUSTMENT TO BASIS OF UNDISTRIBUTED PARTNERSHIP PROPERTY WHERE SECTION 754 ELECTION OR SUBSTANTIAL BASIS REDUCTION.”**

(B) The table of sections for subpart B of part II of subchapter K of chapter 1 of such Code is amended by striking the item relating to section 734 and inserting the following new item:

“Sec. 734. Adjustment to basis of undistributed partnership property where section 754 election or substantial basis reduction.”

(d) EFFECTIVE DATES.—

(1) SUBSECTION (a).—The amendment made by subsection (a) shall apply to contributions made after the date of the enactment of this Act.

(2) SUBSECTION (b).—The amendments made by subsection (a) shall apply to transfers after the date of the enactment of this Act.

(3) SUBSECTION (c).—The amendments made by subsection (a) shall apply to distributions after the date of the enactment of this Act.

**PART III—ESTATE AND GIFT TAX OFFSETS**  
**SEC. 276. VALUATION RULES FOR TRANSFERS INVOLVING NONBUSINESS ASSETS.**

(a) IN GENERAL.—Section 2031 of the Internal Revenue Code of 1986 (relating to definition of gross estate) is amended by redesignating subsection (d) as subsection (e) and by inserting after subsection (c) the following new subsection:

“(d) VALUATION RULES FOR CERTAIN TRANSFERS OF NONBUSINESS ASSETS.—For purposes of this chapter and chapter 12—

“(1) IN GENERAL.—In the case of the transfer of any interest in an entity other than an interest which is actively traded (within the meaning of section 1092), the value of such interest shall be determined by taking into account—

“(A) the value of such interest’s proportionate share of the nonbusiness assets of

such entity (and no valuation discount shall be allowed with respect to such nonbusiness assets), plus

“(B) the value of such entity determined without regard to the value taken into account under subparagraph (A).

“(2) NONBUSINESS ASSETS.—For purposes of this subsection—

“(A) IN GENERAL.—The term ‘nonbusiness asset’ means any asset which is not used in the active conduct of 1 or more trades or businesses.

“(B) EXCEPTION FOR CERTAIN PASSIVE ASSETS.—Except as provided in subparagraph (C), a passive asset shall not be treated for purposes of subparagraph (A) as used in the active conduct of a trade or business unless—

“(i) the asset is property described in paragraph (1) or (4) of section 1221(a) or is a hedge with respect to such property, or

“(ii) the asset is real property used in the active conduct of 1 or more real property trades or businesses (within the meaning of section 469(c)(7)(C)) in which the transferor materially participates and with respect to which the transferor meets the requirements of section 469(c)(7)(B)(ii).

For purposes of clause (ii), material participation shall be determined under the rules of section 469(h), except that section 469(h)(3) shall be applied without regard to the limitation to farming activity.

“(C) EXCEPTION FOR WORKING CAPITAL.—Any asset (including a passive asset) which is held as a part of the reasonably required working capital needs of a trade or business shall be treated as used in the active conduct of a trade or business.

“(3) PASSIVE ASSET.—For purposes of this subsection, the term ‘passive asset’ means any—

“(A) cash or cash equivalents,

“(B) except to the extent provided by the Secretary, stock in a corporation or any other equity, profits, or capital interest in any entity,

“(C) evidence of indebtedness, option, forward or futures contract, notional principal contract, or derivative,

“(D) asset described in clause (iii), (iv), or (v) of section 351(e)(1)(B),

“(E) annuity,

“(F) real property used in 1 or more real property trades or businesses (as defined in section 469(c)(7)(C)),

“(G) asset (other than a patent, trademark, or copyright) which produces royalty income,

“(H) commodity,

“(I) collectible (within the meaning of section 401(m)), or

“(J) any other asset specified in regulations prescribed by the Secretary.

“(4) LOOK-THRU RULES.—

“(A) IN GENERAL.—If a nonbusiness asset of an entity consists of a 10-percent interest in any other entity, this subsection shall be applied by disregarding the 10-percent interest and by treating the entity as holding directly its ratable share of the assets of the other entity. This subparagraph shall be applied successively to any 10-percent interest of such other entity in any other entity.

“(B) 10-PERCENT INTEREST.—The term ‘10-percent interest’ means—

“(i) in the case of an interest in a corporation, ownership of at least 10 percent (by vote or value) of the stock in such corporation,

“(ii) in the case of an interest in a partnership, ownership of at least 10 percent of the capital or profits interest in the partnership, and

“(iii) in any other case, ownership of at least 10 percent of the beneficial interests in the entity.

“(5) COORDINATION WITH SUBSECTION (b).—Subsection (b) shall apply after the application of this subsection.”

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

**SEC. 277. CORRECTING OF TECHNICAL ERROR AFFECTING LARGEST ESTATES.**

(a) IN GENERAL.—Paragraph (2) of section 2001(c) of the Internal Revenue Code of 1986 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) (as increased by section 2010A) and \$359,200.”

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to estates of decedents dying, and gifts made, after December 31, 2000.

#### PART IV—OTHER OFFSETS

##### SEC. 281. CONSISTENT AMORTIZATION PERIODS FOR INTANGIBLES.

(a) START-UP EXPENDITURES.—

(1) ALLOWANCE OF DEDUCTION.—Paragraph (1) of section 195(b) of the Internal Revenue Code of 1986 (relating to start-up expenditures) is amended to read as follows:

“(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) 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 of such Code (relating to organizational expenditures) is amended to read as follows:

“(a) ELECTION TO DEDUCT.—If a corporation elects the application of this subsection (in accordance with regulations prescribed by the Secretary) with respect to any organizational expenditures—

“(1) 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—

“(A) the amount of organizational expenditures with respect to the taxpayer, or

“(B) \$5,000, reduced (but not below zero) by the amount by which such organizational expenditures exceed \$50,000, and

“(2) 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.”

(c) TREATMENT OF ORGANIZATIONAL AND SYNDICATION FEES OR PARTNERSHIPS.—Section 709(b) of such Code (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 part-

nership 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.”

(d) CONFORMING AMENDMENT.—Subsection (b) of section 709 of such Code 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. 282. MODIFICATION OF FOREIGN TAX CREDIT CARRYOVER RULES.

(a) IN GENERAL.—Section 904(c) of the Internal Revenue Code of 1986 (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, 2000.

##### SEC. 283. RECOGNITION OF GAIN ON TRANSFERS TO SWAP FUNDS.

(a) INTERESTS SIMILAR TO PREFERRED STOCK TREATED AS STOCK.—Clause (vi) of section 351(e)(1)(B) of the Internal Revenue Code of 1986 (relating to transfer of property to an investment company) is amended to read as follows:

“(vi) except as otherwise provided in regulations prescribed by the Secretary—

“(I) any interest in an entity if the return on such interest is limited and preferred, and

“(II) interests (not described in subclause (I)) in any entity if substantially all of the assets of such entity consist (directly or indirectly) of any assets described in subclause (I), any preceding clause, or clause (viii).”

(b) CERTAIN TRANSFERS DEEMED TO BE TO INVESTMENT COMPANIES.—Subsection (e) of section 351 of such Code is amended by adding at the end the following new paragraph:

“(3) TRANSFERS OF MARKETABLE SECURITIES TO CERTAIN CORPORATIONS.—A transfer of property to a corporation if—

“(A) such property is marketable securities (as defined in section 731(c)(2)), other than a diversified portfolio of securities,

“(B) such corporation—

“(i) is registered under the Investment Company Act of 1940 as an investment company, or is exempt from registration as an investment company under section 3(c)(7) of such Act because interests in such corporation are offered to qualified purchasers within the meaning of section 2(a)(51) of such Act, or

“(ii) is formed or availed of for purposes of allowing persons who have significant blocks of marketable securities with unrealized appreciation to diversify those holdings without recognition of gain, and

“(C) the transfer results, directly or indirectly, in diversification of the transferor's interest.”

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

“(b) SPECIAL RULE.—Subsection (a) shall not apply to gain realized on a transfer of property to a partnership if, were the partnership incorporated—

“(1) such partnership would be treated as an investment company (within the meaning of section 351), or

“(2) section 351 would not apply to such transfer by reason of section 351(e)(3).”

(d) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to transfers after March 8, 2000.

(2) BINDING CONTRACTS.—The amendments made by this section shall not apply to any transfer pursuant to a written binding contract in effect on August 4, 1999, and at all times thereafter before such transfer if such contract provides for the transfer of a fixed amount of property.

Mr. RANGEL (during the reading). Mr. Speaker, I ask unanimous consent that the motion to instruct be considered as read and printed in the RECORD.

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

There was no objection.

The SPEAKER pro tempore. Pursuant to the rule, the gentleman from New York (Mr. RANGEL) is recognized for 5 minutes in support of his motion to recommit.

Mr. RANGEL. Mr. Speaker, if the Republicans want to have reform with results, if the Republicans really want to give some aid and assistance and comfort to the working poor, if the Republicans want to give a \$1 increase in the minimum wage and at the same time give substantial relief to the employers that will be required to do this, they would support the motion to recommit.

Why? Because they would know that this motion to recommit would send to the President a bill that would do these things, and it would be a bill that would be signed by the President of the United States.

I know that many on the other side do not like the President. The question is, do they care for the American people and the working poor? He is still the President, and we have to work with him until the end of the year. If we want any bills at all to pass, we should be cooperating with Democrats and the President in order to get it done.

They just cannot pile \$122 billion on a tax bill and forget the \$5 trillion debt that we have and just move on, thinking that ultimately, before the year's end, they would have accomplished in piecemeal what they could not do last year with the \$800 billion tax cut.

Mr. Speaker, I am suggesting that we do have an opportunity to vote on the motion to recommit. It incorporates most of the things that the Republicans would want done, some of the provisions we have worked with in a bipartisan way, and just rejects out of hand the irresponsible tax cuts, most of which go to the richest Americans that we have.

We still have an opportunity to deal with some of the serious questions of Medicare, social security, giving assistance in prescription drugs to our elderly, protecting a Patients' Bill of

Rights. Democrats cannot do this alone, and we know in their hearts these are the issues they would want to address, but they just cannot do it by going into the Republican cloakroom and coming out with these imaginary, creative ideas without consulting with the minority and the President of the United States.

Is it not time we stop playing these political games? There is enough politics to go around between now and the election. Let us not play with the poorest of the poor, who are working every day to maintain their self-esteem, to provide food and clothing, pay their rent, get shelter for their kids. Let us not play around with social security and Medicare.

Let us do the right thing by the American people and support the motion to recommit. This could truly be a beginning, a beginning in saying that now that we have the presidential primaries behind us, that the candidates can stop going after each other on a personal basis and decide how they are going to address these issues to the American people on the question of issues and not personalities.

We in the House, where truly the people should govern, should set the examples for our presidential candidates by dealing with the issues, and not personality and not politics. We do not get this opportunity often, but this is the beginning of a new era, we would believe. The Members of the Committee on Ways and Means would like to be working together in dealing with tax policy.

We resent the idea that tax bills are coming out from the Committee on Rules and other standing committees without hearings, without debate, to just bring things to the floor because it passed the majority in the last year. What we should do is separate the question of taxes and deal with the question of minimum wage.

That is why we are here in this body encouraging people not to go on welfare but to work, work for their families, work for their communities, work for their country, and we will give them a decent wage with which to do it so they would not think about going on welfare.

But we cannot have it both ways. We are talking about \$6.15. Is there anyone here that would like to send anybody in their family out to the work market to earn \$6.15? Give America a break, vote for the motion to recommit.

The SPEAKER pro tempore. Is the gentleman from Arizona (Mr. HAYWORTH) opposed to the motion to recommit?

Mr. HAYWORTH. I most certainly am, Mr. Speaker.

The SPEAKER pro tempore. The gentleman from Arizona (Mr. HAYWORTH) is recognized for 5 minutes on the motion to recommit.

Mr. HAYWORTH. Mr. Speaker, I always listen with great interest to my colleague, the gentleman from New York (Mr. RANGEL), my close personal friend.

He said just a few minutes ago, we cannot have it both ways. Indeed, that is true. Sadly, this motion to recommit says to the American people, Mr. Speaker, "Wait, wait for tax relief. We believe it is important, perhaps not as important as a bipartisan majority of this House. We believe it is important, but you need to wait a while longer."

This legislation also, or this motion to recommit, offers tax relief with one hand and takes it away with the other.

Mr. Speaker, the American people have spoken loudly and clearly about the unfairness of the death tax. A recent issue of USA Today describes it thusly, quoting now:

"Taxes aren't popular to begin with. But of all the ways Uncle Sam takes a cut, none may be detested more than the tax levied on an estate after someone dies.

"The idea of the government reaching into the grave and grabbing 37 to 60 percent of the wealth accumulated during a lifetime is, well, ghoulish to many. It's the depressing confluence of the only two things in this world that Benjamin Franklin noted were 'certain.'"

Mr. Speaker, we remember the statement of Dr. Franklin. He said, "In this life, two things are inevitable, death and taxes." But Mr. Speaker, I think even Dr. Franklin, if he had the powers of prescience, could not begin to fathom that the constitutional Republic he helped to found would one day tax its citizens upon their death.

Mr. Speaker, a bipartisan majority of this House believes quite clearly there should be no taxation without respiration. Yet, with the motion to recommit, the minority in this House asks us to wait a bit longer.

I said earlier, in somewhat hyperbolic fashion, that, quoting the old movie line, sadly, our friends on the left say "No tax relief, not for nobody, nohow." That is the essence of their motion to recommit, because it once again delays, delays tax relief for the American people.

The record speaks quite clearly that this commonsense majority in Congress has delivered tax relief in the past, even as we have paid down the debt hanging over the heads of our children, even as we have walled off 100 percent of the social security surplus for social security.

Today we said to those businesses that are going to be affected, you deserve tax relief; to the self-employed, you deserve 100 percent deductibility of insurance; and no, you need not wait until there is beachfront property in Yuma, Arizona. You need not wait for the physically improbable to finally get tax relief, because, Mr. Speaker, we understand what the American people are saying loudly and clearly: Yes, save Medicare and social security; yes, improve education by empowering parents and teachers and getting funds into the classroom; yes, let us make sure we provide for our national security, so grossly neglected by the current administration.

But Mr. Speaker, the American people also say to us, let us provide financial security. Let us build on this prosperity by recognizing this simple truth: that the money earned by Americans belongs not to the Treasury of the United States and Washington bureaucrats, but to the people who earn it.

The legislation supported by the majority will enact that tax relief now. The alternative offered by the minority in this motion to recommit says yet again, let us delay and delay and delay some more. Sadly, Mr. Speaker, actions speak louder than words. The verbiage and the numbers, when we strip them all away, show an antipathy toward the simple notion that Americans should keep more of their hard-earned money.

Mr. Speaker, in conclusion, I would call on my colleagues to reject this motion to recommit. Vote for real tax relief and real prosperity for all Americans.

The SPEAKER pro tempore. Without objection, the previous question is ordered on the motion to recommit.

There was no objection.

The SPEAKER pro tempore. The question is on the motion to recommit.

The question was taken; the Speaker pro tempore announced that the noes appeared to have it.

Mr. RANGEL. Mr. Speaker, I object to the vote on the ground that a quorum is not present and make the point of order that a quorum is not present.

The SPEAKER pro tempore. Evidently a quorum is not present.

The Sergeant at Arms will notify absent Members.

Pursuant to clause 9 of rule XX, the Chair will reduce to 5 minutes the minimum time for any electronic vote on the question of passage.

The vote was taken by electronic device, and there were—yeas 207, nays 218, not voting 9, as follows:

[Roll No. 40]  
YEAS—207

Abercrombie	Clyburn	Frank (MA)
Ackerman	Condit	Frost
Allen	Conyers	Gejdenson
Andrews	Costello	Gephardt
Baca	Coyne	Gonzalez
Baird	Cramer	Gordon
Baldacci	Crowley	Green (TX)
Baldwin	Cummings	Gutierrez
Barrett (WI)	Danner	Hall (OH)
Becerra	Davis (FL)	Hall (TX)
Bentsen	Davis (IL)	Hastings (FL)
Berkley	DeFazio	Hill (IN)
Berman	DeGette	Hilliard
Berry	Delahunt	Hinchey
Bishop	DeLauro	Hinojosa
Blagojevich	Deutsch	Hoefel
Blumenauer	Dicks	Holden
Bonior	Dingell	Holt
Borski	Dixon	Hooley
Boswell	Doggett	Hoyer
Boucher	Dooley	Inslee
Boyd	Doyle	Jackson (IL)
Brady (PA)	Edwards	Jackson-Lee
Brown (FL)	Engel	(TX)
Brown (OH)	Eshoo	Jefferson
Capps	Etheridge	John
Capuano	Evans	Jones (OH)
Cardin	Farr	Kanjorski
Carson	Fattah	Kaptur
Clay	Filner	Kennedy
Clayton	Forbes	Kildee
Clement	Ford	Kilpatrick

Kind (WI) Moore  
 Kleczka Moran (VA)  
 Klink Morella  
 Kucinich Murtha  
 LaFalce Nadler  
 Lampson Napolitano  
 Lantos Neal  
 Larson Oberstar  
 Lee Obey  
 Levin Olver  
 Lewis (GA) Ortiz  
 Lofgren Owens  
 Lowey Pallone  
 Lucas (KY) Pascarell  
 Luther Pastor  
 Maloney (CT) Payne  
 Maloney (NY) Pelosi  
 Markey Peterson (MN)  
 Mascara Phelps  
 Matsui Pickett  
 McCarthy (MO) Pomeroy  
 McCarthy (NY) Price (NC)  
 McDermott Rahall  
 McGovern Rangel  
 McIntyre Reyes  
 McKinney Rivers  
 McNulty Rodriguez  
 Meehan Roemer  
 Meek (FL) Rothman  
 Meeks (NY) Roybal-Allard  
 Menendez Rush  
 Millender Sabo  
 McDonald Sanchez  
 Miller, George Sanders  
 Minge Sandlin  
 Mink Sawyer  
 Moakley Schakowsky  
 Mollohan Scott

NAYS—218

Aderholt Emerson  
 Archer English  
 Arney Everett  
 Bachus Ewing  
 Baker Fletcher  
 Ballenger Foley  
 Barcia Fossella  
 Barr Fowler  
 Barrett (NE) Franks (NJ)  
 Bartlett Frelinghuysen  
 Barton Gallegly  
 Bass Gekas  
 Bateman Gibbons  
 Bereuter Gilchrist  
 Biggert Gillmor  
 Bilbray Gilman  
 Bilirakis Goode  
 Bliley Goodlatte  
 Blunt Goodling  
 Boehlert Goss  
 Boehner Graham  
 Bonilla Green (WI)  
 Bono Greenwood  
 Brady (TX) Gutknecht  
 Bryant Hansen  
 Burr Hastings (WA)  
 Burton Hayes  
 Buyer Hayworth  
 Callahan Hefley  
 Calvert Herger  
 Camp Hill (MT)  
 Campbell Hilleary  
 Canady Hobson  
 Cannon Hoekstra  
 Castle Horn  
 Chabot Hostettler  
 Chambliss Houghton  
 Chenoweth-Hage Hulshof  
 Coble Hunter  
 Coburn Hutchinson  
 Collins Hyde  
 Combust Isakson  
 Cook Istook  
 Cox Jenkins  
 Crane Johnson (CT)  
 Cubin Johnson, Sam  
 Cunningham Jones (NC)  
 Davis (VA) Kasich  
 Deal Kelly  
 DeLay King (NY)  
 DeMint Kingdon  
 Diaz-Balart Knollenberg  
 Dickey Kolbe  
 Doolittle Kuykendall  
 Dreier LaHood  
 Duncan Largent  
 Dunn Latham  
 Ehlers LaTourette  
 Ehrlich Lazio

Serrano Shays  
 Sherman Sherwood  
 Shows Shimkus  
 Shuster Shuster  
 Simpson Skelton  
 Skeen Slaughter  
 Smith (MI) Smith (WA)  
 Snyder Smith (NJ)  
 Spratt Smith (TX)  
 Stabenow Souder  
 Stark Stearns  
 Stenholm Stump  
 Strickland Sununu  
 Stupak Sweeney  
 Tanner  
 Tauscher  
 Taylor (MS)  
 Thompson (CA)  
 Thompson (MS)  
 Thurman  
 Tierney  
 Towns  
 Turner  
 Udall (CO)  
 Udall (NM)  
 Velazquez  
 Vislosky  
 Waters  
 Watt (NC)  
 Waxman  
 Weiner  
 Wexler  
 Weygand  
 Wise  
 Woolsey  
 Wu  
 Wynn

Cooksey Johnson, E. B.  
 Ganske McCollum  
 Granger Scarborough

NOT VOTING—9

1820  
 Messrs. THOMAS, LAZIO, QUINN, BARTLETT of Maryland, FRANKS of New Jersey, and YOUNG of Alaska changed their vote from "yea" to "nay."

Mr. DIXON and Mr. HALL of Texas changed their vote from "nay" to "yea."

So the motion to recommit was rejected.

The result of the vote was announced as above recorded.

The SPEAKER pro tempore (Mr. PEASE). The question is on the passage of the bill.

The question was taken; and the Speaker pro tempore announced that the ayes appeared to have it.

RECORDED VOTE

Mr. ARCHER. Mr. Speaker, I demand a recorded vote.

A recorded vote was ordered. The SPEAKER pro tempore. This is a 5-minute vote.

The vote was taken by electronic device, and there were—ayes 257, noes 169, not voting 9, as follows:

[Roll No. 41]

AYES—257

Aderholt Capps  
 Archer Castle  
 Arney Chabot  
 Bachus Chambliss  
 Baird Chenoweth-Hage  
 Baker Coble  
 Ballenger Coburn  
 Barcia Collins  
 Barr Combust  
 Barrett (NE) Condit  
 Bartlett Cook  
 Barton Cox  
 Bass Cramer  
 Bateman Crane  
 Bereuter Cubin  
 Berkeley Cunningham  
 Biggert Danner  
 Bilbray Davis (VA)  
 Bilirakis Deal  
 Bishop DeLay  
 Bliley DeMint  
 Blunt Diaz-Balart  
 Boehlert Dickey  
 Boehner Dooley  
 Bonilla Doolittle  
 Bono Dreier  
 Boswell Duncan  
 Boucher Dunn  
 Brady (TX) Ehlers  
 Bryant Ehrlich  
 Burr Emerson  
 Burton English  
 Buyer Etheridge  
 Callahan Everrett  
 Calvert Ewing  
 Camp Fletcher  
 Campbell Foley  
 Canady Forbes  
 Cannon Fossella

Walsh Hyde  
 Wamp Inslee  
 Watkins Isakson  
 Watts (OK) Istook  
 Weldon (FL) Jefferson  
 Weldon (PA) Jenkins  
 Weller John  
 Whitfield Johnson (CT)  
 Wicker Johnson, Sam  
 Wilson Jones (NC)  
 Wolf Kasich  
 Young (AK) Kelly  
 Young (FL) King (NY)  
 Walden Kingston  
 Knollenberg  
 Kolbe  
 Kuykendall  
 LaHood  
 Largent  
 Latham  
 LaTourette  
 Lazio  
 Leach  
 Lewis (CA)  
 Lewis (KY)  
 Linder  
 LoBiondo  
 Lucas (KY)  
 Lucas (OK)  
 Maloney (CT)  
 Manzullo  
 Martinez  
 McCarthy (NY)  
 McCreery  
 McHugh  
 McInnis  
 McIntosh  
 McIntyre  
 McKeon  
 Metcalf  
 Mica  
 Miller (FL)  
 Miller, Gary  
 Moore  
 Moran (KS)  
 Morella  
 Myrick

NOES—169

Abercrombie Filner  
 Ackerman Ford  
 Allen Frank (MA)  
 Andrews Frost  
 Baca Gejdenson  
 Baldacci Gephardt  
 Baldwin Gonzalez  
 Barrett (WI) Green (TX)  
 Becerra Gutierrez  
 Bentsen Gutknecht  
 Berman Hastings (FL)  
 Berry Hill (IN)  
 Blagojevich Hilliard  
 Blumenauer Hinchey  
 Bonior Hinojosa  
 Borski Hoeffel  
 Boyd Holden  
 Brady (PA) Hoyer  
 Brown (FL) Jackson (IL)  
 Brown (OH) Jackson-Lee  
 Capuano (TX)  
 Cardin Jones (OH)  
 Carson Kanjorski  
 Clay Kaptur  
 Clayton Kennedy  
 Clement Kildee  
 Clyburn Kilpatrick  
 Conyers Kind (WI)  
 Costello Kleczka  
 Coyne Klink  
 Crowley Kucinich  
 Cummings LaFalce  
 Davis (FL) Lampson  
 Davis (IL) Rothman  
 DeFazio Larson  
 DeGette Lee  
 Delahunt Levin  
 DeLauro Lewis (GA)  
 Deusch Lipinski  
 Dicks Lofgren  
 Dingell Lowey  
 Dixon Luther  
 Doggett Maloney (NY)  
 Doyle Markey  
 Edwards Mascara  
 Engel Matsui  
 Eshoo McCarthy (MO)  
 Evans McDermott  
 Farr McGovern  
 Fattah McKinney

Nethercutt Sherwood  
 Ney Shimkus  
 Northup Shows  
 Norwood Shuster  
 Nussle Simpson  
 Ose Siskisky  
 Oxley Sken  
 Packard Smith (MI)  
 Paul Smith (NJ)  
 Pease Smith (TX)  
 Peterson (MN) Smith (WA)  
 Peterson (PA) Souder  
 Petri Stearns  
 Pickering Stump  
 Pickett Sununu  
 Pitts Sweeney  
 Pombo Talent  
 Porter Tancredo  
 Portman Tauscher  
 Price (NC) Tauzin  
 Pryce (OH) Taylor (NC)  
 Quinn Terry  
 Radanovich Thomas  
 Ramstad Thompson (CA)  
 Regula Thornberry  
 Reynolds Thune  
 Riley Tiahrt  
 Rivers Toomey  
 Roemer Traficant  
 Rogan Upton  
 Rogers Vitter  
 Rohrabacher Walden  
 Ros-Lehtinen Walsh  
 Roukema Wamp  
 Royce Watkins  
 Ryan (WI) Watts (OK)  
 Ryun (KS) Weldon (FL)  
 Salmon Weldon (PA)  
 Sanchez Weller  
 Sandlin Whitfield  
 Sanford Wicker  
 Saxton Wilson  
 Sensenbrenner Wolf  
 Sessions Wu  
 Shadegg Young (AK)  
 Shaw Young (FL)  
 Shays

McNulty  
 Meehan  
 Meek (FL)  
 Meeks (NY)  
 Menendez  
 Millender-  
 McDonald  
 Miller, George  
 Minge  
 Mink  
 Moakley  
 Mollohan  
 Moran (VA)  
 Murtha  
 Nadler  
 Napolitano  
 Neal  
 Oberstar  
 Obey  
 Olver  
 Ortiz  
 Owens  
 Pallone  
 Pascarell  
 Pastor  
 Payne  
 Pelosi  
 Phelps  
 Pomeroy  
 Rahall  
 Rangel  
 Reyes  
 Rodriguez  
 Rothman  
 Roybal-Allard  
 Rush  
 Sabo  
 Sanders  
 Sawyer  
 Schakowsky  
 Scott  
 Serrano  
 Sherman  
 Skelton  
 Slaughter  
 Spratt  
 Stabenow  
 Stark  
 Stenholm

Stupak	Turner	Waxman
Tanner	Udall (CO)	Weiner
Taylor (MS)	Udall (NM)	Wexler
Thompson (MS)	Velazquez	Weygand
Thurman	Visclosky	Wise
Tierney	Waters	Woolsey
Towns	Watt (NC)	Wynn

NOT VOTING—9

Cooksey	McCollum	Spence
Granger	Scarborough	Strickland
Johnson, E. B.	Schaffer	Vento

1832

So the bill was passed.

The result of the vote was announced as above recorded.

A motion to reconsider was laid on the table.

REMOVAL OF NAME OF MEMBER AS COSPONSOR OF HOUSE JOINT RESOLUTION 89 and HOUSE JOINT RESOLUTION 90

Mr. PAUL. Mr. Speaker, I ask unanimous consent that the name of the gentleman from California (Mr. ROHR-ABACHER) be removed as a cosponsor of H.J. Res. 89 and H.J. Res. 90.

The SPEAKER pro tempore (Mr. PEASE). Is there objection to the request of the gentleman from Texas?

There was no objection.

REMOVAL OF NAME OF MEMBER AS COSPONSOR OF H.R. 3575

Mr. FRANK of Massachusetts. Mr. Speaker, I ask unanimous consent that my name be removed as a cosponsor of H.R. 3575.

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

There was no objection.

MESSAGE FROM THE PRESIDENT

A message in writing from the President of the United States was communicated to the House by Mr. Sherman Williams, one of his secretaries.

MESSAGE FROM THE SENATE

A message from the Senate by Mr. Lundregan, one of its clerks, announced that the Senate has passed a concurrent resolution of the following title in which concurrence of the House is requested:

S. Con. Res. 94. Concurrent Resolution providing for a conditional adjournment or recess of the Senate.

MINIMUM WAGE INCREASE ACT

Mr. GOODLING. Mr. Speaker, pursuant to House Resolution 434, I call up the bill (H.R. 3846) to amend the Fair Labor Standards Act of 1938 to increase the minimum wage, and for other purposes, and ask for its immediate consideration in the House.

The Clerk read the title of the bill.

UNFUNDED MANDATE POINT OF ORDER

Mr. LARGENT. Mr. Speaker, pursuant to section 425(a) of the Congress-

sional Budget Act of 1974, I make a point of order against consideration of H.R. 3846.

Section 425(a) states that a point of order lies against consideration of a bill that would impose an intra-governmental unfunded mandate in excess of \$50 million.

The Congressional Budget Office has scored the language in H.R. 3846 as an \$880 million unfunded mandate on America's State and local governments over 5 years. Section 1 of H.R. 3846 increases the Federal minimum wage from \$5.15 to \$6.15 an hour over 3 years. Therefore, I make a point of order against consideration of this bill.

The SPEAKER pro tempore. The gentleman from Oklahoma (Mr. LARGENT) makes a point of order that the bill violates section 425(a) of the Congressional Budget Act of 1974.

In accordance with section 426(b)(2) of the Act, the gentleman has met his threshold burden to identify the specific language in the bill (section 1) on which he predicates the point of order.

Under section 426(b)(4) of the Act, the gentleman from Oklahoma (Mr. LARGENT) and a Member opposed will each control 10 minutes of debate on the question of consideration.

Pursuant to section 426(b)(3) of the Act, after that debate the Chair will put the question of consideration, to wit: "Will the House now consider the bill?"

The gentleman from Oklahoma (Mr. LARGENT) will be recognized for 10 minutes, and the gentleman from Missouri (Mr. CLAY) will be recognized for 10 minutes.

The Chair recognizes the gentleman from Oklahoma (Mr. LARGENT).

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

Mr. Speaker, one of the real problems that I see we face in this body is that we are consumed with so much business from day-to-day that the institutional memory of the House of Representatives tends to be very short. And so, I hope to enter into a discourse here of a little history from 5 years ago about a bill that we passed overwhelmingly called the Unfunded Mandate Reform Act.

In 1995, the House decided to change the way Washington works with America's State houses and city halls. The Unfunded Mandate Reform Act was passed to protect hard-working State and local officials from the bullies in Washington, D.C.

Its sponsors stood on this floor and said, "For too long, Congress has imposed its own agenda on State and local governments without taking responsibility for the costs."

The Unfunded Mandate Reform Act passed this House by a vote of 394-28.

Several Members who have introduced the bill that is currently before us were, in fact, cosponsors of the Unfunded Mandate Reform Act. Today we are scheduled to trample this law by passing a Federal minimum wage increase.

Mr. Speaker, we need to keep our promise to America's State and local officials. By voting against their own State and local officials, the Members are telling them, "I know more than you do."

I want to be able to look my State and local officials square in the eye and tell them that I trust them.

Many of our colleagues worked at the local level as mayors or city councilmen. Others were State legislators. These Members know the frustration of having Washington tell them how to spend their limited resources.

One Member who used to work in a New York county government and who has been instrumental in shaping this bill on the floor today and the bill on the floor in 1995 said, "Many Federal mandates involve important programs that many of us might support in concept. But, if we are going to ask others to pay for them, we should give them more of a say in developing them, we should level with them about who is going to pay for them, and we should be ready to defend the costs."

Where was this principle when the minimum wage bill was drafted?

Unfunded mandates force State and local governments to reduce vital services and/or increase taxes, revamp their budgets and order their priorities. This is not the kind of Federal, State, and local government partnership the Founders envisioned.

The vote on this point of order should not be confused with support for or opposition to a minimum wage. That issue is irrelevant. Rather, it is a vote for or against local control and limited government.

Who knows best, Washington or City Hall?

Many States, including the State of Oklahoma, have raised the minimum wage above the Federal level. They did not need Washington to tell them to do this. Because, believe it or not, they did it all by themselves.

The Unfunded Mandate point of order can be raised against any bill that will cost State and local governments more than \$50 million. CBO estimates that this increase will cost America's State and local governments \$880 million. It costs the private sector \$13.1 billion, \$4.1 billion in one year alone.

The Unfunded Mandate will affect 750,000 State and local government employees. Twenty percent of these employees work for State colleges. Twenty-seven percent work for State and local schools. And we all know how much trouble school districts are having with the money as it is. Why make it harder?

Two-thirds of these employees work for local governments, one-third for State governments. Over 40 percent of the Mandate falls on States in the Southeast. Twenty-eight percent falls on States in the Midwest. Seventy-two percent of the burden falls on people in small towns and rural areas.

The States that will be hardest hit by this Unfunded Mandate are California, Texas, Louisiana, Florida, and Arizona.