

Calendar No. 487

110TH CONGRESS
1ST SESSION**H. R. 3996**

IN THE SENATE OF THE UNITED STATES

NOVEMBER 13, 2007

Received and read the first time

NOVEMBER 14, 2007

Read the second time and placed on the calendar

AN ACT

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.

Sec. 103. Increase of AMT refundable credit amount for individuals with long-term unused credits for prior year minimum tax liability, etc.

TITLE II—ADDITIONAL INDIVIDUAL TAX RELIEF

Sec. 201. Refundable child credit.

Sec. 202. Additional standard deduction for real property taxes for non-itemizers.

TITLE III—ONE-YEAR EXTENDERS

Subtitle A—Extenders Primarily Affecting Individuals

Sec. 301. Deduction for State and local sales taxes.

Sec. 302. Deduction of qualified tuition and related expenses.

Sec. 303. Treatment of certain dividends of regulated investment companies.

Sec. 304. Parity in the application of certain limits to mental health benefits.

Sec. 305. Qualified conservation contributions.

Sec. 306. Tax-free distributions from individual retirement plans for charitable purposes.

Sec. 307. Deduction for certain expenses of elementary and secondary school teachers.

Sec. 308. Election to include combat pay as earned income for purposes of earned income tax credit.

Sec. 309. Modification of mortgage revenue bonds for veterans.

Sec. 310. Distributions from retirement plans to individuals called to active duty.

Sec. 311. Stock in RIC for purposes of determining estates of nonresidents not citizens.

Sec. 312. Qualified investment entities.

Sec. 313. State legislators' travel expenses away from home.

Subtitle B—Extenders Primarily Affecting Businesses

Sec. 321. Research credit.

Sec. 322. Indian employment credit.

Sec. 323. New markets tax credit.

Sec. 324. Railroad track maintenance.

Sec. 325. Fifteen-year straight-line cost recovery for qualified leasehold improvements and qualified restaurant property.

Sec. 326. Seven-year cost recovery period for motorsports racing track facility.

- Sec. 327. Accelerated depreciation for business property on Indian reservation.
- Sec. 328. Expensing of environmental remediation costs.
- Sec. 329. Deduction allowable with respect to income attributable to domestic production activities in Puerto Rico.
- Sec. 330. Modification of tax treatment of certain payments to controlling exempt organizations.
- Sec. 331. Extension and modification of credit to holders of qualified zone academy bonds.
- Sec. 332. Tax incentives for investment in the District of Columbia.
- Sec. 333. Extension of economic development credit for American Samoa.
- Sec. 334. Enhanced charitable deduction for contributions of food inventory.
- Sec. 335. Enhanced charitable deduction for contributions of book inventory to public schools.
- Sec. 336. Enhanced deduction for qualified computer contributions.
- Sec. 337. Basis adjustment to stock of S corporations making charitable contributions of property.
- Sec. 338. Extension of work opportunity tax credit for Hurricane Katrina employees.

Subtitle C—Other Extenders

- Sec. 341. Disclosure for combined employment tax reporting.
- Sec. 342. Disclosure of return information to apprise appropriate officials of terrorist activities.
- Sec. 343. Disclosure upon request of information relating to terrorist activities.
- Sec. 344. Disclosure of return information to carry out income contingent repayment of student loans.
- Sec. 345. Authority for undercover operations.
- Sec. 346. Increase in limit on cover over of rum excise tax to Puerto Rico and the Virgin Islands.
- Sec. 347. Disclosure of return information for certain veterans programs.

TITLE IV—MORTGAGE FORGIVENESS DEBT RELIEF

- Sec. 401. Discharges of indebtedness on principal residence excluded from gross income.
- Sec. 402. Long-term extension of deduction for mortgage insurance premiums.
- Sec. 403. Alternative tests for qualifying as cooperative housing corporation.
- Sec. 404. Gain from sale of principal residence allocated to nonqualified use not excluded from income.

TITLE V—ADMINISTRATIVE PROVISIONS

- Sec. 501. Repeal of authority to enter into private debt collection contracts.
- Sec. 502. Delay of application of withholding requirement on certain governmental payments for goods and services.
- Sec. 503. Clarification of entitlement of Virgin Islands residents to protections of limitations on assessment and collection of tax.
- Sec. 504. Revision of tax rules on expatriation.
- Sec. 505. Repeal of suspension of certain penalties and interest.
- Sec. 506. Unused merchandise drawback.

TITLE VI—REVENUE PROVISIONS

Subtitle A—Nonqualified Deferred Compensation From Certain Tax Indifferent Parties

Sec. 601. Nonqualified deferred compensation from certain tax indifferent parties.

Subtitle B—Provisions Related to Certain Investment Partnerships

Sec. 611. Income of partners for performing investment management services treated as ordinary income received for performance of services.

Sec. 612. Indebtedness incurred by a partnership in acquiring securities and commodities not treated as acquisition indebtedness for organizations which are partners with limited liability.

Sec. 613. Application to partnership interests and tax sharing agreements of rule treating certain gain on sales between related persons as ordinary income.

Subtitle C—Other Provisions

Sec. 621. Delay in application of worldwide allocation of interest.

Sec. 622. Broker reporting of customer's basis in securities transactions.

Sec. 623. Modification of penalty for failure to file partnership returns.

Sec. 624. Penalty for failure to file S corporation returns.

Sec. 625. Time for payment of corporate estimated taxes.

1 **TITLE I—AMT RELIEF**
 2 **SEC. 101. EXTENSION OF ALTERNATIVE MINIMUM TAX RE-**
 3 **LIEF FOR NONREFUNDABLE PERSONAL**
 4 **CREDITS.**

5 (a) IN GENERAL.—Paragraph (2) of section 26(a)
 6 (relating to special rule for taxable years 2000 through
 7 2006) is amended—

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

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

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

1 **SEC. 102. EXTENSION OF INCREASED ALTERNATIVE MIN-**
2 **IMUM TAX EXEMPTION AMOUNT.**

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

5 (1) by striking “(\$62,550 in the case of taxable
6 years beginning in 2006)” in subparagraph (A) and
7 inserting “(\$66,250 in the case of taxable years be-
8 ginning in 2007)”, and

9 (2) by striking “(\$42,500 in the case of taxable
10 years beginning in 2006)” in subparagraph (B) and
11 inserting “(\$44,350 in the case of taxable years be-
12 ginning in 2007)”.

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

16 **SEC. 103. INCREASE OF AMT REFUNDABLE CREDIT**
17 **AMOUNT FOR INDIVIDUALS WITH LONG-**
18 **TERM UNUSED CREDITS FOR PRIOR YEAR**
19 **MINIMUM TAX LIABILITY, ETC.**

20 (a) IN GENERAL.—Paragraph (2) of section 53(e) of
21 the Internal Revenue Code of 1986 is amended to read
22 as follows:

23 “(2) AMT REFUNDABLE CREDIT AMOUNT.—
24 For purposes of paragraph (1), the term ‘AMT re-
25 fundable credit amount’ means, with respect to any
26 taxable year, the amount (not in excess of the long-

1 term unused minimum tax credit for such taxable
2 year) equal to the greater of—

3 “(A) 50 percent of the long-term unused
4 minimum tax credit for such taxable year, or

5 “(B) the amount (if any) of the AMT re-
6 fundable credit amount determined under this
7 paragraph for the taxpayer’s preceding taxable
8 year.”.

9 (b) TREATMENT OF CERTAIN UNDERPAYMENTS, IN-
10 TEREST, AND PENALTIES ATTRIBUTABLE TO THE TREAT-
11 MENT OF INCENTIVE STOCK OPTIONS.—Section 53 of
12 such Code is amended by adding at the end the following
13 new subsection:

14 “(f) TREATMENT OF CERTAIN UNDERPAYMENTS, IN-
15 TEREST, AND PENALTIES ATTRIBUTABLE TO THE TREAT-
16 MENT OF INCENTIVE STOCK OPTIONS.—

17 “(1) ABATEMENT.—Any underpayment of tax
18 outstanding on the date of the enactment of this
19 subsection which is attributable to the application of
20 section 56(b)(3) for any taxable year ending before
21 January 1, 2007 (and any interest or penalty with
22 respect to such underpayment which is outstanding
23 on such date of enactment), is hereby abated. No
24 credit shall be allowed under this section with re-
25 spect to any amount abated under this paragraph.

1 “(2) INCREASE IN CREDIT FOR CERTAIN INTER-
2 EST AND PENALTIES ALREADY PAID.—Any interest
3 or penalty paid before the date of the enactment of
4 this subsection which would (but for such payment)
5 have been abated under paragraph (1) shall be treat-
6 ed for purposes of this section as an amount of ad-
7 justed net minimum tax imposed for the taxable
8 year of the underpayment to which such interest or
9 penalty relates.”.

10 (c) EFFECTIVE DATE.—

11 (1) IN GENERAL.—Except as provided in para-
12 graph (2), the amendment made by this section shall
13 apply to taxable years beginning after December 31,
14 2006.

15 (2) ABATEMENT.—Section 53(f)(1) of the In-
16 ternal Revenue Code of 1986, as added by sub-
17 section (b), shall take effect on the date of the en-
18 actment of this Act.

19 **TITLE II—ADDITIONAL** 20 **INDIVIDUAL TAX RELIEF**

21 **SEC. 201. REFUNDABLE CHILD CREDIT.**

22 (a) MODIFICATION OF THRESHOLD AMOUNT.—
23 Clause (i) of section 24(d)(1)(B) is amended by inserting
24 “(\$8,500 in the case of taxable years beginning in 2008)”
25 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. 202. ADDITIONAL STANDARD DEDUCTION FOR REAL**
5 **PROPERTY TAXES FOR NONITEMIZERS.**

6 (a) IN GENERAL.—Section 63(c)(1) (defining stand-
7 ard deduction) is amended by striking “and” at the end
8 of subparagraph (A), by striking the period at the end
9 of subparagraph (B) and inserting “, and”, and by adding
10 at the end the following new subparagraph:

11 “(C) in the case of any taxable year begin-
12 ning in 2008, the real property tax deduction.”.

13 (b) DEFINITION.—Section 63(c) is amended by add-
14 ing at the end the following new paragraph:

15 “(8) REAL PROPERTY TAX DEDUCTION.—For
16 purposes of paragraph (1), the real property tax de-
17 duction is so much of the amount of State and local
18 real property taxes (within the meaning of section
19 164) paid or accrued by the taxpayer during the tax-
20 able year which do not exceed \$350 (\$700 in the
21 case of a joint return).”.

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

1 **TITLE III—ONE-YEAR**
2 **EXTENDERS**
3 **Subtitle A—Extenders Primarily**
4 **Affecting Individuals**

5 **SEC. 301. DEDUCTION FOR STATE AND LOCAL SALES**
6 **TAXES.**

7 (a) **IN GENERAL.**—Subparagraph (I) of section
8 164(b)(5) is amended by striking “January 1, 2008” and
9 inserting “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. 302. DEDUCTION OF QUALIFIED TUITION AND RE-**
14 **LATED EXPENSES.**

15 (a) **IN GENERAL.**—Subsection (e) of section 222 (re-
16 lating to termination) is amended by striking “December
17 31, 2007” and inserting “December 31, 2008”.

18 (b) **EFFECTIVE DATE.**—The amendment made by
19 this section shall apply to taxable years beginning after
20 December 31, 2007.

21 **SEC. 303. TREATMENT OF CERTAIN DIVIDENDS OF REGU-**
22 **LATED INVESTMENT COMPANIES.**

23 (a) **INTEREST-RELATED DIVIDENDS.**—Subpara-
24 graph (C) of section 871(k)(1) (defining interest-related

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

3 (b) SHORT-TERM CAPITAL GAIN DIVIDENDS.—Sub-
4 paragraph (C) of section 871(k)(2) (defining short-term
5 capital gain dividend) is amended by striking “December
6 31, 2007” and inserting “December 31, 2008”.

7 (c) EFFECTIVE DATE.—The amendments made by
8 this section shall apply to dividends with respect to taxable
9 years of regulated investment companies beginning after
10 December 31, 2007.

11 **SEC. 304. PARITY IN THE APPLICATION OF CERTAIN LIMITS**
12 **TO MENTAL HEALTH BENEFITS.**

13 (a) IN GENERAL.—Paragraph (3) of section 9812(f)
14 (relating to application of section) is amended by striking
15 “December 31, 2007” and inserting “December 31,
16 2008”.

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

20 **SEC. 305. QUALIFIED CONSERVATION CONTRIBUTIONS.**

21 (a) IN GENERAL.—Clause (vi) of section
22 170(b)(1)(E) (relating to termination) is amended by
23 striking “December 31, 2007” and inserting “December
24 31, 2008”.

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

4 **SEC. 306. TAX-FREE DISTRIBUTIONS FROM INDIVIDUAL RE-**
5 **TIREMENT PLANS FOR CHARITABLE PUR-**
6 **POSES.**

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

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

14 **SEC. 307. DEDUCTION FOR CERTAIN EXPENSES OF ELE-**
15 **MENTARY AND SECONDARY SCHOOL TEACH-**
16 **ERS.**

17 (a) IN GENERAL.—Subparagraph (D) of section
18 62(a)(2) (relating to certain expenses of elementary and
19 secondary school teachers) is amended by striking “or
20 2007” and inserting “2007, or 2008”.

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

1 **SEC. 308. 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. 309. 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. 310. 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. 311. 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. 312. 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. 313. STATE LEGISLATORS’ TRAVEL EXPENSES AWAY**
20 **FROM HOME.**

21 (a) IN GENERAL.—Paragraph (2) of section 162(h)
22 (relating to legislative days) is amended by adding at the
23 end the following flush sentence: “In the case of taxable
24 years beginning in 2008, a legislature shall be treated for
25 purposes of this paragraph as in session on any day in

1 which it is formally called into session without regard to
2 whether legislation was considered on such day.”.

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

6 **Subtitle B—Extenders Primarily**
7 **Affecting Businesses**

8 **SEC. 321. RESEARCH CREDIT.**

9 (a) IN GENERAL.—Subparagraph (B) of section
10 41(h)(1) (relating to termination) is amended by striking
11 “December 31, 2007” and inserting “December 31,
12 2008”.

13 (b) CONFORMING AMENDMENT.—Subparagraph (D)
14 of section 45C(b)(1) (relating to qualified clinical testing
15 expenses) is amended by striking “December 31, 2007”
16 and inserting “December 31, 2008”.

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

20 **SEC. 322. INDIAN EMPLOYMENT CREDIT.**

21 (a) IN GENERAL.—Subsection (f) of section 45A (re-
22 lating to termination) is amended by striking “December
23 31, 2007” and inserting “December 31, 2008”.

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

4 **SEC. 323. NEW MARKETS TAX CREDIT.**

5 Subparagraph (D) of section 45D(f)(1) (relating to
6 national limitation on amount of investments designated)
7 is amended by striking “and 2008” and inserting “2008,
8 and 2009”.

9 **SEC. 324. RAILROAD TRACK MAINTENANCE.**

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

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

16 **SEC. 325. FIFTEEN-YEAR STRAIGHT-LINE COST RECOVERY**
17 **FOR QUALIFIED LEASEHOLD IMPROVEMENTS**
18 **AND QUALIFIED RESTAURANT PROPERTY.**

19 (a) IN GENERAL.—Clauses (iv) and (v) of section
20 168(e)(3)(E) (relating to 15-year property) are each
21 amended by striking “January 1, 2008” and inserting
22 “January 1, 2009”.

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

1 **SEC. 326. SEVEN-YEAR COST RECOVERY PERIOD FOR MO-**
2 **TORSPO RTS RACING TRACK FACILITY.**

3 (a) IN GENERAL.—Subparagraph (D) of section
4 168(i)(15) (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 property placed in service after
9 December 31, 2007.

10 **SEC. 327. ACCELERATED DEPRECIATION FOR BUSINESS**
11 **PROPERTY ON INDIAN RESERVATION.**

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

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

18 **SEC. 328. EXPENSING OF ENVIRONMENTAL REMEDIATION**
19 **COSTS.**

20 (a) IN GENERAL.—Subsection (h) of section 198 (re-
21 lating to termination) is amended by striking “December
22 31, 2007” and inserting “December 31, 2008”.

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

1 **SEC. 329. DEDUCTION ALLOWABLE WITH RESPECT TO IN-**
2 **COME ATTRIBUTABLE TO DOMESTIC PRO-**
3 **DUCTION ACTIVITIES IN PUERTO RICO.**

4 (a) **IN GENERAL.**—Subparagraph (C) of section
5 199(d)(8) (relating to termination) is amended—

6 (1) by striking “first 2 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 amendments made by
11 this section shall apply to taxable years beginning after
12 December 31, 2007.

13 **SEC. 330. MODIFICATION OF TAX TREATMENT OF CERTAIN**
14 **PAYMENTS TO CONTROLLING EXEMPT ORGA-**
15 **NIZATIONS.**

16 (a) **IN GENERAL.**—Clause (iv) of section
17 512(b)(13)(E) (relating to termination) is amended by
18 striking “December 31, 2007” and inserting “December
19 31, 2008”.

20 (b) **EFFECTIVE DATE.**—The amendment made by
21 this section shall apply to payments received or accrued
22 after December 31, 2007.

1 **SEC. 331. EXTENSION AND MODIFICATION OF CREDIT TO**
2 **HOLDERS OF QUALIFIED ZONE ACADEMY**
3 **BONDS.**

4 (a) IN GENERAL.—Subsection (e) of section 1397E
5 (relating to limitation on amount of bonds designated) is
6 amended by striking “1998, 1999, 2000, 2001, 2002,
7 2003, 2004, 2005, 2006, and 2007” and inserting “each
8 of calendar years 1998 through 2008”.

9 (b) MODIFICATION OF ARBITRAGE RULES.—

10 (1) IN GENERAL.—Subsection (g) of section
11 1397E (relating to special rules relating to arbi-
12 trage) is amended to read as follows:

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

14 “(1) IN GENERAL.—An issue shall be treated as
15 meeting the requirements of this subsection if the
16 issuer satisfies the requirements of section 148 with
17 respect to the proceeds of the issue.

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

25 “(3) SPECIAL RULE FOR RESERVE FUNDS.—An
26 issue shall not be treated as failing to meet the re-

1 requirements of paragraph (1) by reason of any fund
2 which is expected to be used to repay such issue if—

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

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

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

12 (2) APPLICATION OF AVAILABLE PROJECT PRO-
13 CEEDS TO OTHER REQUIREMENTS.—Subsections
14 (d)(1)(A), (d)(2)(A), (f)(1)(A), (f)(1)(B), (f)(1)(C),
15 and (f)(3) of section 1397E are each amended by
16 striking “proceeds” and inserting “available project
17 proceeds”.

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

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

24 “(A) the excess of—

1 “(i) the proceeds from the sale of an
2 issue, over

3 “(ii) the issuance costs financed by
4 the issue (to the extent that such costs do
5 not exceed 2 percent of such proceeds),
6 and

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

9 (c) EFFECTIVE DATE.—

10 (1) EXTENSION.—The amendment made by
11 subsection (a) shall apply to obligations issued after
12 December 31, 2007.

13 (2) MODIFICATION OF ARBITRAGE RULES.—
14 The amendments made by subsection (b) shall apply
15 to obligations issued after the date of the enactment
16 of this Act.

17 **SEC. 332. TAX INCENTIVES FOR INVESTMENT IN THE DIS-**
18 **TRICT OF COLUMBIA.**

19 (a) DESIGNATION OF ZONE.—

20 (1) IN GENERAL.—Subsection (f) of section
21 1400 is amended by striking “2007” both places it
22 appears and inserting “2008”.

23 (2) EFFECTIVE DATE.—The amendments made
24 by this subsection shall apply to periods beginning
25 after December 31, 2007.

1 (b) TAX-EXEMPT ECONOMIC DEVELOPMENT
2 BONDS.—

3 (1) IN GENERAL.—Subsection (b) of section
4 1400A is amended by striking “2007” and inserting
5 “2008”.

6 (2) EFFECTIVE DATE.—The amendment made
7 by this subsection shall apply to bonds issued after
8 December 31, 2007.

9 (c) ZERO PERCENT CAPITAL GAINS RATE.—

10 (1) IN GENERAL.—Subsection (b) of section
11 1400B is amended by striking “2008” each place it
12 appears and inserting “2009”.

13 (2) CONFORMING AMENDMENTS.—

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

15 (i) by striking “2012” and inserting
16 “2013”, and

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

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

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

23 (3) EFFECTIVE DATES.—

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

4 (B) CONFORMING AMENDMENTS.—The
5 amendments made by paragraph (2) shall take
6 effect on the date of the enactment of this Act.

7 (d) FIRST-TIME HOMEBUYER CREDIT.—

8 (1) IN GENERAL.—Subsection (i) of section
9 1400C is amended by striking “2008” and inserting
10 “2009”.

11 (2) EFFECTIVE DATE.—The amendment made
12 by this subsection shall apply to property purchased
13 after December 31, 2007.

14 **SEC. 333. EXTENSION OF ECONOMIC DEVELOPMENT CRED-**
15 **IT FOR AMERICAN SAMOA.**

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

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

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

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

1 **SEC. 334. ENHANCED CHARITABLE DEDUCTION FOR CON-**
2 **TRIBUTIONS OF FOOD INVENTORY.**

3 (a) IN GENERAL.—Clause (iv) of section
4 170(e)(3)(C) (relating to termination) is amended by
5 striking “December 31, 2007” and inserting “December
6 31, 2008”.

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

10 **SEC. 335. ENHANCED CHARITABLE DEDUCTION FOR CON-**
11 **TRIBUTIONS OF BOOK INVENTORY TO PUB-**
12 **LIC SCHOOLS.**

13 (a) IN GENERAL.—Clause (iv) of section
14 170(e)(3)(D) (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 this section shall apply to contributions made after De-
19 cember 31, 2007.

20 **SEC. 336. ENHANCED DEDUCTION FOR QUALIFIED COM-**
21 **PUTER CONTRIBUTIONS.**

22 (a) IN GENERAL.—Subparagraph (G) of section
23 170(e)(6) (relating to termination) is amended by striking
24 “December 31, 2007” and inserting “December 31,
25 2008”.

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

4 **SEC. 337. BASIS ADJUSTMENT TO STOCK OF S CORPORA-**
5 **TIONS MAKING CHARITABLE CONTRIBU-**
6 **TIONS OF PROPERTY.**

7 (a) IN GENERAL.—The last sentence of section
8 1367(a)(2) (relating to decreases in basis) is amended by
9 striking “December 31, 2007” and inserting “December
10 31, 2008”.

11 (b) TECHNICAL AMENDMENT RELATED TO SECTION
12 1203 OF THE PENSION PROTECTION ACT OF 2006.—Sub-
13 section (d) of section 1366 is amended by adding at the
14 end the following new paragraph:

15 “(4) APPLICATION OF LIMITATION ON CHARI-
16 TABLE CONTRIBUTIONS.—In the case of any chari-
17 table contribution of property to which the second
18 sentence of section 1367(a)(2) applies, paragraph
19 (1) shall not apply to the extent of the excess (if
20 any) of—

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

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

25 (c) EFFECTIVE DATE.—

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

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

9 **SEC. 338. EXTENSION OF WORK OPPORTUNITY TAX CREDIT**
10 **FOR HURRICANE KATRINA EMPLOYEES.**

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

14 (b) EFFECTIVE DATE.—The amendment made by
15 subsection (a) shall apply to individuals hired after August
16 27, 2007.

17 **Subtitle C—Other Extenders**

18 **SEC. 341. DISCLOSURE FOR COMBINED EMPLOYMENT TAX**
19 **REPORTING.**

20 (a) IN GENERAL.—Subparagraph (B) of section
21 6103(d)(5) (relating to termination) is amended by strik-
22 ing “December 31, 2007” and inserting “December 31,
23 2008”.

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

4 **SEC. 342. DISCLOSURE OF RETURN INFORMATION TO AP-**
5 **RISE APPROPRIATE OFFICIALS OF TER-**
6 **RORIST ACTIVITIES.**

7 (a) IN GENERAL.—Clause (iv) of section
8 6103(i)(3)(C) (relating to termination) is amended by
9 striking “December 31, 2007” and inserting “December
10 31, 2008”.

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

14 **SEC. 343. DISCLOSURE UPON REQUEST OF INFORMATION**
15 **RELATING TO TERRORIST ACTIVITIES.**

16 (a) IN GENERAL.—Subparagraph (E) of section
17 6103(i)(7) (relating to termination) is amended by strik-
18 ing “December 31, 2007” and inserting “December 31,
19 2008”.

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

1 **SEC. 344. DISCLOSURE OF RETURN INFORMATION TO**
2 **CARRY OUT INCOME CONTINGENT REPAY-**
3 **MENT OF STUDENT LOANS.**

4 (a) IN GENERAL.—Subparagraph (D) of section
5 6103(l)(13) (relating to termination) is amended by strik-
6 ing “December 31, 2007” and inserting “December 31,
7 2008”.

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

11 **SEC. 345. AUTHORITY FOR UNDERCOVER OPERATIONS.**

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

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

18 **SEC. 346. INCREASE IN LIMIT ON COVER OVER OF RUM EX-**
19 **CISE TAX TO PUERTO RICO AND THE VIRGIN**
20 **ISLANDS.**

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

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

1 **SEC. 347. DISCLOSURE OF RETURN INFORMATION FOR**
 2 **CERTAIN VETERANS PROGRAMS.**

3 (a) IN GENERAL.—The last sentence of paragraph
 4 (7) of section 6103(l) is amended by striking “September
 5 30, 2008” and inserting “December 31, 2008”.

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

9 **TITLE IV—MORTGAGE**
 10 **FORGIVENESS DEBT RELIEF**

11 **SEC. 401. DISCHARGES OF INDEBTEDNESS ON PRINCIPAL**
 12 **RESIDENCE EXCLUDED FROM GROSS IN-**
 13 **COME.**

14 (a) IN GENERAL.—Paragraph (1) of section 108(a)
 15 is amended by striking “or” at the end of subparagraph
 16 (C), by striking the period at the end of subparagraph (D)
 17 and inserting “, or”, and by inserting after subparagraph
 18 (D) the following new subparagraph:

19 “(E) the indebtedness discharged is quali-
 20 fied principal residence indebtedness.”.

21 (b) SPECIAL RULES RELATING TO QUALIFIED PRIN-
 22 CIPAL RESIDENCE INDEBTEDNESS.—Section 108 is
 23 amended by adding at the end the following new sub-
 24 section:

25 “(h) SPECIAL RULES RELATING TO QUALIFIED
 26 PRINCIPAL RESIDENCE INDEBTEDNESS.—

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

5 “(2) QUALIFIED PRINCIPAL RESIDENCE IN-
6 DEBTEDNESS.—For purposes of this section, the
7 term ‘qualified principal residence indebtedness’
8 means acquisition indebtedness (within the meaning
9 of section 163(h)(3)(B), applied by substituting
10 ‘\$2,000,000 (\$1,000,000’ for ‘\$1,000,000
11 (\$500,000’ in clause (ii) thereof) with respect to the
12 principal residence of the taxpayer.

13 “(3) EXCEPTION FOR CERTAIN DISCHARGES
14 NOT RELATED TO TAXPAYER’S FINANCIAL CONDI-
15 TION.—Subsection (a)(1)(E) shall not apply to the
16 discharge of a loan if the discharge is on account of
17 services performed for the lender or any other factor
18 not directly related to a decline in the value of the
19 residence or to the financial condition of the tax-
20 payer.

21 “(4) ORDERING RULE.—If any loan is dis-
22 charged, in whole or in part, and only a portion of
23 such loan is qualified principal residence indebted-
24 ness, subsection (a)(1)(E) shall apply only to so
25 much of the amount discharged as exceeds the

1 amount of the loan (as determined immediately be-
2 fore such discharge) which is not qualified principal
3 residence indebtedness.

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

7 (c) COORDINATION.—

8 (1) Subparagraph (A) of section 108(a)(2) is
9 amended by striking “and (D)” and inserting “(D),
10 and (E)”.

11 (2) Paragraph (2) of section 108(a) is amended
12 by adding at the end the following new subpara-
13 graph:

14 “(C) PRINCIPAL RESIDENCE EXCLUSION
15 TAKES PRECEDENCE OVER INSOLVENCY EXCLU-
16 SION UNLESS ELECTED OTHERWISE.—Para-
17 graph (1)(B) shall not apply to a discharge to
18 which paragraph (1)(E) applies unless the tax-
19 payer elects to apply paragraph (1)(B) in lieu
20 of paragraph (1)(E).”.

21 (d) EFFECTIVE DATE.—The amendments made by
22 this section shall apply to discharges of indebtedness on
23 or after January 1, 2007.

1 **SEC. 402. LONG-TERM EXTENSION OF DEDUCTION FOR**
2 **MORTGAGE INSURANCE PREMIUMS.**

3 (a) IN GENERAL.—Subparagraph (E) of section
4 163(h)(3) (relating to mortgage insurance premiums
5 treated as interest) is amended by striking clauses (iii)
6 and (iv) and inserting the following new clause:

7 “(iii) APPLICATION.—Clause (i) shall
8 not apply with respect to any mortgage in-
9 surance contract issued before January 1,
10 2007, or after December 31, 2014.”.

11 (b) EFFECTIVE DATE.—The amendment made by
12 subsection (a) shall apply to contracts issued after Decem-
13 ber 31, 2006.

14 **SEC. 403. ALTERNATIVE TESTS FOR QUALIFYING AS COOP-**
15 **ERATIVE HOUSING CORPORATION.**

16 (a) IN GENERAL.—Subparagraph (D) of section
17 216(b)(1) (defining cooperative housing corporation) is
18 amended to read as follows:

19 “(D) meeting 1 or more of the following
20 requirements for the taxable year in which the
21 taxes and interest described in subsection (a)
22 are paid or incurred:

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

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

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

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

12 “(ii) the period such property was
13 owned by the taxpayer.

14 “(C) PERIOD OF NONQUALIFIED USE.—
15 For purposes of this paragraph—

16 “(i) IN GENERAL.—The term ‘period
17 of nonqualified use’ means any period
18 (other than the portion of any period pre-
19 ceding January 1, 2008) during which the
20 property is not used as the principal resi-
21 dence of the taxpayer or the taxpayer’s
22 spouse or former spouse.

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

1 “(I) any portion of the 5-year pe-
2 riod described in subsection (a) which
3 is after the last date that such prop-
4 erty is used as the principal residence
5 of the taxpayer or the taxpayer’s
6 spouse,

7 “(II) any period (not to exceed
8 an aggregate period of 10 years) dur-
9 ing which the taxpayer or the tax-
10 payer’s spouse is serving on qualified
11 official extended duty (as defined in
12 subsection (d)(9)(C)) described in
13 clause (i), (ii), or (iii) of subsection
14 (d)(9)(A), and

15 “(III) any other period of tem-
16 porary absence (not to exceed an ag-
17 gregate period of 2 years) due to
18 change of employment, health condi-
19 tions, or such other unforeseen cir-
20 cumstances as may be specified by the
21 Secretary.

22 “(D) COORDINATION WITH RECOGNITION
23 OF GAIN ATTRIBUTABLE TO DEPRECIATION.—
24 For purposes of this paragraph—

1 “(i) subparagraph (A) shall be applied
2 after the application of subsection (d)(6),
3 and

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

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

10 **TITLE V—ADMINISTRATIVE**
11 **PROVISIONS**

12 **SEC. 501. REPEAL OF AUTHORITY TO ENTER INTO PRIVATE**
13 **DEBT COLLECTION CONTRACTS.**

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

16 (b) CONFORMING AMENDMENTS.—

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

19 (2) Section 7811 is amended by striking sub-
20 section (g).

21 (3) Section 1203 of the Internal Revenue Serv-
22 ice Restructuring Act of 1998 is amended by strik-
23 ing subsection (e).

1 (4) The table of sections for subchapter A of
2 chapter 64 is amended by striking the item relating
3 to section 6306.

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

7 (c) EFFECTIVE DATE.—

8 (1) IN GENERAL.—Except as otherwise pro-
9 vided in this subsection, the amendments made by
10 this section shall take effect on the date of the en-
11 actment of this Act.

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

17 (3) UNAUTHORIZED CONTRACTS AND EXTEN-
18 SIONS TREATED AS VOID.—Any qualified tax collec-
19 tion contract (as defined in section 6306 of the In-
20 ternal Revenue Code of 1986, as in effect before its
21 repeal) which is entered into on or after July 18,
22 2007, and any extension or renewal on or after such
23 date of any qualified tax collection contract (as so
24 defined) shall be void.

1 **SEC. 502. DELAY OF APPLICATION OF WITHHOLDING RE-**
2 **QUIREMENT ON CERTAIN GOVERNMENTAL**
3 **PAYMENTS FOR GOODS AND SERVICES.**

4 (a) IN GENERAL.—Subsection (b) of section 511 of
5 the Tax Increase Prevention and Reconciliation Act of
6 2005 is amended by striking “December 31, 2010” and
7 inserting “December 31, 2011”.

8 (b) REPORT TO CONGRESS.—Not later than 6
9 months after the date of the enactment of this Act, the
10 Secretary of the Treasury shall submit to the Committee
11 on Ways and Means of the House of Representatives and
12 the Committee on Finance of the Senate a report with
13 respect to the withholding requirements of section 3402(t)
14 of the Internal Revenue Code of 1986, including a detailed
15 analysis of—

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

19 (2) the burdens, if any, that such requirements
20 will place on governments and businesses (taking
21 into account such mechanisms as may be necessary
22 to administer such requirements), and

23 (3) the application of such requirements to
24 small expenditures for services and goods by govern-
25 ments.

1 **SEC. 503. CLARIFICATION OF ENTITLEMENT OF VIRGIN IS-**
2 **LANDS RESIDENTS TO PROTECTIONS OF LIM-**
3 **ITATIONS ON ASSESSMENT AND COLLECTION**
4 **OF TAX.**

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

8 “(5) TREATMENT OF INCOME TAX RETURN
9 FILED WITH VIRGIN ISLANDS.—An income tax re-
10 turn filed with the Virgin Islands by an individual
11 claiming to be described in paragraph (1) for the
12 taxable year shall be treated for purposes of subtitle
13 F in the same manner as if such return were an in-
14 come tax return filed with the United States for
15 such taxable year. The preceding sentence shall not
16 apply where such return is false or fraudulent with
17 the intent to evade tax or otherwise is a willful at-
18 tempt in any manner to defeat or evade tax.”.

19 (b) EFFECTIVE DATE.—The amendment made by
20 this section shall apply to taxable years beginning after
21 1986.

22 **SEC. 504. REVISION OF TAX RULES ON EXPATRIATION.**

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

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

2 “(a) GENERAL RULES.—For purposes of this sub-
3 title—

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

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

10 “(A) notwithstanding any other provision
11 of this title, any gain arising from such sale
12 shall be taken into account for the taxable year
13 of the sale, and

14 “(B) any loss arising from such sale shall
15 be taken into account for the taxable year of
16 the sale to the extent otherwise provided by this
17 title, except that section 1091 shall not apply to
18 any such loss.

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

23 “(3) EXCLUSION FOR CERTAIN GAIN.—

24 “(A) IN GENERAL.—The amount which
25 would (but for this paragraph) be includible in
26 the gross income of any individual by reason of

1 paragraph (1) shall be reduced (but not below
2 zero) by \$600,000.

3 “(B) ADJUSTMENT FOR INFLATION.—

4 “(i) IN GENERAL.—In the case of any
5 taxable year beginning in a calendar year
6 after 2008, the dollar amount in subpara-
7 graph (A) shall be increased by an amount
8 equal to—

9 “(I) such dollar amount, multi-
10 plied by

11 “(II) the cost-of-living adjust-
12 ment determined under section 1(f)(3)
13 for the calendar year in which the tax-
14 able year begins, by substituting ‘cal-
15 endar year 2007’ for ‘calendar year
16 1992’ in subparagraph (B) thereof.

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

21 “(b) ELECTION TO DEFER TAX.—

22 “(1) IN GENERAL.—If the taxpayer elects the
23 application of this subsection with respect to any
24 property treated as sold by reason of subsection (a),
25 the time for payment of the additional tax attrib-

1 utable to such property shall be extended until the
2 due date of the return for the taxable year in which
3 such property is disposed of (or, in the case of prop-
4 erty disposed of in a transaction in which gain is not
5 recognized in whole or in part, until such other date
6 as the Secretary may prescribe).

7 “(2) DETERMINATION OF TAX WITH RESPECT
8 TO PROPERTY.—For purposes of paragraph (1), the
9 additional tax attributable to any property is an
10 amount which bears the same ratio to the additional
11 tax imposed by this chapter for the taxable year
12 solely by reason of subsection (a) as the gain taken
13 into account under subsection (a) with respect to
14 such property bears to the total gain taken into ac-
15 count under subsection (a) with respect to all prop-
16 erty to which subsection (a) applies.

17 “(3) TERMINATION OF EXTENSION.—The due
18 date for payment of tax may not be extended under
19 this subsection later than the due date for the re-
20 turn of tax imposed by this chapter for the taxable
21 year which includes the date of death of the expa-
22 triate (or, if earlier, the time that the security pro-
23 vided with respect to the property fails to meet the
24 requirements of paragraph (4), unless the taxpayer

1 corrects such failure within the time specified by the
2 Secretary).

3 “(4) SECURITY.—

4 “(A) IN GENERAL.—No election may be
5 made under paragraph (1) with respect to any
6 property unless adequate security is provided
7 with respect to such property.

8 “(B) ADEQUATE SECURITY.—For purposes
9 of subparagraph (A), security with respect to
10 any property shall be treated as adequate secu-
11 rity if—

12 “(i) it is a bond which is furnished to,
13 and accepted by, the Secretary, which is
14 conditioned on the payment of tax (and in-
15 terest thereon), and which meets the re-
16 quirements of section 6325, or

17 “(ii) it is another form of security for
18 such payment (including letters of credit)
19 that meets such requirements as the Sec-
20 retary may prescribe.

21 “(5) WAIVER OF CERTAIN RIGHTS.—No elec-
22 tion may be made under paragraph (1) unless the
23 taxpayer makes an irrevocable waiver of any right
24 under any treaty of the United States which would

1 preclude assessment or collection of any tax imposed
2 by reason of this section.

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

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

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

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

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

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

18 “(d) TREATMENT OF DEFERRED COMPENSATION
19 ITEMS.—

20 “(1) WITHHOLDING ON ELIGIBLE DEFERRED
21 COMPENSATION ITEMS.—

22 “(A) IN GENERAL.—In the case of any eli-
23 gible deferred compensation item, the payor
24 shall deduct and withhold from any taxable

1 payment to a covered expatriate with respect to
2 such item a tax equal to 30 percent thereof.

3 “(B) TAXABLE PAYMENT.—For purposes
4 of subparagraph (A), the term ‘taxable pay-
5 ment’ means with respect to a covered expa-
6 triate any payment to the extent it would be in-
7 cludible in the gross income of the covered ex-
8 patriate if such expatriate continued to be sub-
9 ject to tax as a citizen or resident of the United
10 States. A deferred compensation item shall be
11 taken into account as a payment under the pre-
12 ceding sentence when such item would be so in-
13 cludible.

14 “(2) OTHER DEFERRED COMPENSATION
15 ITEMS.—In the case of any deferred compensation
16 item which is not an eligible deferred compensation
17 item—

18 “(A)(i) with respect to any deferred com-
19 pensation item to which clause (ii) does not
20 apply, an amount equal to the present value of
21 the covered expatriate’s accrued benefit shall be
22 treated as having been received by such indi-
23 vidual on the day before the expatriation date
24 as a distribution under the plan, and

1 “(ii) with respect to any deferred com-
2 pensation item referred to in paragraph (4)(D),
3 the rights of the covered expatriate to such item
4 shall be treated as becoming transferable and
5 not subject to a substantial risk of forfeiture on
6 the day before the expatriation date,

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

9 “(C) appropriate adjustments shall be
10 made to subsequent distributions from the plan
11 to reflect such treatment.

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

16 “(A) the payor of such item is—

17 “(i) a United States person, or

18 “(ii) a person who is not a United
19 States person but who elects to be treated
20 as a United States person for purposes of
21 paragraph (1) and meets such require-
22 ments as the Secretary may provide to en-
23 sure that the payor will meet the require-
24 ments of paragraph (1), and

25 “(B) the covered expatriate—

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

3 “(ii) makes an irrevocable waiver of
4 any right to claim any reduction under any
5 treaty with the United States in with-
6 holding on such item.

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

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

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

14 “(C) any item of deferred compensation,
15 and

16 “(D) any property, or right to property,
17 which the individual is entitled to receive in
18 connection with the performance of services to
19 the extent not previously taken into account
20 under section 83 or in accordance with section
21 83.

22 “(5) EXCEPTION.—Paragraphs (1) and (2)
23 shall not apply to any deferred compensation item
24 which is attributable to services performed outside

1 the United States while the covered expatriate was
2 not a citizen or resident of the United States.

3 “(6) SPECIAL RULES.—

4 “(A) APPLICATION OF WITHHOLDING
5 RULES.—Rules similar to the rules of sub-
6 chapter B of chapter 3 shall apply for purposes
7 of this subsection.

8 “(B) APPLICATION OF TAX.—Any item
9 subject to the withholding tax imposed under
10 paragraph (1) shall be subject to tax under sec-
11 tion 871.

12 “(C) COORDINATION WITH OTHER WITH-
13 HOLDING REQUIREMENTS.—Any item subject to
14 withholding under paragraph (1) shall not be
15 subject to withholding under section 1441 or
16 chapter 24.

17 “(e) TREATMENT OF SPECIFIED TAX DEFERRED AC-
18 COUNTS.—

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

23 “(A) the covered expatriate shall be treat-
24 ed as receiving a distribution of his entire inter-

1 est in such account on the day before the expa-
2 triation date,

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

5 “(C) appropriate adjustments shall be
6 made to subsequent distributions from the ac-
7 count to reflect such treatment.

8 “(2) SPECIFIED TAX DEFERRED ACCOUNT.—

9 For purposes of paragraph (1), the term ‘specified
10 tax deferred account’ means an individual retirement
11 plan (as defined in section 7701(a)(37)) other than
12 any arrangement described in subsection (k) or (p)
13 of section 408, a qualified tuition program (as de-
14 fined in section 529), a Coverdell education savings
15 account (as defined in section 530), a health savings
16 account (as defined in section 223), and an Archer
17 MSA (as defined in section 220).

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

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

22 “(A) the trustee shall deduct and withhold
23 from such distribution an amount equal to 30
24 percent of the taxable portion of the distribu-
25 tion, and

1 “(B) if the fair market value of such prop-
2 erty exceeds its adjusted basis in the hands of
3 the trust, gain shall be recognized to the trust
4 as if such property were sold to the expatriate
5 at its fair market value.

6 “(2) TAXABLE PORTION.—For purposes of this
7 subsection, the term ‘taxable portion’ means, with
8 respect to any distribution, that portion of the dis-
9 tribution which would be includible in the gross in-
10 come of the covered expatriate if such expatriate
11 continued to be subject to tax as a citizen or resi-
12 dent of the United States.

13 “(3) NONGRANTOR TRUST.—For purposes of
14 this subsection, the term ‘nongrantor trust’ means
15 the portion of any trust that the individual is not
16 considered the owner of under subpart E of part I
17 of subchapter J. The determination under the pre-
18 ceding sentence shall be made immediately before
19 the expatriation date.

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

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

24 “(B) the covered expatriate shall be treat-
25 ed as having waived any right to claim any re-

1 duction under any treaty with the United
2 States in withholding on any distribution to
3 which paragraph (1)(A) applies.

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

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

10 “(1) COVERED EXPATRIATE.—

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

15 “(B) EXCEPTIONS.—An individual shall
16 not be treated as meeting the requirements of
17 subparagraph (A) or (B) of section 877(a)(2)
18 if—

19 “(i) the individual—

20 “(I) became at birth a citizen of
21 the United States and a citizen of an-
22 other country and, as of the expatria-
23 tion date, continues to be a citizen of,
24 and is taxed as a resident of, such
25 other country, and

1 “(II) has been a resident of the
2 United States (as defined in section
3 7701(b)(1)(A)(ii)) for not more than
4 10 taxable years during the 15-tax-
5 able year period ending with the tax-
6 able year during which the expatria-
7 tion date occurs, or

8 “(ii)(I) the individual’s relinquishment
9 of United States citizenship occurs before
10 such individual attains age 18½, and

11 “(II) the individual has been a resi-
12 dent of the United States (as so defined)
13 for not more than 10 taxable years before
14 the date of relinquishment.

15 “(C) COVERED EXPATRIATES ALSO SUB-
16 JECT TO TAX AS CITIZENS OR RESIDENTS.—In
17 the case of any covered expatriate who is sub-
18 ject to tax as a citizen or resident of the United
19 States for any period beginning after the expa-
20 triation date, such individual shall not be treat-
21 ed as a covered expatriate during such period
22 for purposes of subsections (d)(1) and (f) and
23 section 2801.

24 “(2) EXPATRIATE.—The term ‘expatriate’
25 means—

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

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

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

9 “(A) the date an individual relinquishes
10 United States citizenship, or

11 “(B) in the case of a long-term resident of
12 the United States, the date on which the indi-
13 vidual ceases to be a lawful permanent resident
14 of the United States (within the meaning of
15 section 7701(b)(6)).

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

19 “(A) the date the individual renounces his
20 United States nationality before a diplomatic or
21 consular officer of the United States pursuant
22 to paragraph (5) of section 349(a) of the Immig-
23 ration and Nationality Act (8 U.S.C.
24 1481(a)(5)),

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

9 “(C) the date the United States Depart-
10 ment of State issues to the individual a certifi-
11 cate of loss of nationality, or

12 “(D) the date a court of the United States
13 cancels a naturalized citizen’s certificate of nat-
14 uralization.

15 Subparagraph (A) or (B) shall not apply to any indi-
16 vidual unless the renunciation or voluntary relin-
17 quishment is subsequently approved by the issuance
18 to the individual of a certificate of loss of nationality
19 by the United States Department of State.

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

23 “(6) EARLY DISTRIBUTION TAX.—The term
24 ‘early distribution tax’ means any increase in tax im-

1 posed under section 72(t), 220(e)(4), 223(f)(4),
2 409A(a)(1)(B), 529(c)(6), or 530(d)(4).

3 “(h) OTHER RULES.—

4 “(1) TERMINATION OF DEFERRALS, ETC.—In
5 the case of any covered expatriate, notwithstanding
6 any other provision of this title—

7 “(A) any time period for acquiring prop-
8 erty which would result in the reduction in the
9 amount of gain recognized with respect to prop-
10 erty disposed of by the taxpayer shall terminate
11 on the day before the expatriation date, and

12 “(B) any extension of time for payment of
13 tax shall cease to apply on the day before the
14 expatriation date and the unpaid portion of
15 such tax shall be due and payable at the time
16 and in the manner prescribed by the Secretary.

17 “(2) STEP-UP IN BASIS.—Solely for purposes of
18 determining any tax imposed by reason of subsection
19 (a), property which was held by an individual on the
20 date the individual first became a resident of the
21 United States (within the meaning of section
22 7701(b)) shall be treated as having a basis on such
23 date of not less than the fair market value of such
24 property on such date. The preceding sentence shall
25 not apply if the individual elects not to have such

1 sentence apply. Such an election, once made, shall
2 be irrevocable.

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

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

10 (b) TAX ON GIFTS AND BEQUESTS RECEIVED BY
11 UNITED STATES CITIZENS AND RESIDENTS FROM EXPA-
12 TRIATES.—

13 (1) IN GENERAL.—Subtitle B (relating to estate
14 and gift taxes) is amended by inserting after chapter
15 14 the following new chapter:

16 **“CHAPTER 15—GIFTS AND BEQUESTS**
17 **FROM EXPATRIATES**

“Sec. 2801. Imposition of tax.

18 **“SEC. 2801. IMPOSITION OF TAX.**

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

23 “(1) the highest rate of tax specified in the
24 table contained in section 2001(c) as in effect on the

1 date of such receipt (or, if greater, the highest rate
2 of tax specified in the table applicable under section
3 2502(a) as in effect on the date), and

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

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

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

12 “(d) TAX REDUCED BY FOREIGN GIFT OR ESTATE
13 TAX.—The tax imposed by subsection (a) on any covered
14 gift or bequest shall be reduced by the amount of any gift
15 or estate tax paid to a foreign country with respect to such
16 covered gift or bequest.

17 “(e) COVERED GIFT OR BEQUEST.—

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

20 “(A) any property acquired by gift directly
21 or indirectly from an individual who, at the
22 time of such acquisition, is a covered expatriate,
23 and

24 “(B) any property acquired directly or in-
25 directly by reason of the death of an individual

1 who, immediately before such death, was a cov-
2 ered expatriate.

3 “(2) EXCEPTIONS FOR TRANSFERS OTHERWISE
4 SUBJECT TO ESTATE OR GIFT TAX.—Such term shall
5 not include—

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

9 “(B) any property included in the gross es-
10 tate of the covered expatriate for purposes of
11 chapter 11 and shown on a timely filed return
12 of tax imposed by chapter 11 of the estate of
13 the covered expatriate.

14 “(3) TRANSFERS IN TRUST.—

15 “(A) DOMESTIC TRUSTS.—In the case of a
16 covered gift or bequest made to a domestic
17 trust—

18 “(i) subsection (a) shall apply in the
19 same manner as if such trust were a
20 United States citizen, and

21 “(ii) the tax imposed by subsection (a)
22 on such gift or bequest shall be paid by
23 such trust.

24 “(B) FOREIGN TRUSTS.—

1 “(i) IN GENERAL.—In the case of a
2 covered gift or bequest made to a foreign
3 trust, subsection (a) shall apply to any dis-
4 tribution attributable to such gift or be-
5 quest from such trust (whether from in-
6 come or corpus) to a United States citizen
7 or resident in the same manner as if such
8 distribution were a covered gift or bequest.

9 “(ii) DEDUCTION FOR TAX PAID BY
10 RECIPIENT.—There shall be allowed as a
11 deduction under section 164 the amount of
12 tax imposed by this section which is paid
13 or accrued by a United States citizen or
14 resident by reason of a distribution from a
15 foreign trust, but only to the extent such
16 tax is imposed on the portion of such dis-
17 tribution which is included in the gross in-
18 come of such citizen or resident.

19 “(iii) ELECTION TO BE TREATED AS
20 DOMESTIC TRUST.—Solely for purposes of
21 this section, a foreign trust may elect to be
22 treated as a domestic trust. Such an elec-
23 tion may be revoked with the consent of
24 the Secretary.

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

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

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

8 (c) DEFINITION OF TERMINATION OF UNITED
9 STATES CITIZENSHIP.—

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

12 “(50) TERMINATION OF UNITED STATES CITI-
13 ZENSHIP.—

14 “(A) IN GENERAL.—An individual shall
15 not cease to be treated as a United States cit-
16 izen before the date on which the individual’s
17 citizenship is treated as relinquished under sec-
18 tion 877A(g)(4).

19 “(B) DUAL CITIZENS.—Under regulations
20 prescribed by the Secretary, subparagraph (A)
21 shall not apply to an individual who became at
22 birth a citizen of the United States and a cit-
23 izen of another country.”.

24 (2) CONFORMING AMENDMENTS.—

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

3 “(1) IN GENERAL.—Any long-term resident of
4 the United States who ceases to be a lawful perma-
5 nent resident of the United States (within the mean-
6 ing of section 7701(b)(6)) shall be treated for pur-
7 poses of this section and sections 2107, 2501, and
8 6039G in the same manner as if such resident were
9 a citizen of the United States who lost United States
10 citizenship on the date of such cessation or com-
11 mencement.”.

12 (B) Paragraph (6) of section 7701(b) is
13 amended by adding at the end the following
14 flush sentence:

15 “An individual shall cease to be treated as a lawful
16 permanent resident of the United States if such in-
17 dividual commences to be treated as a resident of a
18 foreign country under the provisions of a tax treaty
19 between the United States and the foreign country,
20 does not waive the benefits of such treaty applicable
21 to residents of the foreign country, and notifies the
22 Secretary of the commencement of such treatment.”.

23 (C) Section 7701 is amended by striking
24 subsection (n) and by redesignating subsections

1 (o) and (p) as subsections (n) and (o), respec-
2 tively.

3 (d) INFORMATION RETURNS.—Section 6039G is
4 amended—

5 (1) by inserting “or 877A” after “section
6 877(b)” in subsection (a), and

7 (2) by inserting “or 877A” after “section
8 877(a)” in subsection (d).

9 (e) CLERICAL AMENDMENT.—The table of sections
10 for subpart A of part II of subchapter N of chapter 1
11 is amended by inserting after the item relating to section
12 877 the following new item:

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

13 (f) EFFECTIVE DATE.—

14 (1) IN GENERAL.—Except as provided in this
15 subsection, the amendments made by this section
16 shall apply to expatriates (as defined in section
17 877A(g) of the Internal Revenue Code of 1986, as
18 added by this section) whose expatriation date (as so
19 defined) is on or after the date of the enactment of
20 this Act.

21 (2) GIFTS AND BEQUESTS.—Chapter 15 of the
22 Internal Revenue Code of 1986 (as added by sub-
23 section (b)) shall apply to covered gifts and bequests
24 (as defined in section 2801 of such Code, as so
25 added) received on or after the date of the enact-

1 ment of this Act, regardless of when the transferor
2 expatriated.

3 **SEC. 505. REPEAL OF SUSPENSION OF CERTAIN PENALTIES**
4 **AND INTEREST.**

5 (a) **IN GENERAL.**—Section 6404 is amended by strik-
6 ing subsection (g) and by redesignating subsection (h) as
7 subsection (g).

8 (b) **EFFECTIVE DATE.**—The amendment made by
9 subsection (a) shall apply to notices provided by the Sec-
10 retary of the Treasury, or his delegate, after the date
11 which is 6 months after the date of the enactment of the
12 Small Business and Work Opportunity Tax Act of 2007.

13 **SEC. 506. UNUSED MERCHANDISE DRAWBACK.**

14 (a) **IN GENERAL.**—Section 313(j)(2) of the Tariff
15 Act of 1930 (19 U.S.C. 1313(j)(2)) is amended by adding
16 at the end the following: “For purposes of subparagraph
17 (A) of this paragraph, wine of the same color having a
18 price variation not to exceed 50 percent between the im-
19 ported wine and the exported wine shall be deemed to be
20 commercially interchangeable.”.

21 (b) **EFFECTIVE DATE.**—The amendment made by
22 subsection (a) shall apply with respect to claims filed for
23 drawback under section 313(j)(2) of the Tariff Act of
24 1930 on or after the date of the enactment of this Act.

1 **TITLE VI—REVENUE**
2 **PROVISIONS**
3 **Subtitle A—Nonqualified Deferred**
4 **Compensation From Certain**
5 **Tax Indifferent Parties**

6 **SEC. 601. NONQUALIFIED DEFERRED COMPENSATION**
7 **FROM CERTAIN TAX INDIFFERENT PARTIES.**

8 (a) IN GENERAL.—Subpart B of part II of sub-
9 chapter E of chapter 1 (relating to taxable year for which
10 items of gross income included) is amended by inserting
11 after section 457 the following new section:

12 **“SEC. 457A. NONQUALIFIED DEFERRED COMPENSATION**
13 **FROM CERTAIN TAX INDIFFERENT PARTIES.**

14 “(a) IN GENERAL.—Any compensation which is de-
15 ferred under a nonqualified deferred compensation plan of
16 a nonqualified entity shall be taken into account for pur-
17 poses of this chapter when there is no substantial risk of
18 forfeiture of the rights to such compensation.

19 “(b) NONQUALIFIED ENTITY.—For purposes of this
20 section, the term ‘nonqualified entity’ means—

21 “(1) any foreign corporation unless substan-
22 tially all of such income is—

23 “(A) effectively connected with the conduct
24 of a trade or business in the United States, or

1 “(B) subject to a comprehensive foreign in-
2 come tax, and

3 “(2) any partnership unless substantially all of
4 such income is allocated to persons other than—

5 “(A) foreign persons with respect to whom
6 such income is not subject to a comprehensive
7 foreign income tax, and

8 “(B) organizations which are exempt from
9 tax under this title.

10 “(c) ASCERTAINABILITY OF AMOUNTS OF COM-
11 PENSATION.—

12 “(1) IN GENERAL.—If the amount of any com-
13 pensation is not ascertainable at the time that such
14 compensation is otherwise to be taken into account
15 under subsection (a)—

16 “(A) such amount shall be so taken into
17 account when ascertainable, and

18 “(B) the tax imposed under this chapter
19 for the taxable year in which such compensation
20 is taken into account under subparagraph (A)
21 shall be increased by the sum of—

22 “(i) the amount of interest determined
23 under paragraph (2), and

24 “(ii) an amount equal to 20 percent of
25 the amount of such compensation.

1 “(2) INTEREST.—For purposes of paragraph
2 (1)(B)(i), the interest determined under this para-
3 graph for any taxable year is the amount of interest
4 at the underpayment rate under section 6621 plus
5 1 percentage point on the underpayments that would
6 have occurred had the deferred compensation been
7 includible in gross income for the taxable year in
8 which first deferred or, if later, the first taxable year
9 in which such deferred compensation is not subject
10 to a substantial risk of forfeiture.

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

13 “(1) SUBSTANTIAL RISK OF FORFEITURE.—The
14 rights of a person to compensation shall be treated
15 as subject to a substantial risk of forfeiture only if
16 such person’s rights to such compensation are condi-
17 tioned upon the future performance of substantial
18 services by any individual.

19 “(2) COMPREHENSIVE FOREIGN INCOME TAX.—
20 The term ‘comprehensive foreign income tax’ means,
21 with respect to any foreign person, the income tax
22 of a foreign country if—

23 “(A) such person is eligible for the benefits
24 of a comprehensive income tax treaty between
25 such foreign country and the United States, or

1 “(B) such person demonstrates to the sat-
2 isfaction of the Secretary that such foreign
3 country has a comprehensive income tax.

4 Such term shall not include any tax unless such tax
5 includes rules for the deductibility of deferred com-
6 pensation which are similar to the rules of this title.

7 “(3) NONQUALIFIED DEFERRED COMPENSA-
8 TION PLAN.—The term ‘nonqualified deferred com-
9 pensation plan’ has the meaning given such term
10 under section 409A(d), except that such term shall
11 include any plan that provides a right to compensa-
12 tion based on the appreciation in value of a specified
13 number of equity units of the service recipient.

14 “(4) APPLICATION OF RULES.—Rules similar to
15 the rules of paragraphs (5) and (6) of section
16 409A(d) shall apply.

17 “(e) REGULATIONS.—The Secretary shall prescribe
18 such regulations as may be necessary or appropriate to
19 carry out the purposes of this section, including regula-
20 tions disregarding a substantial risk of forfeiture in cases
21 where necessary to carry out the purposes of this sec-
22 tion.”.

23 (b) CONFORMING AMENDMENT.—Section 26(b)(2) is
24 amended by striking “and” at the end of subparagraph
25 (S), by striking the period at the end of subparagraph (T)

1 and inserting “, and”, and by adding at the end the fol-
2 lowing new subparagraph:

3 “(U) section 457A(c)(1)(B) (relating to as-
4 certainability of amounts of compensation).”.

5 (c) CLERICAL AMENDMENT.—The table of sections
6 of subpart B of part II of subchapter E of chapter 1 is
7 amended by inserting after the item relating to section
8 457 the following new item:

“Sec. 457A. Nonqualified deferred compensation from certain tax indifferent
parties.”.

9 (d) EFFECTIVE DATE.—

10 (1) IN GENERAL.—Except as otherwise pro-
11 vided in this subsection, the amendments made by
12 this section shall apply to amounts deferred which
13 are attributable to services performed after Decem-
14 ber 31, 2007.

15 (2) APPLICATION TO EXISTING DEFERRALS.—
16 In the case of any amount deferred to which the
17 amendments made by this section do not apply solely
18 by reason of the fact that the amount is attributable
19 to services performed before January 1, 2008, to the
20 extent such amount is not includible in gross income
21 in a taxable year beginning before 2017, such
22 amounts shall be includible in gross income in the
23 later of—

1 (A) the last taxable year beginning before
2 2017, or

3 (B) the taxable year in which there is no
4 substantial risk of forfeiture of the rights to
5 such compensation (determined in the same
6 manner as determined for purposes of section
7 457A of the Internal Revenue Code of 1986, as
8 added by this section).

9 (3) ACCELERATED PAYMENTS.—No later than
10 60 days after the date of the enactment of this Act,
11 the Secretary shall issue guidance providing a lim-
12 ited period of time during which a nonqualified de-
13 ferred compensation arrangement attributable to
14 services performed on or before December 31, 2007,
15 may, without violating the requirements of section
16 409A(a) of the Internal Revenue Code of 1986, be
17 amended to conform the date of distribution to the
18 date the amounts are required to be included in in-
19 come.

1 **Subtitle B—Provisions Related to**
2 **Certain Investment Partnerships**

3 **SEC. 611. INCOME OF PARTNERS FOR PERFORMING IN-**
4 **VESTMENT MANAGEMENT SERVICES TREAT-**
5 **ED AS ORDINARY INCOME RECEIVED FOR**
6 **PERFORMANCE OF SERVICES.**

7 (a) IN GENERAL.—Part I of subchapter K of chapter
8 1 is amended by adding at the end the following new sec-
9 tion:

10 **“SEC. 710. SPECIAL RULES FOR PARTNERS PROVIDING IN-**
11 **VESTMENT MANAGEMENT SERVICES TO**
12 **PARTNERSHIP.**

13 “(a) TREATMENT OF DISTRIBUTIVE SHARE OF
14 PARTNERSHIP ITEMS.—For purposes of this title, in the
15 case of an investment services partnership interest—

16 “(1) IN GENERAL.—Notwithstanding section
17 702(b)—

18 “(A) any net income with respect to such
19 interest for any partnership taxable year shall
20 be treated as ordinary income for the perform-
21 ance of services, and

22 “(B) any net loss with respect to such in-
23 terest for such year, to the extent not dis-
24 allowed under paragraph (2) for such year,
25 shall be treated as an ordinary loss.

1 “(2) TREATMENT OF LOSSES.—

2 “(A) LIMITATION.—Any net loss with re-
3 spect to such interest shall be allowed for any
4 partnership taxable year only to the extent that
5 such loss does not exceed the excess (if any)
6 of—

7 “(i) the aggregate net income with re-
8 spect to such interest for all prior partner-
9 ship taxable years, over

10 “(ii) the aggregate net loss with re-
11 spect to such interest not disallowed under
12 this subparagraph for all prior partnership
13 taxable years.

14 “(B) CARRYFORWARD.—Any net loss for
15 any partnership taxable year which is not al-
16 lowed by reason of subparagraph (A) shall be
17 treated as an item of loss with respect to such
18 partnership interest for the succeeding partner-
19 ship taxable year.

20 “(C) BASIS ADJUSTMENT.—No adjustment
21 to the basis of a partnership interest shall be
22 made on account of any net loss which is not
23 allowed by reason of subparagraph (A).

24 “(D) EXCEPTION FOR BASIS ATTRIB-
25 UTABLE TO PURCHASE OF A PARTNERSHIP IN-

1 TEREST.—In the case of an investment services
2 partnership interest acquired by purchase, para-
3 graph (1)(B) shall not apply to so much of any
4 net loss with respect to such interest for any
5 taxable year as does not exceed the excess of—

6 “(i) the basis of such interest imme-
7 diately after such purchase, over

8 “(ii) the aggregate net loss with re-
9 spect to such interest to which paragraph
10 (1)(B) did not apply by reason of this sub-
11 paragraph for all prior taxable years.

12 Any net loss to which paragraph (1)(B) does
13 not apply by reason of this subparagraph shall
14 not be taken into account under subparagraph
15 (A).

16 “(E) PRIOR PARTNERSHIP YEARS.—Any
17 reference in this paragraph to prior partnership
18 taxable years shall only include prior partner-
19 ship taxable years to which this section applies.

20 “(3) NET INCOME AND LOSS.—For purposes of
21 this section—

22 “(A) NET INCOME.—The term ‘net in-
23 come’ means, with respect to any investment
24 services partnership interest, for any partner-
25 ship taxable year, the excess (if any) of—

1 “(i) all items of income and gain
2 taken into account by the holder of such
3 interest under section 702 with respect to
4 such interest for such year, over

5 “(ii) all items of deduction and loss so
6 taken into account.

7 “(B) NET LOSS.—The term ‘net loss’
8 means with respect to such interest for such
9 year, the excess (if any) of the amount de-
10 scribed in subparagraph (A)(ii) over the amount
11 described in subparagraph (A)(i).

12 “(b) DISPOSITIONS OF PARTNERSHIP INTERESTS.—

13 “(1) GAIN.—Any gain on the disposition of an
14 investment services partnership interest shall be
15 treated as ordinary income for the performance of
16 services.

17 “(2) LOSS.—Any loss on the disposition of an
18 investment services partnership interest shall be
19 treated as an ordinary loss to the extent of the ex-
20 cess (if any) of—

21 “(A) the aggregate net income with respect
22 to such interest for all partnership taxable
23 years, over

1 “(B) the aggregate net loss with respect to
2 such interest allowed under subsection (a)(2)
3 for all partnership taxable years.

4 “(3) DISPOSITION OF PORTION OF INTEREST.—
5 In the case of any disposition of an investment serv-
6 ices partnership interest, the amount of net loss
7 which otherwise would have (but for subsection
8 (a)(2)(C)) applied to reduce the basis of such inter-
9 est shall be disregarded for purposes of this section
10 for all succeeding partnership taxable years.

11 “(4) DISTRIBUTIONS OF PARTNERSHIP PROP-
12 ERTY.—In the case of any distribution of appre-
13 ciated property by a partnership with respect to any
14 investment services partnership interest, gain shall
15 be recognized by the partnership in the same man-
16 ner as if the partnership sold such property at fair
17 market value at the time of the distribution. For
18 purposes of this paragraph, the term ‘appreciated
19 property’ means any property with respect to which
20 gain would be determined if sold as described in the
21 preceding sentence.

22 “(5) APPLICATION OF SECTION 751.—In apply-
23 ing section 751(a), an investment services partner-
24 ship interest shall be treated as an inventory item.

1 “(c) INVESTMENT SERVICES PARTNERSHIP INTER-
2 EST.—For purposes of this section—

3 “(1) IN GENERAL.—The term ‘investment serv-
4 ices partnership interest’ means any interest in a
5 partnership which is held by any person if such per-
6 son provides (directly or indirectly) a substantial
7 quantity of any of the following services with respect
8 to the assets of the partnership in the conduct of the
9 trade or business of providing such services:

10 “(A) Advising as to the advisability of in-
11 vesting in, purchasing, or selling any specified
12 asset.

13 “(B) Managing, acquiring, or disposing of
14 any specified asset.

15 “(C) Arranging financing with respect to
16 acquiring specified assets.

17 “(D) Any activity in support of any service
18 described in subparagraphs (A) through (C).

19 For purposes of this paragraph, the term ‘specified
20 asset’ means securities (as defined in section
21 475(c)(2) without regard to the last sentence there-
22 of), real estate, commodities (as defined in section
23 475(e)(2)), or options or derivative contracts with
24 respect to securities (as so defined), real estate, or
25 commodities (as so defined).

1 “(2) EXCEPTION FOR CERTAIN CAPITAL INTER-
2 ESTS.—

3 “(A) IN GENERAL.—If—

4 “(i) a portion of an investment serv-
5 ices partnership interest is acquired on ac-
6 count of a contribution of invested capital,
7 and

8 “(ii) the partnership makes a reason-
9 able allocation of partnership items be-
10 tween the portion of the distributive share
11 that is with respect to invested capital and
12 the portion of such distributive share that
13 is not with respect to invested capital,

14 then subsection (a) shall not apply to the por-
15 tion of the distributive share that is with re-
16 spect to invested capital. An allocation will not
17 be treated as reasonable for purposes of this
18 subparagraph if such allocation would result in
19 the partnership allocating a greater portion of
20 income to invested capital than any other part-
21 ner not providing services would have been allo-
22 cated with respect to the same amount of in-
23 vested capital.

24 “(B) SPECIAL RULE FOR DISPOSITIONS.—

25 In any case to which subparagraph (A) applies,

1 subsection (b) shall not apply to any gain or
2 loss allocable to invested capital. The portion of
3 any gain or loss attributable to invested capital
4 is the proportion of such gain or loss which is
5 based on the distributive share of gain or loss
6 that would have been allocable to invested cap-
7 ital under subparagraph (A) if the partnership
8 sold all of its assets immediately before the dis-
9 position.

10 “(C) INVESTED CAPITAL.—For purposes
11 of this paragraph, the term ‘invested capital’
12 means, the fair market value at the time of con-
13 tribution of any money or other property con-
14 tributed to the partnership.

15 “(D) TREATMENT OF CERTAIN LOANS.—

16 “(i) PROCEEDS OF PARTNERSHIP
17 LOANS NOT TREATED AS INVESTED CAP-
18 ITAL OF SERVICE PROVIDING PARTNERS.—

19 For purposes of this paragraph, an invest-
20 ment services partnership interest shall not
21 be treated as acquired on account of a con-
22 tribution of invested capital to the extent
23 that such capital is attributable to the pro-
24 ceeds of any loan or other advance made or

1 guaranteed, directly or indirectly, by any
2 partner or the partnership.

3 “(ii) LOANS FROM NONSERVICE PRO-
4 VIDING PARTNERS TO THE PARTNERSHIP
5 TREATED AS INVESTED CAPITAL.—For
6 purposes of this paragraph, any loan or
7 other advance to the partnership made or
8 guaranteed, directly or indirectly, by a
9 partner not providing services to the part-
10 nership shall be treated as invested capital
11 of such partner and amounts of income
12 and loss treated as allocable to invested
13 capital shall be adjusted accordingly.

14 “(d) OTHER INCOME AND GAIN IN CONNECTION
15 WITH INVESTMENT MANAGEMENT SERVICES.—

16 “(1) IN GENERAL.—If—

17 “(A) a person performs (directly or indi-
18 rectly) investment management services for any
19 entity,

20 “(B) such person holds a disqualified in-
21 terest with respect to such entity, and

22 “(C) the value of such interest (or pay-
23 ments thereunder) is substantially related to
24 the amount of income or gain (whether or not
25 realized) from the assets with respect to which

1 the investment management services are per-
2 formed,
3 any income or gain with respect to such interest
4 shall be treated as ordinary income for the perform-
5 ance of services. Rules similar to the rules of sub-
6 section (c)(2) shall apply where such interest was ac-
7 quired on account of invested capital in such entity.

8 “(2) DEFINITIONS.—For purposes of this sub-
9 section—

10 “(A) DISQUALIFIED INTEREST.—The term
11 ‘disqualified interest’ means, with respect to
12 any entity—

13 “(i) any interest in such entity other
14 than indebtedness,

15 “(ii) convertible or contingent debt of
16 such entity,

17 “(iii) any option or other right to ac-
18 quire property described in clause (i) or
19 (ii), and

20 “(iv) any derivative instrument en-
21 tered into (directly or indirectly) with such
22 entity or any investor in such entity.

23 Such term shall not include a partnership inter-
24 est and shall not include stock in a taxable cor-
25 poration.

1 “(B) TAXABLE CORPORATION.—The term
2 ‘taxable corporation’ means—

3 “(i) a domestic C corporation, or

4 “(ii) a foreign corporation subject to a
5 comprehensive foreign income tax (as de-
6 fined in section 457A(d)(4)).

7 “(C) INVESTMENT MANAGEMENT SERV-
8 ICES.—The term ‘investment management serv-
9 ices’ means a substantial quantity of any of the
10 services described in subsection (c)(1) which are
11 provided in the conduct of the trade or business
12 of providing such services.

13 “(e) REGULATIONS.—The Secretary shall prescribe
14 such regulations as are necessary or appropriate to carry
15 out the purposes of this section, including regulations to—

16 “(1) prevent the avoidance of the purposes of
17 this section, and

18 “(2) coordinate this section with the other pro-
19 visions of this subchapter.

20 “(f) CROSS REFERENCE.—For 40 percent no fault
21 penalty on certain underpayments due to the avoidance
22 of this section, see section 6662.”.

23 (b) APPLICATION TO REAL ESTATE INVESTMENT
24 TRUSTS.—Subsection (c) of section 856 is amended by
25 adding at the end the following new paragraph:

1 “(8) EXCEPTION FROM RECHARACTERIZATION
2 OF INCOME FROM INVESTMENT SERVICES PARTNER-
3 SHIP INTERESTS.—

4 “(A) IN GENERAL.—Paragraphs (2), (3),
5 and (4) shall be applied without regard to sec-
6 tion 710 (relating to special rules for partners
7 providing investment management services to
8 partnership).

9 “(B) SPECIAL RULE FOR PARTNERSHIPS
10 OWNED BY REITS.—Section 7704 shall be ap-
11 plied without regard to section 710 in the case
12 of a partnership which meets each of the fol-
13 lowing requirements:

14 “(i) Such partnership is treated as
15 publicly traded under section 7704 solely
16 by reason of interests in such partnership
17 being convertible into interests in a real es-
18 tate investment trust which is publicly
19 traded.

20 “(ii) 50 percent or more of the capital
21 and profits interests of such partnership
22 are owned, directly or indirectly, at all
23 times during the taxable year by such real
24 estate investment trust (determined with
25 the application of section 267(e)).

1 “(iii) Such partnership meets the re-
2 quirements of paragraphs (2), (3), and (4)
3 (applied without regard to section 710).”.

4 (c) IMPOSITION OF PENALTY ON UNDERPAY-
5 MENTS.—

6 (1) IN GENERAL.—Subsection (b) of section
7 6662 is amended by inserting after paragraph (5)
8 the following new paragraph:

9 “(6) The application of subsection (d) of section
10 710 or the regulations prescribed under section
11 710(e) to prevent the avoidance of the purposes of
12 section 710.”.

13 (2) AMOUNT OF PENALTY.—

14 (A) IN GENERAL.—Section 6662 is amend-
15 ed by adding at the end the following new sub-
16 section:

17 “(i) INCREASE IN PENALTY IN CASE OF PROPERTY
18 TRANSFERRED FOR INVESTMENT MANAGEMENT SERV-
19 ICES.—In the case of any portion of an underpayment to
20 which this section applies by reason of subsection (b)(6),
21 subsection (a) shall be applied with respect to such portion
22 by substituting ‘40 percent’ for ‘20 percent’.”.

23 (B) CONFORMING AMENDMENTS.—Sub-
24 paragraph (B) of section 6662A(e)(2) is
25 amended—

1 (i) by striking “section 6662(h)” and
2 inserting “subsection (h) or (i) of section
3 6662”, and

4 (ii) by striking “GROSS VALUATION
5 MISSTATEMENT PENALTY” in the heading
6 and inserting “CERTAIN INCREASED UN-
7 DERPAYMENT PENALTIES”.

8 (3) REASONABLE CAUSE EXCEPTION NOT AP-
9 PPLICABLE.—Subsection (c) of section 6664 is
10 amended—

11 (A) by redesignating paragraphs (2) and
12 (3) as paragraphs (3) and (4), respectively,

13 (B) by striking “paragraph (2)” in para-
14 graph (4), as so redesignated, and inserting
15 “paragraph (3)”, and

16 (C) by inserting after paragraph (1) the
17 following new paragraph:

18 “(2) EXCEPTION.—Paragraph (1) shall not
19 apply to any portion of an underpayment to which
20 this section applies by reason of subsection (b)(6).”.

21 (d) CONFORMING AMENDMENTS.—

22 (1) Subsection (d) of section 731 is amended by
23 inserting “section 710(b)(4) (relating to distribu-
24 tions of partnership property),” before “section
25 736”.

1 (2) Section 741 is amended by inserting “or
2 section 710 (relating to special rules for partners
3 providing investment management services to part-
4 nership)” before the period at the end.

5 (3) Paragraph (13) of section 1402(a) is
6 amended—

7 (A) by striking “other than guaranteed”
8 and inserting “other than—

9 “(A) guaranteed”,

10 (B) by striking the semi-colon at the end
11 and inserting “, and”, and

12 (C) by adding at the end the following new
13 subparagraph:

14 “(B) any income treated as ordinary in-
15 come under section 710 received by an indi-
16 vidual who provides investment management
17 services (as defined in section 710(d)(2));”.

18 (4) Paragraph (12) of section 211(a) of the So-
19 cial Security Act is amended—

20 (A) by striking “other than guaranteed”
21 and inserting “other than—

22 “(A) guaranteed”,

23 (B) by striking the semi-colon at the end
24 and inserting “, and”, and

1 (C) by adding at the end the following new
2 subparagraph:

3 “(B) any income treated as ordinary in-
4 come under section 710 of the Internal Revenue
5 Code of 1986 received by an individual who
6 provides investment management services (as
7 defined in section 710(d)(2) of such Code);”.

8 (5) The table of sections for part I of sub-
9 chapter K of chapter 1 is amended by adding at the
10 end the following new item:

“Sec. 710. Special rules for partners providing investment management services
to partnership.”.

11 (e) EFFECTIVE DATE.—

12 (1) IN GENERAL.—Except as otherwise pro-
13 vided in this subsection, the amendments made by
14 this section shall apply to taxable years ending after
15 November 1, 2007.

16 (2) PARTNERSHIP TAXABLE YEARS WHICH IN-
17 CLUDE EFFECTIVE DATE.—In applying section
18 710(a) of the Internal Revenue Code of 1986 (as
19 added by this section) in the case of any partnership
20 taxable year which includes November 1, 2007, the
21 amount of the net income referred to in such section
22 shall be treated as being the lesser of the net income
23 for the entire partnership taxable year or the net in-
24 come determined by only taking into account items

1 attributable to the portion of the partnership taxable
2 year which is after such date.

3 (3) DISPOSITIONS OF PARTNERSHIP INTER-
4 ESTS.—Section 710(b) of the Internal Revenue Code
5 of 1986 (as added by this section) shall apply to dis-
6 positions and distributions after November 1, 2007.

7 (4) OTHER INCOME AND GAIN IN CONNECTION
8 WITH INVESTMENT MANAGEMENT SERVICES.—Sec-
9 tion 710(d) of such Code (as added by this section)
10 shall take effect on November 1, 2007.

11 (5) PUBLICLY TRADED PARTNERSHIPS.—For
12 purposes of applying section 7704, the amendments
13 made by this section shall apply to taxable years be-
14 ginning after December 31, 2009.

15 **SEC. 612. INDEBTEDNESS INCURRED BY A PARTNERSHIP IN**
16 **ACQUIRING SECURITIES AND COMMODITIES**
17 **NOT TREATED AS ACQUISITION INDEBTED-**
18 **NESS FOR ORGANIZATIONS WHICH ARE**
19 **PARTNERS WITH LIMITED LIABILITY.**

20 (a) IN GENERAL.—Subsection (c) of section 514 (re-
21 lating to acquisition indebtedness) is amended by adding
22 at the end the following new paragraph:

23 “(10) SECURITIES AND COMMODITIES AC-
24 QUIRED BY PARTNERSHIPS IN WHICH AN ORGANIZA-
25 TION IS A PARTNER WITH LIMITED LIABILITY.—

1 “(A) IN GENERAL.—In the case of any or-
2 ganization which is a partner with limited liabil-
3 ity in a partnership, the term ‘acquisition in-
4 debtedness’ does not, for purposes of this sec-
5 tion, include indebtedness incurred or continued
6 by such partnership in purchasing or carrying
7 any qualified security or commodity.

8 “(B) QUALIFIED SECURITY OR COM-
9 MODITY.—For purposes of this paragraph, the
10 term ‘qualified security or commodity’ means
11 any security (as defined in section 475(e)(2)
12 without regard to the last sentence thereof),
13 any commodity (as defined in section
14 475(e)(2)), or any option or derivative contract
15 with respect to such a security or commodity.

16 “(C) APPLICATION TO TIERED PARTNER-
17 SHIPS AND OTHER PASS-THRU ENTITIES.—
18 Rules similar to the rules of subparagraph (A)
19 shall apply in the case of tiered partnerships
20 and other pass-thru entities.

21 “(D) REGULATIONS.—The Secretary may
22 prescribe such regulations as may be necessary
23 or appropriate to carry out the purposes of this
24 paragraph, including regulations to prevent the
25 abuse of this paragraph.”.

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

4 **SEC. 613. APPLICATION TO PARTNERSHIP INTERESTS AND**
5 **TAX SHARING AGREEMENTS OF RULE TREAT-**
6 **ING CERTAIN GAIN ON SALES BETWEEN RE-**
7 **LATED PERSONS AS ORDINARY INCOME.**

8 (a) PARTNERSHIP INTERESTS.—Subsection (a) of
9 section 1239 is amended to read as follows:

10 “(a) TREATMENT OF GAIN AS ORDINARY INCOME.—
11 In the case of a sale or exchange of property, directly or
12 indirectly, between related persons, any gain recognized to
13 the transferor shall be treated as ordinary income if—

14 “(1) such property is, in the hands of the trans-
15 feree, of a character which is subject to the allow-
16 ance for depreciation provided in section 167, or

17 “(2) such property is an interest in a partner-
18 ship, but only to the extent of gain attributable to
19 unrealized appreciation in property which is of a
20 character subject to the allowance for depreciation
21 provided in section 167.”.

22 (b) TAX SHARING AGREEMENTS.—Section 1239 (re-
23 lating to gain from sale of depreciable property between
24 certain related taxpayers) is amended by adding at the
25 end the following new subsection:

1 “(f) APPLICATION TO TAX SHARING AGREE-
2 MENTS.—

3 “(1) IN GENERAL.—If there is a tax sharing
4 agreement with respect to any sale or exchange, the
5 transferee and the transferor shall be treated as re-
6 lated persons for purposes of this section.

7 “(2) TAX SHARING AGREEMENT.—For purposes
8 of this subsection, the term ‘tax sharing agreement’
9 means any agreement which provides for the pay-
10 ment to the transferor of any amount which is deter-
11 mined by reference to any portion of the tax benefit
12 realized by the transferee with respect to the depre-
13 ciation (or amortization) of the property trans-
14 ferred.”.

15 (c) EFFECTIVE DATE.—

16 (1) IN GENERAL.—Except as provided in para-
17 graph (2), the amendments made by this section
18 shall apply to sales and exchanges after the date of
19 the enactment of this Act.

20 (2) EXCEPTION FOR BINDING CONTRACTS.—
21 The amendment made by subsection (b) shall not
22 apply to any sale or exchange pursuant to a written
23 binding contract which includes a tax sharing agree-
24 ment and which is in effect on November 1, 2007,
25 and not modified thereafter in any material respect.

1 **Subtitle C—Other Provisions**

2 **SEC. 621. DELAY IN APPLICATION OF WORLDWIDE ALLOCA-**
3 **TION OF INTEREST.**

4 (a) IN GENERAL.—Paragraphs (5)(D) and (6) of sec-
5 tion 864(f) are each amended by striking “December 31,
6 2008” and inserting “December 31, 2017”.

7 (b) EFFECTIVE DATE.—The amendments made by
8 this section shall apply to taxable years beginning after
9 December 31, 2008.

10 **SEC. 622. BROKER REPORTING OF CUSTOMER’S BASIS IN**
11 **SECURITIES TRANSACTIONS.**

12 (a) IN GENERAL.—

13 (1) BROKER REPORTING FOR SECURITIES
14 TRANSACTIONS.—Section 6045 (relating to returns
15 of brokers) is amended by adding at the end the fol-
16 lowing new subsection:

17 “(g) ADDITIONAL INFORMATION REQUIRED IN THE
18 CASE OF SECURITIES TRANSACTIONS.—

19 “(1) IN GENERAL.—If a broker is otherwise re-
20 quired to make a return under subsection (a) with
21 respect to the gross proceeds of the sale of a covered
22 security, the broker shall include in such return the
23 information described in paragraph (2).

24 “(2) ADDITIONAL INFORMATION REQUIRED.—

1 “(A) IN GENERAL.—The information re-
2 quired under paragraph (1) to be shown on a
3 return with respect to a covered security of a
4 customer shall include the customer’s adjusted
5 basis in such security and whether any gain or
6 loss with respect to such security is long-term
7 or short-term (within the meaning of section
8 1222).

9 “(B) DETERMINATION OF ADJUSTED
10 BASIS.—For purposes of subparagraph (A)—

11 “(i) IN GENERAL.—The customer’s
12 adjusted basis shall be determined—

13 “(I) in the case of any stock
14 (other than any stock in an open-end
15 fund), in accordance with the first-in
16 first-out method unless the customer
17 notifies the broker by means of mak-
18 ing an adequate identification of the
19 stock sold or transferred,

20 “(II) in the case of any stock in
21 an open-end fund acquired before
22 January 1, 2011, in accordance with
23 any acceptable method under section
24 1012 with respect to the account in
25 which such interest is held,

1 “(III) in the case of any stock in
2 an open-end fund acquired after De-
3 cember 31, 2010, in accordance with
4 the broker’s default method unless the
5 customer notifies the broker that he
6 elects another acceptable method
7 under section 1012 with respect to the
8 account in which such interest is held,
9 and

10 “(IV) in any other case, under
11 the method for making such deter-
12 mination under section 1012.

13 “(ii) EXCEPTION FOR WASH SALES.—
14 Except as otherwise provided by the Sec-
15 retary, the customer’s adjusted basis shall
16 be determined without regard to section
17 1091 (relating to loss from wash sales of
18 stock or securities) unless the transactions
19 occur in the same account with respect to
20 identical securities.

21 “(3) COVERED SECURITY.—For purposes of
22 this subsection—

23 “(A) IN GENERAL.—The term ‘covered se-
24 curity’ means any specified security acquired on
25 or after the applicable date if such security—

1 “(i) was acquired through a trans-
2 action in the account in which such secu-
3 rity is held, or

4 “(ii) was transferred to such account
5 from an account in which such security
6 was a covered security, but only if the
7 broker received a statement under section
8 6045A with respect to the transfer.

9 “(B) SPECIFIED SECURITY.—The term
10 ‘specified security’ means—

11 “(i) any share of stock in a corpora-
12 tion,

13 “(ii) any note, bond, debenture, or
14 other evidence of indebtedness,

15 “(iii) any commodity, or contract or
16 derivative with respect to such commodity,
17 if the Secretary determines that adjusted
18 basis reporting is appropriate for purposes
19 of this subsection, and

20 “(iv) any other financial instrument
21 with respect to which the Secretary deter-
22 mines that adjusted basis reporting is ap-
23 propriate for purposes of this subsection.

24 “(C) APPLICABLE DATE.—The term ‘appli-
25 cable date’ means—

1 “(i) January 1, 2009, in the case of
2 any specified security which is stock in a
3 corporation, and

4 “(ii) January 1, 2011, or such later
5 date determined by the Secretary in the
6 case of any other specified security.

7 “(4) OPEN-END FUND.—For purposes of this
8 subsection, the term ‘open-end fund’ means a regu-
9 lated investment company (as defined in section
10 851) which is offering for sale or has outstanding
11 any redeemable security of which it is the issuer and
12 the shares of which are not traded on an established
13 securities exchange.”.

14 (2) BROKER INFORMATION REQUIRED WITH RE-
15 SPECT TO OPTIONS.—Section 6045, as amended by
16 subsection (a), is amended by adding at the end the
17 following new subsection:

18 “(h) APPLICATION TO OPTIONS ON COVERED SECURITIES.—
19 RITIES.—

20 “(1) EXERCISE OF OPTION.—For purposes of
21 this section, in the case of any exercise of an option
22 on a covered security where the taxpayer is the
23 grantor of the option and the option was acquired in
24 the same account as the covered security, the
25 amount received for the grant of an option on a cov-

1 ered security shall be treated as an adjustment to
2 gross proceeds or as an adjustment to basis, as the
3 case may be. A similar rule shall apply in the case
4 of the exercise of an option where the taxpayer is
5 not the grantor of the option.

6 “(2) LAPSE OR CLOSING TRANSACTION.—For
7 purposes of this section, in the case of the lapse (or
8 closing transaction (as defined in section
9 1234(b)(2)(A))) of an option on a covered security
10 where the taxpayer is the grantor of the option, this
11 section shall apply as if the premium received for
12 such option were gross proceeds received on the date
13 of the lapse or closing transaction, and the cost (if
14 any) of the closing transaction shall be taken into
15 account as adjusted basis. A similar rule shall apply
16 in the case of a lapse or closing transaction where
17 the taxpayer is not the grantor of the option.

18 “(3) PROSPECTIVE APPLICATION.—Paragraphs
19 (1) and (2) shall not apply to any option which is
20 granted or acquired before January 1, 2011.

21 “(4) COVERED SECURITY.—For purposes of
22 this subsection, the term ‘covered security’ shall
23 have the meaning given such term in subsection
24 (g)(3).”.

1 (3) EXTENSION OF PERIOD FOR STATEMENTS
2 SENT TO CUSTOMERS.—

3 (A) IN GENERAL.—Subsection (b) of sec-
4 tion 6045 is amended by striking “January 31”
5 and inserting “February 15”.

6 (B) STATEMENTS RELATED TO SUB-
7 STITUTE PAYMENTS.—Subsection (d) of section
8 6045 is amended—

9 (i) by striking “at such time and”,
10 and

11 (ii) by inserting after “other item.”
12 the following new sentence: “The written
13 statement required under the preceding
14 sentence shall be furnished on or before
15 February 15 of the year following the cal-
16 endar year during which such payment was
17 made.”.

18 (C) OTHER STATEMENTS.—Subsection (b)
19 of section 6045 is amended by adding at the
20 end the following: “In the case of a consolidated
21 reporting statement (as defined in regulations)
22 with respect to any account which includes the
23 statement required by this subsection, any
24 statement which would otherwise be required to
25 be furnished on or before January 31 under

1 section 6042(c), 6049(c)(2)(A), or 6050N(b)
2 with respect to any item in such account shall
3 instead be required to be furnished on or before
4 February 15 if furnished as part of such con-
5 solidated reporting statement.”.

6 (b) DETERMINATION OF BASIS OF CERTAIN SECURI-
7 TIES ON ACCOUNT BY ACCOUNT METHOD.—Section 1012
8 (relating to basis of property—cost) is amended—

9 (1) by striking “The basis of property” and in-
10 sserting the following:

11 “(a) IN GENERAL.—The basis of property”,

12 (2) by striking “The cost of real property” and
13 inserting the following:

14 “(b) SPECIAL RULE FOR APPORTIONED REAL ES-
15 TATE TAXES.—The cost of real property”, and

16 (3) by adding at the end the following new sub-
17 section:

18 “(c) DETERMINATIONS BY ACCOUNT.—

19 “(1) IN GENERAL.—In the case of the sale, ex-
20 change, or other disposition of a specified security
21 on or after the applicable date, the conventions pre-
22 scribed by regulations under this section shall be ap-
23 plied on an account by account basis.

24 “(2) APPLICATION TO OPEN-END FUNDS.—

1 “(A) IN GENERAL.—Except as provided in
2 subparagraph (B), any stock in an open-end
3 fund acquired before January 1, 2009, shall be
4 treated as a separate account from any such
5 stock acquired on or after such date.

6 “(B) ELECTION BY OPEN-END FUND FOR
7 TREATMENT AS SINGLE ACCOUNT.—If an open-
8 end fund elects (at such time and in such form
9 and manner as the Secretary may prescribe) to
10 have this subparagraph apply with respect to
11 one or more of its stockholders—

12 “(i) subparagraph (A) shall not apply
13 with respect to any stock in such fund held
14 by such stockholders, and

15 “(ii) all stock in such fund which is
16 held by such stockholders shall be treated
17 as covered securities described in section
18 6045(g)(3) without regard to the date of
19 the acquisition of such stock.

20 “(3) DEFINITIONS.—For purposes of this sec-
21 tion, the terms ‘specified security’, ‘applicable date’,
22 and ‘open-end fund’ shall have the meaning given
23 such terms in section 6045(g).”.

24 (c) INFORMATION BY TRANSFERORS TO AID BRO-
25 KERS.—

1 (1) IN GENERAL.—Subpart B of part III of
2 subchapter A of chapter 61 is amended by inserting
3 after section 6045 the following new section:

4 **“SEC. 6045A. INFORMATION REQUIRED IN CONNECTION**
5 **WITH TRANSFERS OF COVERED SECURITIES**
6 **TO BROKERS.**

7 “(a) FURNISHING OF INFORMATION.—Every applica-
8 ble person which transfers to a broker (as defined in sec-
9 tion 6045(c)(1)) a security which is a covered security (as
10 defined in section 6045(g)(3)) in the hands of such appli-
11 cable person shall furnish to such broker a written state-
12 ment in such manner and setting forth such information
13 as the Secretary may by regulations prescribe for purposes
14 of enabling such broker to meet the requirements of sec-
15 tion 6045(g).

16 “(b) APPLICABLE PERSON.—For purposes of sub-
17 section (a), the term ‘applicable person’ means—

18 “(1) any broker (as defined in section
19 6045(c)(1)), and

20 “(2) any other person as provided by the Sec-
21 retary in regulations.

22 “(c) TIME FOR FURNISHING STATEMENT.—Any
23 statement required by subsection (a) shall be furnished
24 not later than the earlier of—

1 **“SEC. 6045B. RETURNS RELATING TO ACTIONS AFFECTING**
2 **BASIS OF SPECIFIED SECURITIES.**

3 “(a) IN GENERAL.—According to the forms or regu-
4 lations prescribed by the Secretary, any issuer of a speci-
5 fied security shall make a return setting forth—

6 “(1) a description of any organizational action
7 which affects the basis of such specified security of
8 such issuer,

9 “(2) the quantitative effect on the basis of such
10 specified security resulting from such action, and

11 “(3) such other information as the Secretary
12 may prescribe.

13 “(b) TIME FOR FILING RETURN.—Any return re-
14 quired by subsection (a) shall be filed not later than the
15 earlier of—

16 “(1) 45 days after the date of the action de-
17 scribed in subsection (a), or

18 “(2) January 31 of the year following the cal-
19 endar year during which such action occurred.

20 “(c) STATEMENTS TO BE FURNISHED TO HOLDERS
21 OF SPECIFIED SECURITIES OR THEIR NOMINEES.—Ac-
22 cording to the forms or regulations prescribed by the Sec-
23 retary, every person required to make a return under sub-
24 section (a) with respect to a specified security shall furnish
25 to the nominee with respect to the specified security (or

1 certificate holder if there is no nominee) a written state-
2 ment showing—

3 “(1) the name, address, and phone number of
4 the information contact of the person required to
5 make such return,

6 “(2) the information required to be shown on
7 such return with respect to such security, and

8 “(3) such other information as the Secretary
9 may prescribe.

10 The written statement required under the preceding sen-
11 tence shall be furnished to the holder on or before January
12 31 of the year following the calendar year during which
13 the action described in subsection (a) occurred.

14 “(d) SPECIFIED SECURITY.—For purposes of this
15 section, the term ‘specified security’ has the meaning given
16 such term by section 6045(g)(3)(B). No return shall be
17 required under this section with respect to actions de-
18 scribed in subsection (a) with respect to a specified secu-
19 rity which occur before the applicable date (as defined in
20 section 6045(g)(3)(C) with respect to such security.

21 “(e) PUBLIC REPORTING IN LIEU OF RETURN.—The
22 Secretary may waive the requirements under subsections
23 (a) and (c) with respect to a specified security, if the per-
24 son required to make the return under subsection (a)
25 makes publicly available, in such form and manner as the

1 Secretary determines necessary to carry out the purposes
2 of this section—

3 “(1) the name, address, phone number, and
4 email address of the information contact of such
5 person, and

6 “(2) the information described in paragraphs
7 (1), (2), and (3) of subsection (a).”.

8 (2) ASSESSABLE PENALTIES.—

9 (A) Subparagraph (B) of section
10 6724(d)(1) of such Code (defining information
11 return) is amended by redesignating clauses (iv)
12 through (xix) as clauses (v) through (xx), re-
13 spectively, and by inserting after clause (iii) the
14 following new clause:

15 “(iv) section 6045B(a) (relating to re-
16 turns relating to actions affecting basis of
17 specified securities),”.

18 (B) Paragraph (2) of section 6724(d) of
19 such Code (defining payee statement), as
20 amended by subsection (c)(2), is amended by
21 redesignating subparagraphs (J) through (DD)
22 as subparagraphs (K) through (EE), respec-
23 tively, and by inserting after subparagraph (I)
24 the following new subparagraph:

1 “(J) subsections (c) and (e) of section
2 6045B (relating to returns relating to actions
3 affecting basis of specified securities).”.

4 (3) CLERICAL AMENDMENT.—The table of sec-
5 tions for subpart B of part III of subchapter A of
6 chapter 61 of such Code, as amended by subsection
7 (b)(3), is amended by inserting after the item relat-
8 ing to section 6045A the following new item:

 “Sec. 6045B. Returns relating to actions affecting basis of specified securi-
 ties.”.

9 (e) EFFECTIVE DATE.—The amendments made by
10 this section shall take effect on January 1, 2009.

11 **SEC. 623. MODIFICATION OF PENALTY FOR FAILURE TO**
12 **FILE PARTNERSHIP RETURNS.**

13 Section 6698 is amended by adding at the end the
14 following new subsection:

15 “(e) MODIFICATIONS.—In the case of any return re-
16 quired to be filed after the date of the enactment of this
17 subsection—

18 “(1) the dollar amount in effect under sub-
19 section (b)(1) shall be increased by \$25, and

20 “(2) the limitation on the number of months
21 taken into account under subsection (a) shall not be
22 less than 12 months.”.

1 **SEC. 624. PENALTY FOR FAILURE TO FILE S CORPORATION**
2 **RETURNS.**

3 (a) IN GENERAL.—Part I of subchapter B of chapter
4 68 (relating to assessable penalties) is amended by adding
5 at the end the following new section:

6 **“SEC. 6699A. FAILURE TO FILE S CORPORATION RETURN.**

7 “(a) GENERAL RULE.—In addition to the penalty im-
8 posed by section 7203 (relating to willful failure to file
9 return, supply information, or pay tax), if any S corpora-
10 tion required to file a return under section 6037 for any
11 taxable year—

12 “(1) fails to file such return at the time pre-
13 scribed therefor (determined with regard to any ex-
14 tension of time for filing), or

15 “(2) files a return which fails to show the infor-
16 mation required under section 6037,

17 such S corporation shall be liable for a penalty determined
18 under subsection (b) for each month (or fraction thereof)
19 during which such failure continues (but not to exceed 12
20 months), unless it is shown that such failure is due to rea-
21 sonable cause.

22 “(b) AMOUNT PER MONTH.—For purposes of sub-
23 section (a), the amount determined under this subsection
24 for any month is the product of—

25 “(1) \$25, multiplied by

Calendar No. 487

110TH CONGRESS
1ST Session

H. R. 3996

AN ACT

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

NOVEMBER 14, 2007

Read the second time and placed on the calendar