

110TH CONGRESS
1ST SESSION

H. R. 3996

To amend the Internal Revenue Code of 1986 to extend certain expiring provisions, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

OCTOBER 30, 2007

Mr. RANGEL introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to extend certain expiring provisions, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE, ETC.**

4 (a) **SHORT TITLE.**—This Act may be cited as the
5 “Temporary Tax Relief Act of 2007”.

6 (b) **REFERENCE.**—Except as otherwise expressly pro-
7 vided, whenever in this Act an amendment or repeal is
8 expressed in terms of an amendment to, or repeal of, a
9 section or other provision, the reference shall be consid-

1 ered to be made to a section or other provision of the In-
 2 ternal Revenue Code of 1986.

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

Sec. 1. Short title, etc.

TITLE I—AMT RELIEF

Sec. 101. Extension of alternative minimum tax relief for nonrefundable personal credits.

Sec. 102. Extension of increased alternative minimum tax exemption amount.

TITLE II—ONE-YEAR EXTENDERS

Subtitle A—Extenders Primarily Affecting Individuals

Sec. 201. Deduction for State and local sales taxes.

Sec. 202. Deduction of qualified tuition and related expenses.

Sec. 203. Treatment of certain dividends of regulated investment companies.

Sec. 204. Parity in the application of certain limits to mental health benefits.

Sec. 205. Qualified conservation contributions.

Sec. 206. Tax-free distributions from individual retirement plans for charitable purposes.

Sec. 207. Deduction for certain expenses of elementary and secondary school teachers.

Sec. 208. Election to include combat pay as earned income for purposes of earned income tax credit.

Sec. 209. Modification of mortgage revenue bonds for veterans.

Sec. 210. Distributions from retirement plans to individuals called to active duty.

Sec. 211. Stock in RIC for purposes of determining estates of nonresidents not citizens.

Sec. 212. Qualified investment entities.

Sec. 213. Refundable child credit.

Sec. 214. State legislators' travel expenses away from home.

Subtitle B—Extenders Primarily Affecting Businesses

Sec. 221. Research credit.

Sec. 222. Indian employment credit.

Sec. 223. New markets tax credit.

Sec. 224. Railroad track maintenance.

Sec. 225. Fifteen-year straight-line cost recovery for qualified leasehold improvements and qualified restaurant property.

Sec. 226. Seven-year cost recovery period for motorsports racing track facility.

Sec. 227. Accelerated depreciation for business property on Indian reservation.

Sec. 228. Expensing of environmental remediation costs.

Sec. 229. Deduction allowable with respect to income attributable to domestic production activities in Puerto Rico.

Sec. 230. Modification of tax treatment of certain payments to controlling exempt organizations.

- Sec. 231. Extension and modification of credit to holders of qualified zone academy bonds.
- Sec. 232. Tax incentives for investment in the District of Columbia.
- Sec. 233. Extension of economic development credit for American Samoa.
- Sec. 234. Enhanced charitable deduction for contributions of food inventory.
- Sec. 235. Enhanced charitable deduction for contributions of book inventory to public schools.
- Sec. 236. Enhanced deduction for qualified computer contributions.
- Sec. 237. Basis adjustment to stock of S corporations making charitable contributions of property.
- Sec. 238. Extension of work opportunity tax credit for Hurricane Katrina employees.

Subtitle C—Other Extenders

- Sec. 241. Disclosure for combined employment tax reporting.
- Sec. 242. Disclosure of return information to apprise appropriate officials of terrorist activities.
- Sec. 243. Disclosure upon request of information relating to terrorist activities.
- Sec. 244. Disclosure of return information to carry out income contingent repayment of student loans.
- Sec. 245. Authority for undercover operations.
- Sec. 246. Increase in limit on cover over of rum excise tax to Puerto Rico and the Virgin Islands.
- Sec. 247. Disclosure of return information for certain veterans programs.

TITLE III—MORTGAGE FORGIVENESS DEBT RELIEF

- Sec. 301. Discharges of indebtedness on principal residence excluded from gross income.
- Sec. 302. Long-term extension of deduction for mortgage insurance premiums.
- Sec. 303. Alternative tests for qualifying as cooperative housing corporation.
- Sec. 304. Gain from sale of principal residence allocated to nonqualified use not excluded from income.

TITLE IV—ADMINISTRATIVE PROVISIONS

- Sec. 401. Repeal of authority to enter into private debt collection contracts.
- Sec. 402. Delay of application of withholding requirement on certain governmental payments for goods and services.
- Sec. 403. Clarification of entitlement of Virgin Islands residents to protections of limitations on assessment and collection of tax.
- Sec. 404. Revision of tax rules on expatriation.
- Sec. 405. Repeal of suspension of certain penalties and interest.
- Sec. 406. Increase in information return penalties.
- Sec. 407. Unused merchandise drawback.

TITLE I—AMT RELIEF

SEC. 101. EXTENSION OF ALTERNATIVE MINIMUM TAX RELIEF FOR NONREFUNDABLE PERSONAL CREDITS.

(a) IN GENERAL.—Paragraph (2) of section 26(a) (relating to special rule for taxable years 2000 through 2006) is amended—

(1) by striking “or 2006” and inserting “2006, or 2007”, and

(2) by striking “2006” in the heading thereof and inserting “2007”.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2006.

SEC. 102. EXTENSION OF INCREASED ALTERNATIVE MINIMUM TAX EXEMPTION AMOUNT.

(a) IN GENERAL.—Paragraph (1) of section 55(d) (relating to exemption amount) is amended—

(1) by striking “(\$62,550 in the case of taxable years beginning in 2006)” in subparagraph (A) and inserting “(\$66,250 in the case of taxable years beginning in 2007)”, and

(2) by striking “(\$42,500 in the case of taxable years beginning in 2006)” in subparagraph (B) and

1 inserting “(\$44,350 in the case of taxable years be-
2 ginning in 2007)”.

3 (b) EFFECTIVE DATE.—The amendments made by
4 this section shall apply to taxable years beginning after
5 December 31, 2006.

6 **TITLE II—ONE-YEAR EXTENDERS**

7 **Subtitle A—Extenders Primarily** 8 **Affecting Individuals**

9 **SEC. 201. DEDUCTION FOR STATE AND LOCAL SALES** 10 **TAXES.**

11 (a) IN GENERAL.—Subparagraph (I) of section
12 164(b)(5) is amended by striking “January 1, 2008” and
13 inserting “January 1, 2009”.

14 (b) EFFECTIVE DATE.—The amendment made by
15 this section shall apply to taxable years beginning after
16 December 31, 2007.

17 **SEC. 202. DEDUCTION OF QUALIFIED TUITION AND RE-** 18 **LATED EXPENSES.**

19 (a) IN GENERAL.—Subsection (e) of section 222 (re-
20 lating to termination) is amended by striking “December
21 31, 2007” and inserting “December 31, 2008”.

22 (b) EFFECTIVE DATE.—The amendment made by
23 this section shall apply to taxable years beginning after
24 December 31, 2007.

1 **SEC. 203. TREATMENT OF CERTAIN DIVIDENDS OF REGU-**
2 **LATED INVESTMENT COMPANIES.**

3 (a) INTEREST-RELATED DIVIDENDS.—Subpara-
4 graph (C) of section 871(k)(1) (defining interest-related
5 dividend) is amended by striking “December 31, 2007”
6 and inserting “December 31, 2008”.

7 (b) SHORT-TERM CAPITAL GAIN DIVIDENDS.—Sub-
8 paragraph (C) of section 871(k)(2) (defining short-term
9 capital gain dividend) is amended by striking “December
10 31, 2007” and inserting “December 31, 2008”.

11 (c) EFFECTIVE DATE.—The amendments made by
12 this section shall apply to dividends with respect to taxable
13 years of regulated investment companies beginning after
14 December 31, 2007.

15 **SEC. 204. PARITY IN THE APPLICATION OF CERTAIN LIMITS**
16 **TO MENTAL HEALTH BENEFITS.**

17 (a) IN GENERAL.—Paragraph (3) of section 9812(f)
18 (relating to application of section) is amended by striking
19 “December 31, 2007” and inserting “December 31,
20 2008”.

21 (b) EFFECTIVE DATE.—The amendment made by
22 this section shall apply to benefits for services furnished
23 after December 31, 2007.

24 **SEC. 205. QUALIFIED CONSERVATION CONTRIBUTIONS.**

25 (a) IN GENERAL.—Clause (vi) of section
26 170(b)(1)(E) (relating to termination) is amended by

1 striking “December 31, 2007” and inserting “December
2 31, 2008”.

3 (b) EFFECTIVE DATE.—The amendment made by
4 this section shall apply to contributions made in taxable
5 years beginning after December 31, 2007.

6 **SEC. 206. TAX-FREE DISTRIBUTIONS FROM INDIVIDUAL RE-**
7 **TIREMENT PLANS FOR CHARITABLE PUR-**
8 **POSES.**

9 (a) IN GENERAL.—Subparagraph (F) of section
10 408(d)(8) (relating to termination) is amended by striking
11 “December 31, 2007” and inserting “December 31,
12 2008”.

13 (b) EFFECTIVE DATE.—The amendment made by
14 this section shall apply to distributions made in taxable
15 years beginning after December 31, 2007.

16 **SEC. 207. DEDUCTION FOR CERTAIN EXPENSES OF ELE-**
17 **MENTARY AND SECONDARY SCHOOL TEACH-**
18 **ERS.**

19 (a) IN GENERAL.—Subparagraph (D) of section
20 62(a)(2) (relating to certain expenses of elementary and
21 secondary school teachers) is amended by striking “or
22 2007” and inserting “2007, or 2008”.

23 (b) EFFECTIVE DATE.—The amendment made by
24 subsection (a) shall apply to taxable years beginning after
25 December 31, 2007.

1 **SEC. 208. ELECTION TO INCLUDE COMBAT PAY AS EARNED**
2 **INCOME FOR PURPOSES OF EARNED INCOME**
3 **TAX CREDIT.**

4 (a) IN GENERAL.—Subclause (II) of section
5 32(c)(2)(B)(vi) (defining earned income) is amended by
6 striking “January 1, 2008” and inserting “January 1,
7 2009”.

8 (b) EFFECTIVE DATE.—The amendment made by
9 this section shall apply to taxable years ending after De-
10 cember 31, 2007.

11 **SEC. 209. MODIFICATION OF MORTGAGE REVENUE BONDS**
12 **FOR VETERANS.**

13 (a) QUALIFIED MORTGAGE BONDS USED TO FI-
14 NANCE RESIDENCES FOR VETERANS WITHOUT REGARD
15 TO FIRST-TIME HOMEBUYER REQUIREMENT.—Subpara-
16 graph (D) of section 143(d)(2) (relating to exceptions) is
17 amended by striking “January 1, 2008” and inserting
18 “January 1, 2009”.

19 (b) EFFECTIVE DATE.—The amendment made by
20 this section shall apply to bonds issued after December
21 31, 2007.

22 **SEC. 210. DISTRIBUTIONS FROM RETIREMENT PLANS TO**
23 **INDIVIDUALS CALLED TO ACTIVE DUTY.**

24 (a) IN GENERAL.—Clause (iv) of section 72(t)(2)(G)
25 is amended by striking “December 31, 2007” and insert-
26 ing “January 1, 2009”.

1 (b) EFFECTIVE DATE.—The amendment made by
2 this section shall apply to individuals ordered or called to
3 active duty on or after December 31, 2007.

4 **SEC. 211. STOCK IN RIC FOR PURPOSES OF DETERMINING**
5 **ESTATES OF NONRESIDENTS NOT CITIZENS.**

6 (a) IN GENERAL.—Paragraph (3) of section 2105(d)
7 (relating to stock in a RIC) is amended by striking “De-
8 cember 31, 2007” and inserting “December 31, 2008”.

9 (b) EFFECTIVE DATE.—The amendment made by
10 this section shall apply to decedents dying after December
11 31, 2007.

12 **SEC. 212. QUALIFIED INVESTMENT ENTITIES.**

13 (a) IN GENERAL.—Clause (ii) of section
14 897(h)(4)(A) (relating to termination) is amended by
15 striking “December 31, 2007” and inserting “December
16 31, 2008”.

17 (b) EFFECTIVE DATE.—The amendment made by
18 subsection (a) shall take effect on January 1, 2008.

19 **SEC. 213. REFUNDABLE CHILD CREDIT.**

20 (a) MODIFICATION OF THRESHOLD AMOUNT.—
21 Clause (i) of section 24(d)(1)(B) is amended by inserting
22 “(\$8,500 in the case of taxable years beginning in 2008)”
23 after “\$10,000”.

1 (b) EFFECTIVE DATE.—The amendment made by
2 subsection (a) shall apply to taxable years beginning after
3 December 31, 2007.

4 **SEC. 214. STATE LEGISLATORS' TRAVEL EXPENSES AWAY**
5 **FROM HOME.**

6 (a) IN GENERAL.—Paragraph (2) of section 162(h)
7 (relating to legislative days) is amended by adding at the
8 end the following flush sentence: “In the case of taxable
9 years beginning in 2008, a legislature shall be treated for
10 purposes of this paragraph as in session on any day in
11 which it is formally called into session without regard to
12 whether legislation was considered on such day.”.

13 (b) EFFECTIVE DATE.—The amendment made by
14 subsection (a) shall apply to taxable years beginning after
15 December 31, 2007.

16 **Subtitle B—Extenders Primarily**
17 **Affecting Businesses**

18 **SEC. 221. RESEARCH CREDIT.**

19 (a) IN GENERAL.—Subparagraph (B) of section
20 41(h)(1) (relating to termination) is amended by striking
21 “December 31, 2007” and inserting “December 31,
22 2008”.

23 (b) CONFORMING AMENDMENT.—Subparagraph (D)
24 of section 45C(b)(1) (relating to qualified clinical testing

1 expenses) is amended by striking “December 31, 2007”
2 and inserting “December 31, 2008”.

3 (c) EFFECTIVE DATE.—The amendments made by
4 this section shall apply to amounts paid or incurred after
5 December 31, 2007.

6 **SEC. 222. INDIAN EMPLOYMENT CREDIT.**

7 (a) IN GENERAL.—Subsection (f) of section 45A (re-
8 lating to termination) is amended by striking “December
9 31, 2007” and inserting “December 31, 2008”.

10 (b) EFFECTIVE DATE.—The amendment made by
11 this section shall apply to taxable years beginning after
12 December 31, 2007.

13 **SEC. 223. NEW MARKETS TAX CREDIT.**

14 Subparagraph (D) of section 45D(f)(1) (relating to
15 national limitation on amount of investments designated)
16 is amended by striking “and 2008” and inserting “2008,
17 and 2009”.

18 **SEC. 224. RAILROAD TRACK MAINTENANCE.**

19 (a) IN GENERAL.—Subsection (f) of section 45G (re-
20 lating to application of section) is amended by striking
21 “January 1, 2008” and inserting “January 1, 2009”.

22 (b) EFFECTIVE DATE.—The amendment made by
23 this section shall apply to expenditures paid or incurred
24 during taxable years beginning after December 31, 2007.

1 **SEC. 225. FIFTEEN-YEAR STRAIGHT-LINE COST RECOVERY**
2 **FOR QUALIFIED LEASEHOLD IMPROVEMENTS**
3 **AND QUALIFIED RESTAURANT PROPERTY.**

4 (a) IN GENERAL.—Clauses (iv) and (v) of section
5 168(e)(3)(E) (relating to 15-year property) are each
6 amended by striking “January 1, 2008” and inserting
7 “January 1, 2009”.

8 (b) EFFECTIVE DATE.—The amendments made by
9 this section shall apply to property placed in service after
10 December 31, 2007.

11 **SEC. 226. SEVEN-YEAR COST RECOVERY PERIOD FOR MO-**
12 **TORSPO RTS RACING TRACK FACILITY.**

13 (a) IN GENERAL.—Subparagraph (D) of section
14 168(i)(15) (relating to termination) is amended by strik-
15 ing “December 31, 2007” and inserting “December 31,
16 2008”.

17 (b) EFFECTIVE DATE.—The amendment made by
18 this section shall apply to property placed in service after
19 December 31, 2007.

20 **SEC. 227. ACCELERATED DEPRECIATION FOR BUSINESS**
21 **PROPERTY ON INDIAN RESERVATION.**

22 (a) IN GENERAL.—Paragraph (8) of section 168(j)
23 (relating to termination) is amended by striking “Decem-
24 ber 31, 2007” and inserting “December 31, 2008”.

1 (b) EFFECTIVE DATE.—The amendment made by
2 this section shall apply to property placed in service after
3 December 31, 2007.

4 **SEC. 228. EXPENSING OF ENVIRONMENTAL REMEDIATION**
5 **COSTS.**

6 (a) IN GENERAL.—Subsection (h) of section 198 (re-
7 lating to termination) is amended by striking “December
8 31, 2007” and inserting “December 31, 2008”.

9 (b) EFFECTIVE DATE.—The amendment made by
10 this section shall apply to expenditures paid or incurred
11 after December 31, 2007.

12 **SEC. 229. DEDUCTION ALLOWABLE WITH RESPECT TO IN-**
13 **COME ATTRIBUTABLE TO DOMESTIC PRO-**
14 **DUCTION ACTIVITIES IN PUERTO RICO.**

15 (a) IN GENERAL.—Subparagraph (C) of section
16 199(d)(8) (relating to termination) is amended—

17 (1) by striking “first 2 taxable years” and in-
18 serting “first 3 taxable years”, and

19 (2) by striking “January 1, 2008” and insert-
20 ing “January 1, 2009”.

21 (b) EFFECTIVE DATE.—The amendments made by
22 this section shall apply to taxable years beginning after
23 December 31, 2007.

1 **SEC. 230. MODIFICATION OF TAX TREATMENT OF CERTAIN**
2 **PAYMENTS TO CONTROLLING EXEMPT ORGA-**
3 **NIZATIONS.**

4 (a) IN GENERAL.—Clause (iv) of section
5 512(b)(13)(E) (relating to termination) is amended by
6 striking “December 31, 2007” and inserting “December
7 31, 2008”.

8 (b) EFFECTIVE DATE.—The amendment made by
9 this section shall apply to payments received or accrued
10 after December 31, 2007.

11 **SEC. 231. EXTENSION AND MODIFICATION OF CREDIT TO**
12 **HOLDERS OF QUALIFIED ZONE ACADEMY**
13 **BONDS.**

14 (a) IN GENERAL.—Subsection (e) of section 1397E
15 (relating to limitation on amount of bonds designated) is
16 amended by striking “1998, 1999, 2000, 2001, 2002,
17 2003, 2004, 2005, 2006, and 2007” and inserting “each
18 of calendar years 1998 through 2008”.

19 (b) MODIFICATION OF ARBITRAGE RULES.—

20 (1) IN GENERAL.—Subsection (g) of section
21 1397E (relating to special rules relating to arbi-
22 trage) is amended to read as follows:

23 “(g) SPECIAL RULES RELATING TO ARBITRAGE.—

24 “(1) IN GENERAL.—An issue shall be treated as
25 meeting the requirements of this subsection if the

1 issuer satisfies the requirements of section 148 with
2 respect to the proceeds of the issue.

3 “(2) SPECIAL RULE FOR INVESTMENTS DURING
4 EXPENDITURE PERIOD.—An issue shall not be treat-
5 ed as failing to meet the requirements of paragraph
6 (1) by reason of any investment of available project
7 proceeds during the 5-year period described in sub-
8 section (f)(1)(A) (including any extension of such
9 period under subsection (f)(2)).

10 “(3) SPECIAL RULE FOR RESERVE FUNDS.—An
11 issue shall not be treated as failing to meet the re-
12 quirements of paragraph (1) by reason of any fund
13 which is expected to be used to repay such issue if—

14 “(A) such fund is funded at a rate not
15 more rapid than equal annual installments,

16 “(B) such fund is funded in a manner that
17 such fund will not exceed the amount necessary
18 to repay the issue if invested at the maximum
19 rate permitted under subparagraph (C), and

20 “(C) the yield on such fund is not greater
21 than the discount rate determined under sub-
22 section (d)(3) with respect to the issue.”.

23 (2) APPLICATION OF AVAILABLE PROJECT PRO-
24 CEEDS TO OTHER REQUIREMENTS.—Subsections
25 (d)(1)(A), (d)(2)(A), (f)(1)(A), (f)(1)(B), (f)(1)(C),

1 and (f)(3) of section 1397E are each amended by
2 striking “proceeds” and inserting “available project
3 proceeds”

4 (3) AVAILABLE PROJECT PROCEEDS DE-
5 FINED.—Subsection (i) of section 1397E (relating to
6 definitions) is amended by adding at the end the fol-
7 lowing new paragraph:

8 “(4) AVAILABLE PROJECT PROCEEDS.—The
9 term ‘available project proceeds’ means—

10 “(A) the excess of—

11 “(i) the proceeds from the sale of an
12 issue, over

13 “(ii) the issuance costs financed by
14 the issue (to the extent that such costs do
15 not exceed 2 percent of such proceeds),
16 and

17 “(B) the proceeds from any investment of
18 the excess described in subparagraph (A).”.

19 (c) EFFECTIVE DATE.—

20 (1) EXTENSION.—The amendment made by
21 subsection (a) shall apply to obligations issued after
22 December 31, 2007.

23 (2) MODIFICATION OF ARBITRAGE RULES.—
24 The amendments made by subsection (b) shall apply

1 to obligations issued after the date of the enactment
2 of this Act.

3 **SEC. 232. TAX INCENTIVES FOR INVESTMENT IN THE DIS-**
4 **TRICT OF COLUMBIA.**

5 (a) DESIGNATION OF ZONE.—

6 (1) IN GENERAL.—Subsection (f) of section
7 1400 is amended by striking “2007” both places it
8 appears and inserting “2008”.

9 (2) EFFECTIVE DATE.—The amendments made
10 by this subsection shall apply to periods beginning
11 after December 31, 2007.

12 (b) TAX-EXEMPT ECONOMIC DEVELOPMENT
13 BONDS.—

14 (1) IN GENERAL.—Subsection (b) of section
15 1400A is amended by striking “2007” and inserting
16 “2008”.

17 (2) EFFECTIVE DATE.—The amendment made
18 by this subsection shall apply to bonds issued after
19 December 31, 2007.

20 (c) ZERO PERCENT CAPITAL GAINS RATE.—

21 (1) IN GENERAL.—Subsection (b) of section
22 1400B is amended by striking “2008” each place it
23 appears and inserting “2009”.

24 (2) CONFORMING AMENDMENTS.—

25 (A) Section 1400B(e)(2) is amended—

1 (i) by striking “2012” and inserting
2 “2013”, and

3 (ii) by striking “2012” in the heading
4 thereof and inserting “2013”.

5 (B) Section 1400B(g)(2) is amended by
6 striking “2012” and inserting “2013”.

7 (C) Section 1400F(d) is amended by strik-
8 ing “2012” and inserting “2013”.

9 (3) EFFECTIVE DATES.—

10 (A) EXTENSION.—The amendments made
11 by paragraph (1) shall apply to acquisitions
12 after December 31, 2007.

13 (B) CONFORMING AMENDMENTS.—The
14 amendments made by paragraph (2) shall take
15 effect on the date of the enactment of this Act.

16 (d) FIRST-TIME HOMEBUYER CREDIT.—

17 (1) IN GENERAL.—Subsection (i) of section
18 1400C is amended by striking “2008” and inserting
19 “2009”.

20 (2) EFFECTIVE DATE.—The amendment made
21 by this subsection shall apply to property purchased
22 after December 31, 2007.

1 **SEC. 233. EXTENSION OF ECONOMIC DEVELOPMENT CRED-**
2 **IT FOR AMERICAN SAMOA.**

3 (a) IN GENERAL.—Subsection (d) of section 119 of
4 division A of the Tax Relief and Health Care Act of 2006
5 is amended—

6 (1) by striking “first two taxable years” and in-
7 serting “first 3 taxable years”, and

8 (2) by striking “January 1, 2008” and insert-
9 ing “January 1, 2009”.

10 (b) EFFECTIVE DATE.—The amendment made by
11 this section shall apply to taxable years beginning after
12 December 31, 2007.

13 **SEC. 234. ENHANCED CHARITABLE DEDUCTION FOR CON-**
14 **TRIBUTIONS OF FOOD INVENTORY.**

15 (a) IN GENERAL.—Clause (iv) of section
16 170(e)(3)(C) (relating to termination) is amended by
17 striking “December 31, 2007” and inserting “December
18 31, 2008”.

19 (b) EFFECTIVE DATE.—The amendment made by
20 this section shall apply to contributions made after De-
21 cember 31, 2007.

22 **SEC. 235. ENHANCED CHARITABLE DEDUCTION FOR CON-**
23 **TRIBUTIONS OF BOOK INVENTORY TO PUB-**
24 **LIC SCHOOLS.**

25 (a) IN GENERAL.—Clause (iv) of section
26 170(e)(3)(D) (relating to termination) is amended by

1 striking “December 31, 2007” and inserting “December
2 31, 2008”.

3 (b) EFFECTIVE DATE.—The amendment made by
4 this section shall apply to contributions made after De-
5 cember 31, 2007.

6 **SEC. 236. ENHANCED DEDUCTION FOR QUALIFIED COM-**
7 **PUTER CONTRIBUTIONS.**

8 (a) IN GENERAL.—Subparagraph (G) of section
9 170(e)(6) (relating to termination) is amended by striking
10 “December 31, 2007” and inserting “December 31,
11 2008”.

12 (b) EFFECTIVE DATE.—The amendment made by
13 this section shall apply to contributions made during tax-
14 able years beginning after December 31, 2007.

15 **SEC. 237. BASIS ADJUSTMENT TO STOCK OF S CORPORA-**
16 **TIONS MAKING CHARITABLE CONTRIBU-**
17 **TIONS OF PROPERTY.**

18 (a) IN GENERAL.—The last sentence of section
19 1367(a)(2) (relating to decreases in basis) is amended by
20 striking “December 31, 2007” and inserting “December
21 31, 2008”.

22 (b) TECHNICAL AMENDMENT RELATED TO SECTION
23 1203 OF THE PENSION PROTECTION ACT OF 2006.—Sub-
24 section (d) of section 1366 is amended by adding at the
25 end the following new paragraph:

1 “(4) APPLICATION OF LIMITATION ON CHARITABLE CONTRIBUTIONS.—In the case of any charitable contribution of property to which the second sentence of section 1367(a)(2) applies, paragraph (1) shall not apply to the extent of the excess (if any) of—

2 “(A) the shareholder’s pro rata share of such contribution, over

3 “(B) the shareholder’s pro rata share of the adjusted basis of such property.”.

4 (c) EFFECTIVE DATE.—

5 (1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to contributions made in taxable years beginning after December 31, 2007.

6 (2) TECHNICAL AMENDMENT.—The amendment made by subsection (b) shall take effect as if included in the provision of the Pension Protection Act of 2006 to which it relates.

7 **SEC. 238. EXTENSION OF WORK OPPORTUNITY TAX CREDIT FOR HURRICANE KATRINA EMPLOYEES.**

8 (a) IN GENERAL.—Paragraph (1) of section 201(b) of the Katrina Emergency Tax Relief Act of 2005 is amended by striking “2-year” and inserting “3-year”.

1 (b) EFFECTIVE DATE.—The amendment made by
2 subsection (a) shall apply to individuals hired after August
3 27, 2007.

4 **Subtitle C—Other Extenders**

5 **SEC. 241. DISCLOSURE FOR COMBINED EMPLOYMENT TAX** 6 **REPORTING.**

7 (a) IN GENERAL.—Subparagraph (B) of section
8 6103(d)(5) (relating to termination) is amended by strik-
9 ing “December 31, 2007” and inserting “December 31,
10 2008”.

11 (b) EFFECTIVE DATE.—The amendment made by
12 this section shall apply to disclosures after December 31,
13 2007.

14 **SEC. 242. DISCLOSURE OF RETURN INFORMATION TO AP-** 15 **PROPRIATE APPROPRIATE OFFICIALS OF TER-** 16 **RORIST ACTIVITIES.**

17 (a) IN GENERAL.—Clause (iv) of section
18 6103(i)(3)(C) (relating to termination) is amended by
19 striking “December 31, 2007” and inserting “December
20 31, 2008”.

21 (b) EFFECTIVE DATE.—The amendment made by
22 this section shall apply to disclosures after December 31,
23 2007.

1 **SEC. 243. DISCLOSURE UPON REQUEST OF INFORMATION**
2 **RELATING TO TERRORIST ACTIVITIES.**

3 (a) IN GENERAL.—Subparagraph (E) of section
4 6103(i)(7) (relating to termination) is amended by strik-
5 ing “December 31, 2007” and inserting “December 31,
6 2008”.

7 (b) EFFECTIVE DATE.—The amendment made by
8 this section shall apply to disclosures after December 31,
9 2007.

10 **SEC. 244. DISCLOSURE OF RETURN INFORMATION TO**
11 **CARRY OUT INCOME CONTINGENT REPAY-**
12 **MENT OF STUDENT LOANS.**

13 (a) IN GENERAL.—Subparagraph (D) of section
14 6103(l)(13) (relating to termination) is amended by strik-
15 ing “December 31, 2007” and inserting “December 31,
16 2008”.

17 (b) EFFECTIVE DATE.—The amendment made by
18 this section shall apply to requests made after December
19 31, 2007.

20 **SEC. 245. AUTHORITY FOR UNDERCOVER OPERATIONS.**

21 (a) IN GENERAL.—Paragraph (6) of section 7608(c)
22 (relating to application of section) is amended by striking
23 “January 1, 2008” each place it appears and inserting
24 “January 1, 2009”.

25 (b) EFFECTIVE DATE.—The amendment made by
26 this section shall take effect on January 1, 2008.

1 **SEC. 246. INCREASE IN LIMIT ON COVER OVER OF RUM EX-**
2 **CISE TAX TO PUERTO RICO AND THE VIRGIN**
3 **ISLANDS.**

4 (a) IN GENERAL.—Paragraph (1) of section 7652(f)
5 is amended by striking “January 1, 2008” and inserting
6 “January 1, 2009”.

7 (b) EFFECTIVE DATE.—The amendment made by
8 this section shall apply to distilled spirits brought into the
9 United States after December 31, 2007.

10 **SEC. 247. DISCLOSURE OF RETURN INFORMATION FOR**
11 **CERTAIN VETERANS PROGRAMS.**

12 (a) IN GENERAL.—The last sentence of paragraph
13 (7) of section 6103(l) is amended by striking “September
14 30, 2008” and inserting “December 31, 2008”.

15 (b) EFFECTIVE DATE.—The amendment made by
16 subsection (a) shall apply to requests made after Sep-
17 tember 30, 2008.

18 **TITLE III—MORTGAGE**
19 **FORGIVENESS DEBT RELIEF**

20 **SEC. 301. DISCHARGES OF INDEBTEDNESS ON PRINCIPAL**
21 **RESIDENCE EXCLUDED FROM GROSS IN-**
22 **COME.**

23 (a) IN GENERAL.—Paragraph (1) of section 108(a)
24 is amended by striking “or” at the end of subparagraph
25 (C), by striking the period at the end of subparagraph (D)

1 and inserting “, or”, and by inserting after subparagraph
2 (D) the following new subparagraph:

3 “(E) the indebtedness discharged is quali-
4 fied principal residence indebtedness.”.

5 (b) SPECIAL RULES RELATING TO QUALIFIED PRIN-
6 CIPAL RESIDENCE INDEBTEDNESS.—Section 108 is
7 amended by adding at the end the following new sub-
8 section:

9 “(h) SPECIAL RULES RELATING TO QUALIFIED
10 PRINCIPAL RESIDENCE INDEBTEDNESS.—

11 “(1) BASIS REDUCTION.—The amount excluded
12 from gross income by reason of subsection (a)(1)(E)
13 shall be applied to reduce (but not below zero) the
14 basis of the principal residence of the taxpayer.

15 “(2) QUALIFIED PRINCIPAL RESIDENCE IN-
16 DEBTEDNESS.—For purposes of this section, the
17 term ‘qualified principal residence indebtedness’
18 means acquisition indebtedness (within the meaning
19 of section 163(h)(3)(B), applied by substituting
20 ‘\$2,000,000 (\$1,000,000’ for ‘\$1,000,000
21 (\$500,000’ in clause (ii) thereof) with respect to the
22 principal residence of the taxpayer.

23 “(3) EXCEPTION FOR CERTAIN DISCHARGES
24 NOT RELATED TO TAXPAYER’S FINANCIAL CONDI-
25 TION.—Subsection (a)(1)(E) shall not apply to the

1 discharge of a loan if the discharge is on account of
2 services performed for the lender or any other factor
3 not directly related to a decline in the value of the
4 residence or to the financial condition of the tax-
5 payer.

6 “(4) ORDERING RULE.—If any loan is dis-
7 charged, in whole or in part, and only a portion of
8 such loan is qualified principal residence indebted-
9 ness, subsection (a)(1)(E) shall apply only to so
10 much of the amount discharged as exceeds the
11 amount of the loan (as determined immediately be-
12 fore such discharge) which is not qualified principal
13 residence indebtedness.

14 “(5) PRINCIPAL RESIDENCE.—For purposes of
15 this subsection, the term ‘principal residence’ has
16 the same meaning as when used in section 121.”.

17 (c) COORDINATION.—

18 (1) Subparagraph (A) of section 108(a)(2) is
19 amended by striking “and (D)” and inserting “(D),
20 and (E)”.

21 (2) Paragraph (2) of section 108(a) is amended
22 by adding at the end the following new subpara-
23 graph:

24 “(C) PRINCIPAL RESIDENCE EXCLUSION
25 TAKES PRECEDENCE OVER INSOLVENCY EXCLU-

1 **SEC. 303. ALTERNATIVE TESTS FOR QUALIFYING AS COOP-**
2 **ERATIVE HOUSING CORPORATION.**

3 (a) IN GENERAL.—Subparagraph (D) of section
4 216(b)(1) (defining cooperative housing corporation) is
5 amended to read as follows:

6 “(D) meeting 1 or more of the following
7 requirements for the taxable year in which the
8 taxes and interest described in subsection (a)
9 are paid or incurred:

10 “(i) 80 percent or more of the cor-
11 poration’s gross income for such taxable
12 year is derived from tenant-stockholders.

13 “(ii) At all times during such taxable
14 year, 80 percent or more of the total
15 square footage of the corporation’s prop-
16 erty is used or available for use by the ten-
17 ant-stockholders for residential purposes or
18 purposes ancillary to such residential use.

19 “(iii) 90 percent or more of the ex-
20 penditures of the corporation paid or in-
21 curred during such taxable year are paid
22 or incurred for the acquisition, construc-
23 tion, management, maintenance, or care of
24 the corporation’s property for the benefit
25 of the tenant-stockholders.”.

1 (b) EFFECTIVE DATE.—The amendment made by
2 this section shall apply to taxable years ending after the
3 date of the enactment of this Act.

4 **SEC. 304. GAIN FROM SALE OF PRINCIPAL RESIDENCE AL-**
5 **LOCATED TO NONQUALIFIED USE NOT EX-**
6 **CLUDED FROM INCOME.**

7 (a) IN GENERAL.—Subsection (b) of section 121 (re-
8 lating to limitations) is amended by adding at the end the
9 following new paragraph:

10 “(4) EXCLUSION OF GAIN ALLOCATED TO NON-
11 QUALIFIED USE.—

12 “(A) IN GENERAL.—Subsection (a) shall
13 not apply to so much of the gain from the sale
14 or exchange of property as is allocated to peri-
15 ods of nonqualified use.

16 “(B) GAIN ALLOCATED TO PERIODS OF
17 NONQUALIFIED USE.—For purposes of subpara-
18 graph (A), gain shall be allocated to periods of
19 nonqualified use based on the ratio which—

20 “(i) the aggregate periods of non-
21 qualified use during the period such prop-
22 erty was owned by the taxpayer, bears to

23 “(ii) the period such property was
24 owned by the taxpayer.

1 “(C) PERIOD OF NONQUALIFIED USE.—

2 For purposes of this paragraph—

3 “(i) IN GENERAL.—The term ‘period
4 of nonqualified use’ means any period
5 (other than the portion of any period pre-
6 ceding January 1, 2008) during which the
7 property is not used as the principal resi-
8 dence of the taxpayer or the taxpayer’s
9 spouse or former spouse.

10 “(ii) EXCEPTIONS.—The term ‘period
11 of nonqualified use’ does not include—

12 “(I) any portion of the 5-year pe-
13 riod described in subsection (a) which
14 is after the last date that such prop-
15 erty is used as the principal residence
16 of the taxpayer or the taxpayer’s
17 spouse,

18 “(II) any period (not to exceed
19 an aggregate period of 10 years) dur-
20 ing which the taxpayer or the tax-
21 payer’s spouse is serving on qualified
22 official extended duty (as defined in
23 subsection (d)(9)(C)) described in
24 clause (i), (ii), or (iii) of subsection
25 (d)(9)(A), and

1 “(III) any other period of tem-
2 porary absence (not to exceed an ag-
3 gregate period of 2 years) due to
4 change of employment, health condi-
5 tions, or such other unforeseen cir-
6 cumstances as may be specified by the
7 Secretary.

8 “(D) COORDINATION WITH RECOGNITION
9 OF GAIN ATTRIBUTABLE TO DEPRECIATION.—
10 For purposes of this paragraph—

11 “(i) subparagraph (A) shall be applied
12 after the application of subsection (d)(6),
13 and

14 “(ii) subparagraph (B) shall be ap-
15 plied without regard to any gain to which
16 subsection (d)(6) applies.”.

17 (b) EFFECTIVE DATE.—The amendment made by
18 this section shall apply to sales and exchanges after De-
19 cember 31, 2007.

20 **TITLE IV—ADMINISTRATIVE** 21 **PROVISIONS**

22 **SEC. 401. REPEAL OF AUTHORITY TO ENTER INTO PRIVATE** 23 **DEBT COLLECTION CONTRACTS.**

24 (a) IN GENERAL.—Subchapter A of chapter 64 is
25 amended by striking section 6306.

1 (b) CONFORMING AMENDMENTS.—

2 (1) Subchapter B of chapter 76 is amended by
3 striking section 7433A.

4 (2) Section 7811 is amended by striking sub-
5 section (g).

6 (3) Section 1203 of the Internal Revenue Serv-
7 ice Restructuring Act of 1998 is amended by strik-
8 ing subsection (e).

9 (4) The table of sections for subchapter A of
10 chapter 64 is amended by striking the item relating
11 to section 6306.

12 (5) The table of sections for subchapter B of
13 chapter 76 is amended by striking the item relating
14 to section 7433A.

15 (c) EFFECTIVE DATE.—

16 (1) IN GENERAL.—Except as otherwise pro-
17 vided in this subsection, the amendments made by
18 this section shall take effect on the date of the en-
19 actment of this Act.

20 (2) EXCEPTION FOR EXISTING CONTRACTS,
21 ETC.—The amendments made by this section shall
22 not apply to any contract which was entered into be-
23 fore July 18, 2007, and is not renewed or extended
24 on or after such date.

1 (3) UNAUTHORIZED CONTRACTS AND EXTEN-
2 SIONS TREATED AS VOID.—Any qualified tax collec-
3 tion contract (as defined in section 6306 of the In-
4 ternal Revenue Code of 1986, as in effect before its
5 repeal) which is entered into on or after July 18,
6 2007, and any extension or renewal on or after such
7 date of any qualified tax collection contract (as so
8 defined) shall be void.

9 **SEC. 402. DELAY OF APPLICATION OF WITHHOLDING RE-**
10 **QUIREMENT ON CERTAIN GOVERNMENTAL**
11 **PAYMENTS FOR GOODS AND SERVICES.**

12 (a) IN GENERAL.—Subsection (b) of section 511 of
13 the Tax Increase Prevention and Reconciliation Act of
14 2005 is amended by striking “December 31, 2010” and
15 inserting “December 31, 2011”.

16 (b) REPORT TO CONGRESS.—Not later than 6
17 months after the date of the enactment of this Act, the
18 Secretary of the Treasury shall submit to the Committee
19 on Ways and Means of the House of Representatives and
20 the Committee on Finance of the Senate a report with
21 respect to the withholding requirements of section 3402(t)
22 of the Internal Revenue Code of 1986, including a detailed
23 analysis of—

1 (1) the problems, if any, which are anticipated
2 in administering and complying with such require-
3 ments,

4 (2) the burdens, if any, that such requirements
5 will place on governments and businesses (taking
6 into account such mechanisms as may be necessary
7 to administer such requirements), and

8 (3) the application of such requirements to
9 small expenditures for services and goods by govern-
10 ments.

11 **SEC. 403. CLARIFICATION OF ENTITLEMENT OF VIRGIN IS-**
12 **LANDS RESIDENTS TO PROTECTIONS OF LIM-**
13 **ITATIONS ON ASSESSMENT AND COLLECTION**
14 **OF TAX.**

15 (a) IN GENERAL.—Subsection (c) of section 932 (re-
16 lating to treatment of Virgin Islands residents) is amended
17 by adding at the end the following new paragraph:

18 “(5) TREATMENT OF INCOME TAX RETURN
19 FILED WITH VIRGIN ISLANDS.—An income tax re-
20 turn filed with the Virgin Islands by an individual
21 claiming to be described in paragraph (1) for the
22 taxable year shall be treated for purposes of subtitle
23 F in the same manner as if such return were an in-
24 come tax return filed with the United States for
25 such taxable year. The preceding sentence shall not

1 apply where such return is false or fraudulent with
2 the intent to evade tax or otherwise is a willful at-
3 tempt in any manner to defeat or evade tax.”.

4 (b) EFFECTIVE DATE.—The amendment made by
5 this section shall apply to taxable years beginning after
6 1986.

7 **SEC. 404. REVISION OF TAX RULES ON EXPATRIATION.**

8 (a) IN GENERAL.—Subpart A of part II of sub-
9 chapter N of chapter 1 is amended by inserting after sec-
10 tion 877 the following new section:

11 **“SEC. 877A. TAX RESPONSIBILITIES OF EXPATRIATION.**

12 “(a) GENERAL RULES.—For purposes of this sub-
13 title—

14 “(1) MARK TO MARKET.—All property of a cov-
15 ered expatriate shall be treated as sold on the day
16 before the expatriation date for its fair market
17 value.

18 “(2) RECOGNITION OF GAIN OR LOSS.—In the
19 case of any sale under paragraph (1)—

20 “(A) notwithstanding any other provision
21 of this title, any gain arising from such sale
22 shall be taken into account for the taxable year
23 of the sale, and

24 “(B) any loss arising from such sale shall
25 be taken into account for the taxable year of

1 the sale to the extent otherwise provided by this
2 title, except that section 1091 shall not apply to
3 any such loss.

4 Proper adjustment shall be made in the amount of
5 any gain or loss subsequently realized for gain or
6 loss taken into account under the preceding sen-
7 tence, determined without regard to paragraph (3).

8 “(3) EXCLUSION FOR CERTAIN GAIN.—

9 “(A) IN GENERAL.—The amount which
10 would (but for this paragraph) be includible in
11 the gross income of any individual by reason of
12 paragraph (1) shall be reduced (but not below
13 zero) by \$600,000.

14 “(B) ADJUSTMENT FOR INFLATION.—

15 “(i) IN GENERAL.—In the case of any
16 taxable year beginning in a calendar year
17 after 2008, the dollar amount in subpara-
18 graph (A) shall be increased by an amount
19 equal to—

20 “(I) such dollar amount, multi-
21 plied by

22 “(II) the cost-of-living adjust-
23 ment determined under section 1(f)(3)
24 for the calendar year in which the tax-
25 able year begins, by substituting ‘cal-

1 endar year 2007’ for ‘calendar year
2 1992’ in subparagraph (B) thereof.

3 “(ii) ROUNDING.—If any amount as
4 adjusted under clause (i) is not a multiple
5 of \$1,000, such amount shall be rounded
6 to the nearest multiple of \$1,000.

7 “(b) ELECTION TO DEFER TAX.—

8 “(1) IN GENERAL.—If the taxpayer elects the
9 application of this subsection with respect to any
10 property treated as sold by reason of subsection (a),
11 the time for payment of the additional tax attrib-
12 utable to such property shall be extended until the
13 due date of the return for the taxable year in which
14 such property is disposed of (or, in the case of prop-
15 erty disposed of in a transaction in which gain is not
16 recognized in whole or in part, until such other date
17 as the Secretary may prescribe).

18 “(2) DETERMINATION OF TAX WITH RESPECT
19 TO PROPERTY.—For purposes of paragraph (1), the
20 additional tax attributable to any property is an
21 amount which bears the same ratio to the additional
22 tax imposed by this chapter for the taxable year
23 solely by reason of subsection (a) as the gain taken
24 into account under subsection (a) with respect to
25 such property bears to the total gain taken into ac-

1 count under subsection (a) with respect to all prop-
2 erty to which subsection (a) applies.

3 “(3) TERMINATION OF EXTENSION.—The due
4 date for payment of tax may not be extended under
5 this subsection later than the due date for the re-
6 turn of tax imposed by this chapter for the taxable
7 year which includes the date of death of the expa-
8 triate (or, if earlier, the time that the security pro-
9 vided with respect to the property fails to meet the
10 requirements of paragraph (4), unless the taxpayer
11 corrects such failure within the time specified by the
12 Secretary).

13 “(4) SECURITY.—

14 “(A) IN GENERAL.—No election may be
15 made under paragraph (1) with respect to any
16 property unless adequate security is provided
17 with respect to such property.

18 “(B) ADEQUATE SECURITY.—For purposes
19 of subparagraph (A), security with respect to
20 any property shall be treated as adequate secu-
21 rity if—

22 “(i) it is a bond which is furnished to,
23 and accepted by, the Secretary, which is
24 conditioned on the payment of tax (and in-

1 terest thereon), and which meets the re-
2 quirements of section 6325, or

3 “(ii) it is another form of security for
4 such payment (including letters of credit)
5 that meets such requirements as the Sec-
6 retary may prescribe.

7 “(5) WAIVER OF CERTAIN RIGHTS.—No elec-
8 tion may be made under paragraph (1) unless the
9 taxpayer makes an irrevocable waiver of any right
10 under any treaty of the United States which would
11 preclude assessment or collection of any tax imposed
12 by reason of this section.

13 “(6) ELECTIONS.—An election under paragraph
14 (1) shall only apply to property described in the elec-
15 tion and, once made, is irrevocable.

16 “(7) INTEREST.—For purposes of section 6601,
17 the last date for the payment of tax shall be deter-
18 mined without regard to the election under this sub-
19 section.

20 “(c) EXCEPTION FOR CERTAIN PROPERTY.—Sub-
21 section (a) shall not apply to—

22 “(1) any deferred compensation item (as de-
23 fined in subsection (d)(4)),

24 “(2) any specified tax deferred account (as de-
25 fined in subsection (e)(2)), and

1 “(3) any interest in a nongrantor trust (as de-
2 fined in subsection (f)(3)).

3 “(d) TREATMENT OF DEFERRED COMPENSATION
4 ITEMS.—

5 “(1) WITHHOLDING ON ELIGIBLE DEFERRED
6 COMPENSATION ITEMS.—

7 “(A) IN GENERAL.—In the case of any eli-
8 gible deferred compensation item, the payor
9 shall deduct and withhold from any taxable
10 payment to a covered expatriate with respect to
11 such item a tax equal to 30 percent thereof.

12 “(B) TAXABLE PAYMENT.—For purposes
13 of subparagraph (A), the term ‘taxable pay-
14 ment’ means with respect to a covered expa-
15 triate any payment to the extent it would be in-
16 cludible in the gross income of the covered ex-
17 patriate if such expatriate continued to be sub-
18 ject to tax as a citizen or resident of the United
19 States. A deferred compensation item shall be
20 taken into account as a payment under the pre-
21 ceding sentence when such item would be so in-
22 cludible.

23 “(2) OTHER DEFERRED COMPENSATION
24 ITEMS.—In the case of any deferred compensation

1 item which is not an eligible deferred compensation
2 item—

3 “(A)(i) with respect to any deferred com-
4 pensation item to which clause (ii) does not
5 apply, an amount equal to the present value of
6 the covered expatriate’s accrued benefit shall be
7 treated as having been received by such indi-
8 vidual on the day before the expatriation date
9 as a distribution under the plan, and

10 “(ii) with respect to any deferred com-
11 pensation item referred to in paragraph (4)(D),
12 the rights of the covered expatriate to such item
13 shall be treated as becoming transferable and
14 not subject to a substantial risk of forfeiture on
15 the day before the expatriation date,

16 “(B) no early distribution tax shall apply
17 by reason of such treatment, and

18 “(C) appropriate adjustments shall be
19 made to subsequent distributions from the plan
20 to reflect such treatment.

21 “(3) ELIGIBLE DEFERRED COMPENSATION
22 ITEMS.—For purposes of this subsection, the term
23 ‘eligible deferred compensation item’ means any de-
24 ferred compensation item with respect to which—

25 “(A) the payor of such item is—

1 “(i) a United States person, or

2 “(ii) a person who is not a United
3 States person but who elects to be treated
4 as a United States person for purposes of
5 paragraph (1) and meets such require-
6 ments as the Secretary may provide to en-
7 sure that the payor will meet the require-
8 ments of paragraph (1), and

9 “(B) the covered expatriate—

10 “(i) notifies the payor of his status as
11 a covered expatriate, and

12 “(ii) makes an irrevocable waiver of
13 any right to claim any reduction under any
14 treaty with the United States in with-
15 holding on such item.

16 “(4) DEFERRED COMPENSATION ITEM.—For
17 purposes of this subsection, the term ‘deferred com-
18 pensation item’ means—

19 “(A) any interest in a plan or arrangement
20 described in section 219(g)(5),

21 “(B) any interest in a foreign pension plan
22 or similar retirement arrangement or program,

23 “(C) any item of deferred compensation,
24 and

1 “(D) any property, or right to property,
2 which the individual is entitled to receive in
3 connection with the performance of services to
4 the extent not previously taken into account
5 under section 83 or in accordance with section
6 83.

7 “(5) EXCEPTION.—Paragraphs (1) and (2)
8 shall not apply to any deferred compensation item
9 which is attributable to services performed outside
10 the United States while the covered expatriate was
11 not a citizen or resident of the United States.

12 “(6) SPECIAL RULES.—

13 “(A) APPLICATION OF WITHHOLDING
14 RULES.—Rules similar to the rules of sub-
15 chapter B of chapter 3 shall apply for purposes
16 of this subsection.

17 “(B) APPLICATION OF TAX.—Any item
18 subject to the withholding tax imposed under
19 paragraph (1) shall be subject to tax under sec-
20 tion 871.

21 “(C) COORDINATION WITH OTHER WITH-
22 HOLDING REQUIREMENTS.—Any item subject to
23 withholding under paragraph (1) shall not be
24 subject to withholding under section 1441 or
25 chapter 24.

1 “(e) TREATMENT OF SPECIFIED TAX DEFERRED AC-
2 COUNTS.—

3 “(1) ACCOUNT TREATED AS DISTRIBUTED.—In
4 the case of any interest in a specified tax deferred
5 account held by a covered expatriate on the day be-
6 fore the expatriation date—

7 “(A) the covered expatriate shall be treat-
8 ed as receiving a distribution of his entire inter-
9 est in such account on the day before the expa-
10 triation date,

11 “(B) no early distribution tax shall apply
12 by reason of such treatment, and

13 “(C) appropriate adjustments shall be
14 made to subsequent distributions from the ac-
15 count to reflect such treatment.

16 “(2) SPECIFIED TAX DEFERRED ACCOUNT.—
17 For purposes of paragraph (1), the term ‘specified
18 tax deferred account’ means an individual retirement
19 plan (as defined in section 7701(a)(37)) other than
20 any arrangement described in subsection (k) or (p)
21 of section 408, a qualified tuition program (as de-
22 fined in section 529), a Coverdell education savings
23 account (as defined in section 530), a health savings
24 account (as defined in section 223), and an Archer
25 MSA (as defined in section 220).

1 “(f) SPECIAL RULES FOR NONGRANTOR TRUSTS.—

2 “(1) IN GENERAL.—In the case of a distribu-
3 tion (directly or indirectly) of any property from a
4 nongrantor trust to a covered expatriate—

5 “(A) the trustee shall deduct and withhold
6 from such distribution an amount equal to 30
7 percent of the taxable portion of the distribu-
8 tion, and

9 “(B) if the fair market value of such prop-
10 erty exceeds its adjusted basis in the hands of
11 the trust, gain shall be recognized to the trust
12 as if such property were sold to the expatriate
13 at its fair market value.

14 “(2) TAXABLE PORTION.—For purposes of this
15 subsection, the term ‘taxable portion’ means, with
16 respect to any distribution, that portion of the dis-
17 tribution which would be includible in the gross in-
18 come of the covered expatriate if such expatriate
19 continued to be subject to tax as a citizen or resi-
20 dent of the United States.

21 “(3) NONGRANTOR TRUST.—For purposes of
22 this subsection, the term ‘nongrantor trust’ means
23 the portion of any trust that the individual is not
24 considered the owner of under subpart E of part I
25 of subchapter J. The determination under the pre-

1 ceding sentence shall be made immediately before
2 the expatriation date.

3 “(4) SPECIAL RULES RELATING TO WITH-
4 HOLDING.—For purposes of this subsection—

5 “(A) rules similar to the rules of sub-
6 section (d)(6) shall apply, and

7 “(B) the covered expatriate shall be treat-
8 ed as having waived any right to claim any re-
9 duction under any treaty with the United
10 States in withholding on any distribution to
11 which paragraph (1)(A) applies.

12 “(5) APPLICATION.—This subsection shall
13 apply to a nongrantor trust only if the covered expa-
14 triate was a beneficiary of the trust on the day be-
15 fore the expatriation date.

16 “(g) DEFINITIONS AND SPECIAL RULES RELATING
17 TO EXPATRIATION.—For purposes of this section—

18 “(1) COVERED EXPATRIATE.—

19 “(A) IN GENERAL.—The term ‘covered ex-
20 patriate’ means an expatriate who meets the re-
21 quirements of subparagraph (A), (B), or (C) of
22 section 877(a)(2).

23 “(B) EXCEPTIONS.—An individual shall
24 not be treated as meeting the requirements of

1 subparagraph (A) or (B) of section 877(a)(2)
2 if—

3 “(i) the individual—

4 “(I) became at birth a citizen of
5 the United States and a citizen of an-
6 other country and, as of the expatria-
7 tion date, continues to be a citizen of,
8 and is taxed as a resident of, such
9 other country, and

10 “(II) has been a resident of the
11 United States (as defined in section
12 7701(b)(1)(A)(ii)) for not more than
13 10 taxable years during the 15-tax-
14 able year period ending with the tax-
15 able year during which the expatria-
16 tion date occurs, or

17 “(ii)(I) the individual’s relinquishment
18 of United States citizenship occurs before
19 such individual attains age 18½, and

20 “(II) the individual has been a resi-
21 dent of the United States (as so defined)
22 for not more than 10 taxable years before
23 the date of relinquishment.

24 “(C) COVERED EXPATRIATES ALSO SUB-
25 JECT TO TAX AS CITIZENS OR RESIDENTS.—In

1 the case of any covered expatriate who is sub-
2 ject to tax as a citizen or resident of the United
3 States for any period beginning after the expa-
4 triation date, such individual shall not be treat-
5 ed as a covered expatriate during such period
6 for purposes of subsections (d)(1) and (f) and
7 section 2801.

8 “(2) EXPATRIATE.—The term ‘expatriate’
9 means—

10 “(A) any United States citizen who relin-
11 quishes his citizenship, and

12 “(B) any long-term resident of the United
13 States who ceases to be a lawful permanent
14 resident of the United States (within the mean-
15 ing of section 7701(b)(6)).

16 “(3) EXPATRIATION DATE.—The term ‘expa-
17 triation date’ means—

18 “(A) the date an individual relinquishes
19 United States citizenship, or

20 “(B) in the case of a long-term resident of
21 the United States, the date on which the indi-
22 vidual ceases to be a lawful permanent resident
23 of the United States (within the meaning of
24 section 7701(b)(6)).

1 “(4) RELINQUISHMENT OF CITIZENSHIP.—A
2 citizen shall be treated as relinquishing his United
3 States citizenship on the earliest of—

4 “(A) the date the individual renounces his
5 United States nationality before a diplomatic or
6 consular officer of the United States pursuant
7 to paragraph (5) of section 349(a) of the Immi-
8 gration and Nationality Act (8 U.S.C.
9 1481(a)(5)),

10 “(B) the date the individual furnishes to
11 the United States Department of State a signed
12 statement of voluntary relinquishment of
13 United States nationality confirming the per-
14 formance of an act of expatriation specified in
15 paragraph (1), (2), (3), or (4) of section 349(a)
16 of the Immigration and Nationality Act (8
17 U.S.C. 1481(a)(1)–(4)),

18 “(C) the date the United States Depart-
19 ment of State issues to the individual a certifi-
20 cate of loss of nationality, or

21 “(D) the date a court of the United States
22 cancels a naturalized citizen’s certificate of nat-
23 uralization.

24 Subparagraph (A) or (B) shall not apply to any indi-
25 vidual unless the renunciation or voluntary relin-

1 quishment is subsequently approved by the issuance
2 to the individual of a certificate of loss of nationality
3 by the United States Department of State.

4 “(5) LONG-TERM RESIDENT.—The term ‘long-
5 term resident’ has the meaning given to such term
6 by section 877(e)(2).

7 “(6) EARLY DISTRIBUTION TAX.—The term
8 ‘early distribution tax’ means any increase in tax im-
9 posed under section 72(t), 220(e)(4), 223(f)(4),
10 409A(a)(1)(B), 529(c)(6), or 530(d)(4).

11 “(h) OTHER RULES.—

12 “(1) TERMINATION OF DEFERRALS, ETC.—In
13 the case of any covered expatriate, notwithstanding
14 any other provision of this title—

15 “(A) any time period for acquiring prop-
16 erty which would result in the reduction in the
17 amount of gain recognized with respect to prop-
18 erty disposed of by the taxpayer shall terminate
19 on the day before the expatriation date, and

20 “(B) any extension of time for payment of
21 tax shall cease to apply on the day before the
22 expatriation date and the unpaid portion of
23 such tax shall be due and payable at the time
24 and in the manner prescribed by the Secretary.

1 “(2) STEP-UP IN BASIS.—Solely for purposes of
2 determining any tax imposed by reason of subsection
3 (a), property which was held by an individual on the
4 date the individual first became a resident of the
5 United States (within the meaning of section
6 7701(b)) shall be treated as having a basis on such
7 date of not less than the fair market value of such
8 property on such date. The preceding sentence shall
9 not apply if the individual elects not to have such
10 sentence apply. Such an election, once made, shall
11 be irrevocable.

12 “(3) COORDINATION WITH SECTION 684.—If
13 the expatriation of any individual would result in the
14 recognition of gain under section 684, this section
15 shall be applied after the application of section 684.

16 “(i) REGULATIONS.—The Secretary shall prescribe
17 such regulations as may be necessary or appropriate to
18 carry out the purposes of this section.”.

19 (b) TAX ON GIFTS AND BEQUESTS RECEIVED BY
20 UNITED STATES CITIZENS AND RESIDENTS FROM EXPA-
21 TRIATES.—

22 (1) IN GENERAL.—Subtitle B (relating to estate
23 and gift taxes) is amended by inserting after chapter
24 14 the following new chapter:

1 **“CHAPTER 15—GIFTS AND BEQUESTS**
2 **FROM EXPATRIATES**

“Sec. 2801. Imposition of tax.

3 **“SEC. 2801. IMPOSITION OF TAX.**

4 “(a) IN GENERAL.—If, during any calendar year, any
5 United States citizen or resident receives any covered gift
6 or bequest, there is hereby imposed a tax equal to the
7 product of—

8 “(1) the highest rate of tax specified in the
9 table contained in section 2001(c) as in effect on the
10 date of such receipt (or, if greater, the highest rate
11 of tax specified in the table applicable under section
12 2502(a) as in effect on the date), and

13 “(2) the value of such covered gift or bequest.

14 “(b) TAX TO BE PAID BY RECIPIENT.—The tax im-
15 posed by subsection (a) on any covered gift or bequest
16 shall be paid by the person receiving such gift or bequest.

17 “(c) EXCEPTION FOR CERTAIN GIFTS.—Subsection
18 (a) shall apply only to the extent that the value of covered
19 gifts and bequests received by any person during the cal-
20 endar year exceeds \$10,000.

21 “(d) TAX REDUCED BY FOREIGN GIFT OR ESTATE
22 TAX.—The tax imposed by subsection (a) on any covered
23 gift or bequest shall be reduced by the amount of any gift

1 or estate tax paid to a foreign country with respect to such
2 covered gift or bequest.

3 “(e) COVERED GIFT OR BEQUEST.—

4 “(1) IN GENERAL.—For purposes of this chap-
5 ter, the term ‘covered gift or bequest’ means—

6 “(A) any property acquired by gift directly
7 or indirectly from an individual who, at the
8 time of such acquisition, is a covered expatriate,
9 and

10 “(B) any property acquired directly or in-
11 directly by reason of the death of an individual
12 who, immediately before such death, was a cov-
13 ered expatriate.

14 “(2) EXCEPTIONS FOR TRANSFERS OTHERWISE
15 SUBJECT TO ESTATE OR GIFT TAX.—Such term shall
16 not include—

17 “(A) any property shown on a timely filed
18 return of tax imposed by chapter 12 which is a
19 taxable gift by the covered expatriate, and

20 “(B) any property included in the gross es-
21 tate of the covered expatriate for purposes of
22 chapter 11 and shown on a timely filed return
23 of tax imposed by chapter 11 of the estate of
24 the covered expatriate.

25 “(3) TRANSFERS IN TRUST.—

1 “(A) DOMESTIC TRUSTS.—In the case of a
2 covered gift or bequest made to a domestic
3 trust—

4 “(i) subsection (a) shall apply in the
5 same manner as if such trust were a
6 United States citizen, and

7 “(ii) the tax imposed by subsection (a)
8 on such gift or bequest shall be paid by
9 such trust.

10 “(B) FOREIGN TRUSTS.—

11 “(i) IN GENERAL.—In the case of a
12 covered gift or bequest made to a foreign
13 trust, subsection (a) shall apply to any dis-
14 tribution attributable to such gift or be-
15 quest from such trust (whether from in-
16 come or corpus) to a United States citizen
17 or resident in the same manner as if such
18 distribution were a covered gift or bequest.

19 “(ii) DEDUCTION FOR TAX PAID BY
20 RECIPIENT.—There shall be allowed as a
21 deduction under section 164 the amount of
22 tax imposed by this section which is paid
23 or accrued by a United States citizen or
24 resident by reason of a distribution from a
25 foreign trust, but only to the extent such

1 tax is imposed on the portion of such dis-
2 tribution which is included in the gross in-
3 come of such citizen or resident.

4 “(iii) ELECTION TO BE TREATED AS
5 DOMESTIC TRUST.—Solely for purposes of
6 this section, a foreign trust may elect to be
7 treated as a domestic trust. Such an elec-
8 tion may be revoked with the consent of
9 the Secretary.

10 “(f) COVERED EXPATRIATE.—For purposes of this
11 section, the term ‘covered expatriate’ has the meaning
12 given to such term by section 877A(g)(1).”.

13 (2) CLERICAL AMENDMENT.—The table of
14 chapters for subtitle B is amended by inserting after
15 the item relating to chapter 14 the following new
16 item:

“CHAPTER 15. GIFTS AND BEQUESTS FROM EXPATRIATES.”.

17 (c) DEFINITION OF TERMINATION OF UNITED
18 STATES CITIZENSHIP.—

19 (1) IN GENERAL.—Section 7701(a) is amended
20 by adding at the end the following new paragraph:

21 “(50) TERMINATION OF UNITED STATES CITI-
22 ZENSHIP.—

23 “(A) IN GENERAL.—An individual shall
24 not cease to be treated as a United States cit-
25 izen before the date on which the individual’s

1 citizenship is treated as relinquished under sec-
2 tion 877A(g)(4).

3 “(B) DUAL CITIZENS.—Under regulations
4 prescribed by the Secretary, subparagraph (A)
5 shall not apply to an individual who became at
6 birth a citizen of the United States and a cit-
7 izen of another country.”.

8 (2) CONFORMING AMENDMENTS.—

9 (A) Paragraph (1) of section 877(e) is
10 amended to read as follows:

11 “(1) IN GENERAL.—Any long-term resident of
12 the United States who ceases to be a lawful perma-
13 nent resident of the United States (within the mean-
14 ing of section 7701(b)(6)) shall be treated for pur-
15 poses of this section and sections 2107, 2501, and
16 6039G in the same manner as if such resident were
17 a citizen of the United States who lost United States
18 citizenship on the date of such cessation or com-
19 mencement.”.

20 (B) Paragraph (6) of section 7701(b) is
21 amended by adding at the end the following
22 flush sentence:

23 “An individual shall cease to be treated as a lawful
24 permanent resident of the United States if such in-
25 dividual commences to be treated as a resident of a

1 foreign country under the provisions of a tax treaty
2 between the United States and the foreign country,
3 does not waive the benefits of such treaty applicable
4 to residents of the foreign country, and notifies the
5 Secretary of the commencement of such treatment.”.

6 (C) Section 7701 is amended by striking
7 subsection (n) and by redesignating subsections
8 (o) and (p) as subsections (n) and (o), respec-
9 tively.

10 (d) INFORMATION RETURNS.—Section 6039G is
11 amended—

12 (1) by inserting “or 877A” after “section
13 877(b)” in subsection (a), and

14 (2) by inserting “or 877A” after “section
15 877(a)” in subsection (d).

16 (e) CLERICAL AMENDMENT.—The table of sections
17 for subpart A of part II of subchapter N of chapter 1
18 is amended by inserting after the item relating to section
19 877 the following new item:

“Sec. 877A. Tax responsibilities of expatriation.”.

20 (f) EFFECTIVE DATE.—

21 (1) IN GENERAL.—Except as provided in this
22 subsection, the amendments made by this section
23 shall apply to expatriates (as defined in section
24 877A(g) of the Internal Revenue Code of 1986, as
25 added by this section) whose expatriation date (as so

1 defined) is on or after the date of the enactment of
2 this Act.

3 (2) GIFTS AND BEQUESTS.—Chapter 15 of the
4 Internal Revenue Code of 1986 (as added by sub-
5 section (b)) shall apply to covered gifts and bequests
6 (as defined in section 2801 of such Code, as so
7 added) received on or after the date of the enact-
8 ment of this Act, regardless of when the transferor
9 expatriated.

10 **SEC. 405. REPEAL OF SUSPENSION OF CERTAIN PENALTIES**
11 **AND INTEREST.**

12 (a) IN GENERAL.—Section 6404 is amended by strik-
13 ing subsection (g) and by redesignating subsection (h) as
14 subsection (g).

15 (b) EFFECTIVE DATE.—The amendment made by
16 subsection (a) shall apply to notices provided by the Sec-
17 retary of the Treasury, or his delegate, after the date
18 which is 6 months after the date of the enactment of the
19 Small Business and Work Opportunity Tax Act of 2007.

20 **SEC. 406. INCREASE IN INFORMATION RETURN PENALTIES.**

21 (a) FAILURE TO FILE CORRECT INFORMATION RE-
22 TURNS.—

23 (1) IN GENERAL.—Subsections (a)(1),
24 (b)(1)(A), and (b)(2)(A) of section 6721 are each
25 amended by striking “\$50” and inserting “\$100”.

1 (2) AGGREGATE ANNUAL LIMITATION.—Sub-
2 sections (a)(1), (d)(1)(A), and (e)(3)(A) of section
3 6721 are each amended by striking “\$250,000” and
4 inserting “\$600,000”.

5 (b) REDUCTION WHERE CORRECTION WITHIN 30
6 DAYS.—

7 (1) IN GENERAL.—Subparagraph (A) of section
8 6721(b)(1) is amended by striking “\$15” and insert-
9 ing “\$25”.

10 (2) AGGREGATE ANNUAL LIMITATION.—Sub-
11 sections (b)(1)(B) and (d)(1)(B) of section 6721 are
12 each amended by striking “\$75,000” and inserting
13 “\$200,000”.

14 (c) REDUCTION WHERE CORRECTION ON OR BEFORE
15 AUGUST 1.—

16 (1) IN GENERAL.—Subparagraph (A) of section
17 6721(b)(2) is amended by striking “\$30” and insert-
18 ing “\$60”.

19 (2) AGGREGATE ANNUAL LIMITATION.—Sub-
20 sections (b)(2)(B) and (d)(1)(C) of section 6721 are
21 each amended by striking “\$150,000” and inserting
22 “\$400,000”.

23 (d) AGGREGATE ANNUAL LIMITATIONS FOR PER-
24 SONS WITH GROSS RECEIPTS OF NOT MORE THAN

1 \$5,000,000.—Paragraph (1) of section 6721(d) is amend-
2 ed—

3 (1) by striking “\$100,000” in subparagraph
4 (A) and inserting “\$250,000”,

5 (2) by striking “\$25,000” in subparagraph (B)
6 and inserting “\$75,000”, and

7 (3) by striking “\$50,000” in subparagraph (C)
8 and inserting “\$150,000”.

9 (e) PENALTY IN CASE OF INTENTIONAL DIS-
10 REGARD.—Paragraph (2) of section 6721(e) is amended
11 by striking “\$100” and inserting “\$250”.

12 (f) FAILURE TO FURNISH CORRECT PAYEE STATE-
13 MENTS.—

14 (1) IN GENERAL.—Subsection (a) of section
15 6722 is amended by striking “\$50” and inserting
16 “\$100”.

17 (2) AGGREGATE ANNUAL LIMITATION.—Sub-
18 sections (a) and (c)(2)(A) of section 6722 are each
19 amended by striking “\$100,000” and inserting
20 “\$600,000”.

21 (3) PENALTY IN CASE OF INTENTIONAL DIS-
22 REGARD.—Paragraph (1) of section 6722(c) is
23 amended by striking “\$100” and inserting “\$250”.

1 (g) FAILURE TO COMPLY WITH OTHER INFORMA-
2 TION REPORTING REQUIREMENTS.—Section 6723 is
3 amended—

4 (1) by striking “\$50” and inserting “\$100”,
5 and

6 (2) by striking “\$100,000” and inserting
7 “\$600,000”.

8 (h) EFFECTIVE DATE.—The amendments made by
9 this section shall apply with respect to information returns
10 required to be filed on or after January 1, 2008.

11 **SEC. 407. UNUSED MERCHANDISE DRAWBACK.**

12 (a) IN GENERAL.—Section 313(j)(2) of the Tariff
13 Act of 1930 (19 U.S.C. 1313(j)(2)) is amended by adding
14 at the end the following: “For purposes of subparagraph
15 (A) of this paragraph, wine of the same color shall be
16 deemed to be commercially interchangeable.”.

17 (b) EFFECTIVE DATE.—The amendment made by
18 subsection (a) shall take effect on the date of the enact-
19 ment of this Act.

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