

basis taxpayers. Only after such change became law did we discover that we had effectively eliminated the installment method of accounting for many small business owners and, as a result, made it much more difficult for those business owners to sell their businesses. These business owners were forced to pay the entire federal income tax due on the sale of their business in the year of sale, even though the proceeds of the sale would be received over several years. This up-front demand by the government forced business owners to borrow to pay the tax or to accept lower sale prices in order to induce buyers to pay enough up-front to cover the seller's tax. To its credit, the Congress admitted its mistake and retroactively restored the installment method to accrual basis taxpayers in the Installment Tax Correction Act of 2000 (P.L. 106-573), which was enacted on December 28, 2000.

While restoring the installment method for accrual method taxpayers in 2000 was the right thing to do, it did not go far enough in remedying the installment sale problems of business owners. Despite the clear policy decision by Congress in 2000 to permit sellers of businesses to use the installment method, some long-term business owners continue to be required to pay a significant portion of total taxes upon entering into an installment sale of their business, even though they have not yet received any significant part of the sale proceeds.

An exception to the installment sale method of accounting requires taxpayers to pay all tax attributable to depreciation recapture in the year of a sale. This depreciation recapture rule was adopted in 1984 in order to prevent taxpayers from engaging in "churning" transactions, sale/leasebacks, and other tax shelter transactions involving real estate and equipment. However, the recapture provision was expanded well beyond its original purpose in 1993 in connection with legislation relating to the treatment of intangibles. Unfortunately, Congress may not have fully appreciated the consequences to sellers of business interests.

In 1993, the Congress adopted rules to clarify the amortization of acquired intangibles (e.g., goodwill, going concern value). The 1993 change required intangibles to be written off over a 15-year period, but specified that any gain on the sale of the intangibles attributable to previous amortization deductions would be treated as depreciation recapture. As a result, tax on this gain must be paid immediately in the year of sale. Because these new rules generally applied to intangibles acquired after August, 1993, business owners are now only just beginning to feel the effects of the recapture rule. This rule is having a particularly adverse effect on service businesses, because intangibles such as goodwill and going concern value represent a major portion of the value of those businesses.

For a simplified example, take the case of a business owner who purchased an interest in an architectural firm for \$100 in 1993, substantially all of the value of which was attributable to going concern value. The owner, who has actively participated in the business, retires in 2009 and sells the business for \$200, payable in ten equal annual installments. This sale would produce \$100 of capital gain (at an assumed tax rate of 20%) and \$100 of ordinary income (at an assumed tax rate of 33%), generating a total tax of \$53. Be-

cause of the intangibles recapture rule, the seller will have to pay \$35, or 66% of the total tax, in the first year, despite having received only 10% of the sale proceeds in that year. This result is clearly inequitable and defeats the purpose of allowing business owners to use the installment method of reporting gain from the sale of the business. Moreover, the result is especially harsh in cases where a business owner is retiring and selling the business.

My bill would allow a long-term active participant in a service business to report intangibles recapture gain on the installment basis along with other gain from the sale. The legislation would not change the character of any gain. As such, intangibles recapture gain would continue to be ordinary income to reflect the fact that it previously gave rise to an ordinary deduction. The bill is limited to long-term participants because they are the individuals who would otherwise be likely to suffer the greatest hardship under the recapture rule and who are most likely to be relying on installment sale payments to supplement their retirement income.

Specifically, my bill would allow an individual who has been an active participant for five of the prior seven years in a business in which capital is not a material income-producing factor (i.e., a service business) to report on the installment basis any intangibles recapture income resulting from the disposition of an interest in the business.

Because this proposal does not apply to depreciation recapture from tangible property, the proposal does not conflict with the original goals of Congress in adopting the depreciation recapture exception to the installment sale rules. Specifically, this is not a change that would permit tax sheltering through any sort of "churning" transactions.

While this proposal does not address all of the potential cases in which the installment sale method is unavailable upon the sale of a business, it does go a long way towards addressing one of the most egregious situations. I urge my colleagues to support this worthy legislation.

INTRODUCTION OF THE CLASS ACTION FAIRNESS ACT OF 2003

HON. BOB GOODLATTE

OF VIRGINIA

IN THE HOUSE OF REPRESENTATIVES

Thursday, March 6, 2003

Mr. GOODLATTE. Mr. Speaker, I am pleased to introduce today, along with my good friends from Virginia, Mr. BOUCHER and Mr. MORAN, and the Chairman of the Judiciary Committee, Mr. SENSENBRENNER, the Class Action Fairness Act of 2003.

This much-needed bipartisan legislation corrects a serious flaw in our federal jurisdiction statutes. At present, those statutes forbid our federal courts from hearing most interstate class actions—the lawsuits that involve more money and touch more Americans than virtually any other type of litigation in our legal system.

The class action device is a necessary and important part of our legal system. It promotes efficiency by allowing plaintiffs with similar claims to adjudicate their cases in one proceeding. It also allows claims to be heard in

cases where there are small harms to a large number of people, which would otherwise go unaddressed because the cost to the individuals suing could far exceed the benefit to the individual. However, class actions are increasingly being used in ways that do not promote the interests they were intended to serve.

In recent years, state courts have been flooded with class actions. As a result of the adoption of different class action certification standards in the various states, the same class might be certifiable in one state and not another, or certifiable in state court but not in federal court. This creates the potential for abuse of the class action device, particularly when the case involves parties from multiple states or requires the application of the laws of many states.

For example, some state courts routinely certify classes before the defendant is even served with a complaint and given a chance to defend itself. Other state courts employ very lax class certification criteria, rendering virtually any controversy subject to class action treatment. There are instances where a state court, in order to certify a class, has determined that the law of that state applies to all claims, including those of purported class members who live in other jurisdictions. This has the effect of making the law of that state applicable nationwide.

The existence of state courts that broadly apply class certification rules encourages plaintiffs to forum shop for the court that is most likely to certify a purported class. In addition to forum shopping, parties frequently exploit major loopholes in federal jurisdiction statutes to block the removal of class actions that belong in federal court. For example, plaintiffs' counsel may name parties that are not really relevant to the class claims in an effort to destroy diversity. In other cases, counsel may waive federal law claims or shave the amount of damages claimed to ensure that the action will remain in state court.

Another problem created by the ability of state courts to certify class actions which adjudicate the rights of citizens of many states is that often times more than one case involving the same class is certified at the same time. In the federal court system, those cases involving common questions of fact may be transferred to one district for coordinated or consolidated pretrial proceedings.

When these class actions are pending in state courts, however, there is no corresponding mechanism for consolidating the competing suits. Instead, a settlement or judgment in any of the cases makes the other class actions moot. This creates an incentive for each class counsel to obtain a quick settlement of the case, and an opportunity for the defendant to play the various class counsels against each other and drive the settlement value down. The loser in this system is the class member whose claim is extinguished by the settlement, at the expense of counsel seeking to be the one entitled to recovery of fees.

Our bill is designed to prevent these abuses by allowing large interstate class action cases to be heard in federal court. It would expand the statutory diversity jurisdiction of the federal courts to allow class action cases involving minimal diversity—that is, when any plaintiff and any defendant are citizens of different states—to be brought in or removed to federal court.

Article III of the Constitution empowers Congress to establish federal jurisdiction over diversity cases—cases “between citizens of different States.” The grant of federal diversity jurisdiction was premised on concerns that state courts might discriminate against out of state defendants. In a class action, only the citizenship of the named plaintiffs is considered for determining diversity, which means that federal diversity jurisdiction will not exist if the named plaintiff is a citizen of the same state as the defendant, regardless of the citizenship of the rest of the class. Congress also imposes a monetary threshold—now \$75,000—for federal diversity claims. However, the amount in controversy requirement is satisfied in a class action only if all of the class members are seeking damages in excess of the statutory minimum.

These jurisdictional statutes were originally enacted years ago, well before the modern class action arose, and they now lead to perverse results. For example, under current law, a citizen of one state may bring in federal court a simple \$75,001 slip-and-fall claim against a party from another state. But if a class of 25 million product owners living in all 50 states brings claims collectively worth \$15 billion against the manufacturer, the lawsuit usually must be heard in state court.

This result is certainly not what the framers had in mind when they established federal diversity jurisdiction. Our bill offers a solution by making it easier for plaintiff class members and defendants to remove class actions to federal court, where cases involving multiple state laws are more appropriately heard. Under our bill, if a removed class action is found not to meet the requirements for proceeding on a class basis, the federal court would dismiss the action without prejudice and the action could be refiled in state court.

In addition, the bill provides a number of new protections for plaintiff class members including a requirement that notices sent to class members be written in “plain English” and provide essential information that is easily understood. Furthermore, the bill provides judicial scrutiny for settlements that provide class members only coupons as relief for their injuries, and bars approval of settlements in which class members suffer a net loss. The bill also includes provisions that protect consumers from being disadvantaged by living far away from the courthouse. These additional consumer protections will ensure that class action lawsuits benefit the consumers they are intended to compensate.

This legislation does not limit the ability of anyone to file a class action lawsuit. It does not change anybody’s rights to recovery. Our bill specifically provides that it will not alter the substantive law governing any claims as to which jurisdiction is conferred. Our legislation merely closes the loophole, allowing federal courts to hear big lawsuits involving truly interstate issues, while ensuring that purely local controversies remain in state courts. This is exactly what the framers of the Constitution had in mind when they established federal diversity jurisdiction.

I urge each of my colleagues to support this very important bipartisan legislation.

MEDICAL LIABILITY INSURANCE
CRISIS RESPONSE ACT OF 2003

HON. MAX SANDLIN

OF TEXAS

IN THE HOUSE OF REPRESENTATIVES

Thursday, March 6, 2003

Mr. SANDLIN. Mr. Speaker, I am pleased today to introduce legislation that actually addresses the skyrocketing medical malpractice insurance premiums of such concern to physicians and other health care providers all across our Nation.

The “Medical Liability Insurance Crisis Response Act of 2003” takes significant steps directly to address the insurance premium crisis that plagues what is otherwise the finest health care system in the world.

First, the bill proposes a partial repeal of the McCarran-Ferguson Act to limit the antitrust exemption currently covering the medical malpractice insurance industry.

Second, the bill addresses the current economic strain faced by many health care providers by requiring the prompt payment of undisputed claims by health insurance carriers and penalizing those carriers who fail to comply.

Third, the bill authorizes the creation of a National Nurse Service Corps Scholarship Program to address our health care system’s dire nursing shortage. It takes steps to improve recruitment, retention and education of our Nation’s nurses.

Fourth, the bill proposes medical malpractice liability reform by requiring mandatory mediation of all malpractice claims before trial, by taking steps to prevent the filing of frivolous medical malpractice claims through the imposition of sanctions and other measures, and by requiring that plaintiffs in medical malpractice litigation to file an affidavit of merit prior to the commencement of any litigation.

Fifth, the bill directly addresses the medical malpractice insurance problems confronting our Nation’s health care providers. It creates an Advisory Commission on Medical Malpractice to conduct an examination of current problems and, within one year, to provide to the Congress specific legislative and regulatory recommendations to solve the problem. It further freezes medical malpractice insurance rates during the period of the Commission’s study. The bill provides significant disincentives to medical malpractice insurance carriers to address the current problems of industry exodus and renewability of coverage. It requires medical malpractice insurance carriers to offer coverage to any physician with no medical malpractice claims during the previous three years and imposes significant disclosure obligations on carriers to allow more informed monitoring of the industry with the goal of averting similar crises in the future. In addition, it limits the ability of carriers to raise malpractice insurance premiums without a clear demonstration of business necessity.

Sixth, the bill expresses the sense of Congress that states should consider additional and alternative methods to address medical malpractice insurance rates.

Finally, the bill provides tax incentives to physicians who practice in high-risk specialties or medically underserved areas to encourage them to maintain their current practices and provide improved access to our Nation’s health care system.

THE COMMERCIAL TRUCK HIGHWAY SAFETY DEMONSTRATION PROGRAM ACT OF 2003

HON. MICHAEL H. MICHAUD

OF MAINE

IN THE HOUSE OF REPRESENTATIVES

Thursday, March 6, 2003

Mr. MICHAUD. Mr. Speaker, today, along with my good friend TOM ALLEN, I am introducing the Commercial Truck Highway Safety Demonstration Program Act of 2003. This bill would allow Maine to increase the weight limits for trucks on interstate highways, by granting a three-year waiver of federal rules. It mandates a study process that will help demonstrate the positive safety effects of these changes, and permit the waiver to be extended pending these safety determinations.

This bill is important both for public safety and economic reasons. The administration of the current 80,000 pound federal weight limit law in Maine has forced heavy tractor-trailer and tractor-semitrailer combination vehicles, traveling into Maine from neighboring States and Canada, to divert onto small State and local roads where higher vehicle weight limits apply under Maine law.

The diversion of those vehicles onto such roads causes significant economic hardships and safety challenges for small communities located along those roads. Permitting heavy commercial vehicles to travel on Interstate System highways in Maine would enhance public safety by reducing the number of heavy vehicles that use town and city streets, and as a result, the number of dangerous interactions between those heavy vehicles and other vehicles such as school buses and private cars.

It would also reduce the net highway maintenance costs in Maine because the Interstate System highways, unlike the secondary roads of Maine, are built to accommodate heavy vehicles and are, therefore, more durable.

Finally, this bill would ensure that Maine can remain competitive in the transportation and manufacturing sectors, and that our neighbors do not pass us by in development. This change is fair, and will promote parity in transportation throughout New England.

I urge my colleagues to support this bill, which will enhance safety, lower maintenance costs, and promote economic development.

HONORING RIDGEWOOD BAPTIST
CHURCH IN JOLIET, ILLINOIS

HON. JERRY WELLER

OF ILLINOIS

IN THE HOUSE OF REPRESENTATIVES

Thursday, March 6, 2003

Mr. WELLER. Mr. Speaker, I rise today to honor the Ridgewood Baptist Church in Joliet, Illinois. The Ridgewood Baptist Church is celebrating its 100th anniversary on March 9, 2003.

In 1888, Mr. William Rix, Mr. Hartwell, and Reverend J. W. Conley started Sunday School meetings that were held in various homes. In 1891, an unsightly building formerly used as a pest house was cleaned and renovated. This is where the first Sunday School session was held with George L. Vance acting as Superintendent. In 1895, property was purchased on the southeast corner of Brown and Leach Avenues at a cost of \$400. A Chapel was built