

# Union Calendar No. 271

110TH CONGRESS  
1ST SESSION

# H. R. 3996

[Report No. 110-431]

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

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## IN THE HOUSE OF REPRESENTATIVES

OCTOBER 30, 2007

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

NOVEMBER 6, 2007

Reported with an amendment, committed to the Committee of the Whole House on the State of the Union, and ordered to be printed

[Strike out all after the enacting clause and insert the part printed in italic]

[For text of introduced bill, see copy of bill as introduced on October 30, 2007]

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## A BILL

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

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

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

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

1       (b) *REFERENCE.*—*Except as otherwise expressly pro-*  
 2 *vided, whenever in this Act an amendment or repeal is ex-*  
 3 *pressed in terms of an amendment to, or repeal of, a section*  
 4 *or other provision, the reference shall be considered to be*  
 5 *made to a section or other provision of the Internal Revenue*  
 6 *Code of 1986.*

7       (c) *TABLE OF CONTENTS.*—*The table of contents for*  
 8 *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 nonitemizers.*

#### *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) (re-  
 6 *lating to special rule for taxable years 2000 through 2006*)  
 7 *is amended—*

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

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

1           (b) *EFFECTIVE DATE.*—*The amendments made by this*  
2 *section shall apply to taxable years beginning after Decem-*  
3 *ber 31, 2006.*

4 **SEC. 102. EXTENSION OF INCREASED ALTERNATIVE MIN-**  
5 **IMUM TAX EXEMPTION AMOUNT.**

6           (a) *IN GENERAL.*—*Paragraph (1) of section 55(d) (re-*  
7 *lating to exemption amount) is amended—*

8                   (1) *by striking “(\$62,550 in the case of taxable*  
9 *years beginning in 2006)” in subparagraph (A) and*  
10 *inserting “(\$66,250 in the case of taxable years begin-*  
11 *ning in 2007)”*, and

12                   (2) *by striking “(\$42,500 in the case of taxable*  
13 *years beginning in 2006)” in subparagraph (B) and*  
14 *inserting “(\$44,350 in the case of taxable years begin-*  
15 *ning in 2007)”*.

16           (b) *EFFECTIVE DATE.*—*The amendments made by this*  
17 *section shall apply to taxable years beginning after Decem-*  
18 *ber 31, 2006.*

19 **SEC. 103. INCREASE OF AMT REFUNDABLE CREDIT AMOUNT**  
20 **FOR INDIVIDUALS WITH LONG-TERM UNUSED**  
21 **CREDITS FOR PRIOR YEAR MINIMUM TAX LI-**  
22 **ABILITY, ETC.**

23           (a) *IN GENERAL.*—*Paragraph (2) of section 53(e) of*  
24 *the Internal Revenue Code of 1986 is amended to read as*  
25 *follows:*

1           “(2) *AMT REFUNDABLE CREDIT AMOUNT.*—For  
2           purposes of paragraph (1), the term ‘AMT refundable  
3           credit amount’ means, with respect to any taxable  
4           year, the amount (not in excess of the long-term un-  
5           used minimum tax credit for such taxable year) equal  
6           to the greater of—

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

9                     “(B) the amount (if any) of the AMT re-  
10                    fundable credit amount determined under this  
11                    paragraph for the taxpayer’s preceding taxable  
12                    year.”.

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

18                   “(f) *TREATMENT OF CERTAIN UNDERPAYMENTS, IN-*  
19 *TEREST, AND PENALTIES ATTRIBUTABLE TO THE TREAT-*  
20 *MENT OF INCENTIVE STOCK OPTIONS.*—

21                   “(1) *ABATEMENT.*—Any underpayment of tax  
22                   outstanding on the date of the enactment of this sub-  
23                   section which is attributable to the application of sec-  
24                   tion 56(b)(3) for any taxable year ending before Jan-  
25                   uary 1, 2007 (and any interest or penalty with re-

1        *spect to such underpayment which is outstanding on*  
2        *such date of enactment), is hereby abated. No credit*  
3        *shall be allowed under this section with respect to any*  
4        *amount abated under this paragraph.*

5            *“(2) INCREASE IN CREDIT FOR CERTAIN INTER-*  
6        *EST AND PENALTIES ALREADY PAID.—Any interest or*  
7        *penalty paid before the date of the enactment of this*  
8        *subsection which would (but for such payment) have*  
9        *been abated under paragraph (1) shall be treated for*  
10       *purposes of this section as an amount of adjusted net*  
11       *minimum tax imposed for the taxable year of the un-*  
12       *derpayment to which such interest or penalty re-*  
13       *lates.”.*

14       *(c) EFFECTIVE DATE.—*

15            *(1) IN GENERAL.—Except as provided in para-*  
16        *graph (2), the amendment made by this section shall*  
17        *apply to taxable years beginning after December 31,*  
18        *2006.*

19            *(2) ABATEMENT.—Section 53(f)(1) of the Inter-*  
20        *nal Revenue Code of 1986, as added by subsection (b),*  
21        *shall take effect on the date of the enactment of this*  
22        *Act.*

1                   **TITLE II—ADDITIONAL**  
2                   **INDIVIDUAL TAX RELIEF**

3   **SEC. 201. REFUNDABLE CHILD CREDIT.**

4           (a) *MODIFICATION OF THRESHOLD AMOUNT.*—Clause  
5   (i) of section 24(d)(1)(B) is amended by inserting “(\$8,500  
6   in the case of taxable years beginning in 2008)” after  
7   “\$10,000”.

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

11   **SEC. 202. ADDITIONAL STANDARD DEDUCTION FOR REAL**  
12                   **PROPERTY TAXES FOR NONITEMIZERS.**

13           (a) *IN GENERAL.*—Section 63(c)(1) (defining standard  
14   deduction) is amended by striking “and” at the end of sub-  
15   paragraph (A), by striking the period at the end of subpara-  
16   graph (B) and inserting “, and”, and by adding at the end  
17   the following new subparagraph:

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

20           (b) *DEFINITION.*—Section 63(c) is amended by adding  
21   at the end the following new paragraph:

22                   “(8) *REAL PROPERTY TAX DEDUCTION.*—For  
23                   purposes of paragraph (1), the real property tax de-  
24                   duction is so much of the amount of State and local  
25                   real property taxes (within the meaning of section



1       164) paid or accrued by the taxpayer during the tax-  
2       able year which do not exceed \$350 (\$700 in the case  
3       of a joint return).”.

4       (c) *EFFECTIVE DATE.*—The amendments made by this  
5       section shall apply to taxable years beginning after Decem-  
6       ber 31, 2007.

7                               **TITLE III—ONE-YEAR**  
8                               **EXTENDERS**

9                   **Subtitle A—Extenders Primarily**  
10                   **Affecting Individuals**

11 **SEC. 301. DEDUCTION FOR STATE AND LOCAL SALES TAXES.**

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

15       (b) *EFFECTIVE DATE.*—The amendment made by this  
16       section shall apply to taxable years beginning after Decem-  
17       ber 31, 2007.

18 **SEC. 302. DEDUCTION OF QUALIFIED TUITION AND RE-**

19                               **LATED EXPENSES.**

20       (a) *IN GENERAL.*—Subsection (e) of section 222 (relat-  
21       ing to termination) is amended by striking “December 31,  
22       2007” and inserting “December 31, 2008”.

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

1 **SEC. 303. TREATMENT OF CERTAIN DIVIDENDS OF REGU-**  
2 **LATED INVESTMENT COMPANIES.**

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

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

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

15 **SEC. 304. PARITY IN THE APPLICATION OF CERTAIN LIMITS**  
16 **TO MENTAL HEALTH BENEFITS.**

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

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

23 **SEC. 305. QUALIFIED CONSERVATION CONTRIBUTIONS.**

24 (a) *IN GENERAL.*—Clause (vi) of section 170(b)(1)(E)  
25 (relating to termination) is amended by striking “December  
26 31, 2007” and inserting “December 31, 2008”.

1       (b) *EFFECTIVE DATE.*—*The amendment made by this*  
2 *section shall apply to contributions made in taxable years*  
3 *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, 2008”.*

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

13 **SEC. 307. DEDUCTION FOR CERTAIN EXPENSES OF ELEMEN-**  
14 **TARY AND SECONDARY SCHOOL TEACHERS.**

15       (a) *IN GENERAL.*—*Subparagraph (D) of section*  
16 *62(a)(2) (relating to certain expenses of elementary and sec-*  
17 *ondary school teachers) is amended by striking “or 2007”*  
18 *and inserting “2007, or 2008”.*

19       (b) *EFFECTIVE DATE.*—*The amendment made by sub-*  
20 *section (a) shall apply to taxable years beginning after De-*  
21 *cember 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 this  
9 section shall apply to taxable years ending after December  
10 31, 2007.

11 **SEC. 309. MODIFICATION OF MORTGAGE REVENUE BONDS**  
12 **FOR VETERANS.**

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

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

21 **SEC. 310. DISTRIBUTIONS FROM RETIREMENT PLANS TO IN-**  
22 **DIVIDUALS CALLED TO ACTIVE DUTY.**

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

1       (b) *EFFECTIVE DATE.*—*The amendment made by this*  
2 *section shall apply to individuals ordered or called to active*  
3 *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 “Decem-*  
8 *ber 31, 2007” and inserting “December 31, 2008”.*

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

12 **SEC. 312. QUALIFIED INVESTMENT ENTITIES.**

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

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

18 **SEC. 313. STATE LEGISLATORS’ TRAVEL EXPENSES AWAY**  
19 **FROM HOME.**

20       (a) *IN GENERAL.*—*Paragraph (2) of section 162(h)*  
21 *(relating to legislative days) is amended by adding at the*  
22 *end the following flush sentence: “In the case of taxable*  
23 *years beginning in 2008, a legislature shall be treated for*  
24 *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 sub-*  
4 *section (a) shall apply to taxable years beginning after De-*  
5 *cember 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, 2008”.*

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

16 (c) *EFFECTIVE DATE.*—*The amendments made by this*  
17 *section shall apply to amounts paid or incurred after De-*  
18 *cember 31, 2007.*

19 ***SEC. 322. INDIAN EMPLOYMENT CREDIT.***

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

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

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

2 *Subparagraph (D) of section 45D(f)(1) (relating to na-*  
3 *tional limitation on amount of investments designated) is*  
4 *amended by striking “and 2008” and inserting “2008, and*  
5 *2009”.*

6 **SEC. 324. RAILROAD TRACK MAINTENANCE.**

7 *(a) IN GENERAL.—Subsection (f) of section 45G (relat-*  
8 *ing to application of section) is amended by striking “Jan-*  
9 *uary 1, 2008” and inserting “January 1, 2009”.*

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

13 **SEC. 325. FIFTEEN-YEAR STRAIGHT-LINE COST RECOVERY**  
14 **FOR QUALIFIED LEASEHOLD IMPROVEMENTS**  
15 **AND QUALIFIED RESTAURANT PROPERTY.**

16 *(a) IN GENERAL.—Clauses (iv) and (v) of section*  
17 *168(e)(3)(E) (relating to 15-year property) are each*  
18 *amended by striking “January 1, 2008” and inserting*  
19 *“January 1, 2009”.*

20 *(b) EFFECTIVE DATE.—The amendments made by this*  
21 *section shall apply to property placed in service after De-*  
22 *cember 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 striking  
5 “December 31, 2007” and inserting “December 31, 2008”.

6 (b) *EFFECTIVE DATE.*—The amendment made by this  
7 section shall apply to property placed in service after De-  
8 cember 31, 2007.

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

11 (a) *IN GENERAL.*—Paragraph (8) of section 168(j) (re-  
12 lating to termination) is amended by striking “December  
13 31, 2007” and inserting “December 31, 2008”.

14 (b) *EFFECTIVE DATE.*—The amendment made by this  
15 section shall apply to property placed in service after De-  
16 cember 31, 2007.

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

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

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



1 **SEC. 329. DEDUCTION ALLOWABLE WITH RESPECT TO IN-**  
2 **COME ATTRIBUTABLE TO DOMESTIC PRODUC-**  
3 **TION 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 inserting  
9 “January 1, 2009”.

10 (b) *EFFECTIVE DATE.*—The amendments made by this  
11 section shall apply to taxable years beginning after Decem-  
12 ber 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 512(b)(13)(E)  
17 (relating to termination) is amended by striking “December  
18 31, 2007” and inserting “December 31, 2008”.

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

22 **SEC. 331. EXTENSION AND MODIFICATION OF CREDIT TO**  
23 **HOLDERS OF QUALIFIED ZONE ACADEMY**  
24 **BONDS.**

25 (a) *IN GENERAL.*—Subsection (e) of section 1397E (re-  
26 lating to limitation on amount of bonds designated) is

1 *amended by striking “1998, 1999, 2000, 2001, 2002, 2003,*  
 2 *2004, 2005, 2006, and 2007” and inserting “each of cal-*  
 3 *endar years 1998 through 2008”.*

4 *(b) MODIFICATION OF ARBITRAGE RULES.—*

5 *(1) IN GENERAL.—Subsection (g) of section*  
 6 *1397E (relating to special rules relating to arbitration)*  
 7 *is amended to read as follows:*

8 *“(g) SPECIAL RULES RELATING TO ARBITRAGE.—*

9 *“(1) IN GENERAL.—An issue shall be treated as*  
 10 *meeting the requirements of this subsection if the*  
 11 *issuer satisfies the requirements of section 148 with*  
 12 *respect to the proceeds of the issue.*

13 *“(2) SPECIAL RULE FOR INVESTMENTS DURING*  
 14 *EXPENDITURE PERIOD.—An issue shall not be treated*  
 15 *as failing to meet the requirements of paragraph (1)*  
 16 *by reason of any investment of available project pro-*  
 17 *ceeds during the 5-year period described in subsection*  
 18 *(f)(1)(A) (including any extension of such period*  
 19 *under subsection (f)(2)).*

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

24 *“(A) such fund is funded at a rate not more*  
 25 *rapid than equal annual installments,*

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

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

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

14           (3) *AVAILABLE PROJECT PROCEEDS DEFINED.*—  
15 Subsection (i) of section 1397E (relating to defini-  
16 tions) is amended by adding at the end the following  
17 new paragraph:

18           “(4) *AVAILABLE PROJECT PROCEEDS.*—The term  
19 ‘available project proceeds’ means—

20           “(A) the excess of—

21           “(i) the proceeds from the sale of an  
22 issue, over

23           “(ii) the issuance costs financed by the  
24 issue (to the extent that such costs do not  
25 exceed 2 percent of such proceeds), and

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

3           (c) *EFFECTIVE DATE.*—

4           (1) *EXTENSION.*—The amendment made by sub-  
5           section (a) shall apply to obligations issued after De-  
6           cember 31, 2007.

7           (2) *MODIFICATION OF ARBITRAGE RULES.*—The  
8           amendments made by subsection (b) shall apply to ob-  
9           ligations issued after the date of the enactment of this  
10          Act.

11 **SEC. 332. TAX INCENTIVES FOR INVESTMENT IN THE DIS-**  
12 **TRICT OF COLUMBIA.**

13          (a) *DESIGNATION OF ZONE.*—

14           (1) *IN GENERAL.*—Subsection (f) of section 1400  
15           is amended by striking “2007” both places it appears  
16           and inserting “2008”.

17           (2) *EFFECTIVE DATE.*—The amendments made  
18           by this subsection shall apply to periods beginning  
19           after December 31, 2007.

20          (b) *TAX-EXEMPT ECONOMIC DEVELOPMENT BONDS.*—

21           (1) *IN GENERAL.*—Subsection (b) of section  
22           1400A is amended by striking “2007” and inserting  
23           “2008”.

1           (2) *EFFECTIVE DATE.*—*The amendment made by*  
2 *this subsection shall apply to bonds issued after De-*  
3 *cember 31, 2007.*

4           (c) *ZERO PERCENT CAPITAL GAINS RATE.*—

5           (1) *IN GENERAL.*—*Subsection (b) of section*  
6 *1400B is amended by striking “2008” each place it*  
7 *appears and inserting “2009”.*

8           (2) *CONFORMING AMENDMENTS.*—

9           (A) *Section 1400B(e)(2) is amended—*

10                   (i) *by striking “2012” and inserting*  
11 *“2013”, and*

12                   (ii) *by striking “2012” in the heading*  
13 *thereof and inserting “2013”.*

14           (B) *Section 1400B(g)(2) is amended by*  
15 *striking “2012” and inserting “2013”.*

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

18           (3) *EFFECTIVE DATES.*—

19           (A) *EXTENSION.*—*The amendments made*  
20 *by paragraph (1) shall apply to acquisitions*  
21 *after December 31, 2007.*

22           (B) *CONFORMING AMENDMENTS.*—*The*  
23 *amendments made by paragraph (2) shall take*  
24 *effect on the date of the enactment of this Act.*

25           (d) *FIRST-TIME HOMEBUYER CREDIT.*—

1           (1) *IN GENERAL.*—Subsection (i) of section  
2           1400C is amended by striking “2008” and inserting  
3           “2009”.

4           (2) *EFFECTIVE DATE.*—The amendment made by  
5           this subsection shall apply to property purchased  
6           after December 31, 2007.

7   **SEC. 333. EXTENSION OF ECONOMIC DEVELOPMENT CRED-**  
8                                   **IT FOR AMERICAN SAMOA.**

9           (a) *IN GENERAL.*—Subsection (d) of section 119 of di-  
10          vision A of the Tax Relief and Health Care Act of 2006  
11          is amended—

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

14                  (2) by striking “January 1, 2008” and inserting  
15                  “January 1, 2009”.

16          (b) *EFFECTIVE DATE.*—The amendment made by this  
17          section shall apply to taxable years beginning after Decem-  
18          ber 31, 2007.

19   **SEC. 334. ENHANCED CHARITABLE DEDUCTION FOR CON-**  
20                                   **TRIBUTIONS OF FOOD INVENTORY.**

21          (a) *IN GENERAL.*—Clause (iv) of section 170(e)(3)(C)  
22          (relating to termination) is amended by striking “December  
23          31, 2007” and inserting “December 31, 2008”.

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

4 **SEC. 335. ENHANCED CHARITABLE DEDUCTION FOR CON-**  
5 **TRIBUTIONS OF BOOK INVENTORY TO PUBLIC**  
6 **SCHOOLS.**

7       (a) *IN GENERAL.*—*Clause (iv) of section 170(e)(3)(D)*  
8 *(relating to termination) is amended by striking “December*  
9 *31, 2007” and inserting “December 31, 2008”.*

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

13 **SEC. 336. ENHANCED DEDUCTION FOR QUALIFIED COM-**  
14 **PUTER CONTRIBUTIONS.**

15       (a) *IN GENERAL.*—*Subparagraph (G) of section*  
16 *170(e)(6) (relating to termination) is amended by striking*  
17 *“December 31, 2007” and inserting “December 31, 2008”.*

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

21 **SEC. 337. BASIS ADJUSTMENT TO STOCK OF S CORPORA-**  
22 **TIONS MAKING CHARITABLE CONTRIBUTIONS**  
23 **OF PROPERTY.**

24       (a) *IN GENERAL.*—*The last sentence of section*  
25 *1367(a)(2) (relating to decreases in basis) is amended by*

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

3       **(b) TECHNICAL AMENDMENT RELATED TO SECTION**  
4 *1203 OF THE PENSION PROTECTION ACT OF 2006.—Sub-*  
5 *section (d) of section 1366 is amended by adding at the*  
6 *end the following new paragraph:*

7               **“(4) APPLICATION OF LIMITATION ON CHARIT-**  
8 *TABLE CONTRIBUTIONS.—In the case of any chari-*  
9 *table contribution of property to which the second*  
10 *sentence of section 1367(a)(2) applies, paragraph (1)*  
11 *shall not apply to the extent of the excess (if any)*  
12 *of—*

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

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

17       **(c) EFFECTIVE DATE.—**

18               **(1) IN GENERAL.—Except as provided in para-**  
19 *graph (2), the amendments made by this section shall*  
20 *apply to contributions made in taxable years begin-*  
21 *ning after December 31, 2007.*

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



1 **SEC. 338. EXTENSION OF WORK OPPORTUNITY TAX CREDIT**  
2 **FOR HURRICANE KATRINA EMPLOYEES.**

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

6 (b) *EFFECTIVE DATE.*—The amendment made by sub-  
7 section (a) shall apply to individuals hired after August  
8 27, 2007.

9 **Subtitle C—Other Extenders**

10 **SEC. 341. DISCLOSURE FOR COMBINED EMPLOYMENT TAX**  
11 **REPORTING.**

12 (a) *IN GENERAL.*—Subparagraph (B) of section  
13 6103(d)(5) (relating to termination) is amended by striking  
14 “December 31, 2007” and inserting “December 31, 2008”.

15 (b) *EFFECTIVE DATE.*—The amendment made by this  
16 section shall apply to disclosures after December 31, 2007.

17 **SEC. 342. DISCLOSURE OF RETURN INFORMATION TO AP-**  
18 **PROPRIATE OFFICIALS OF TER-**  
19 **RORIST ACTIVITIES.**

20 (a) *IN GENERAL.*—Clause (iv) of section 6103(i)(3)(C)  
21 (relating to termination) is amended by striking “December  
22 31, 2007” and inserting “December 31, 2008”.

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

1 **SEC. 343. DISCLOSURE UPON REQUEST OF INFORMATION**  
2 **RELATING TO TERRORIST ACTIVITIES.**

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

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

8 **SEC. 344. DISCLOSURE OF RETURN INFORMATION TO**  
9 **CARRY OUT INCOME CONTINGENT REPAY-**  
10 **MENT OF STUDENT LOANS.**

11 (a) *IN GENERAL.*—Subparagraph (D) of section  
12 6103(l)(13) (relating to termination) is amended by strik-  
13 ing “December 31, 2007” and inserting “December 31,  
14 2008”.

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

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

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

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

1 **SEC. 346. INCREASE IN LIMIT ON COVER OVER OF RUM EX-**  
2 **CISE TAX TO PUERTO RICO AND THE VIRGIN**  
3 **ISLANDS.**

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

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

10 **SEC. 347. DISCLOSURE OF RETURN INFORMATION FOR CER-**  
11 **TAIN VETERANS PROGRAMS.**

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

15 (b) *EFFECTIVE DATE.*—The amendment made by sub-  
16 section (a) shall apply to requests made after September  
17 30, 2008.

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

20 **SEC. 401. DISCHARGES OF INDEBTEDNESS ON PRINCIPAL**  
21 **RESIDENCE EXCLUDED FROM GROSS IN-**  
22 **COME.**

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

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

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

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

8 “(h) SPECIAL RULES RELATING TO QUALIFIED PRIN-  
 9 CIPAL RESIDENCE INDEBTEDNESS.—

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

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

22 “(3) EXCEPTION FOR CERTAIN DISCHARGES NOT  
 23 RELATED TO TAXPAYER’S FINANCIAL CONDITION.—  
 24 Subsection (a)(1)(E) shall not apply to the discharge  
 25 of a loan if the discharge is on account of services

1 performed for the lender or any other factor not di-  
2 rectly related to a decline in the value of the residence  
3 or to the financial condition of the taxpayer.

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

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

15 (c) COORDINATION.—

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

19 (2) Paragraph (2) of section 108(a) is amended  
20 by adding at the end the following new subparagraph:

21 “(C) PRINCIPAL RESIDENCE EXCLUSION  
22 TAKES PRECEDENCE OVER INSOLVENCY EXCLU-  
23 SION UNLESS ELECTED OTHERWISE.—Paragraph  
24 (1)(B) shall not apply to a discharge to which  
25 paragraph (1)(E) applies unless the taxpayer

1           elects to apply paragraph (1)(B) in lieu of para-  
2           graph (1)(E).”.

3           (d) *EFFECTIVE DATE.*—The amendments made by this  
4 section shall apply to discharges of indebtedness on or after  
5 January 1, 2007.

6 **SEC. 402. LONG-TERM EXTENSION OF DEDUCTION FOR**  
7           **MORTGAGE INSURANCE PREMIUMS.**

8           (a) *IN GENERAL.*—Subparagraph (E) of section  
9 163(h)(3) (relating to mortgage insurance premiums treat-  
10 ed as interest) is amended by striking clauses (iii) and (iv)  
11 and inserting the following new clause:

12                           “(iii) *APPLICATION.*—Clause (i) shall  
13                           not apply with respect to any mortgage in-  
14                           surance contract issued before January 1,  
15                           2007, or after December 31, 2014.”.

16           (b) *EFFECTIVE DATE.*—The amendment made by sub-  
17 section (a) shall apply to contracts issued after December  
18 31, 2006.

19 **SEC. 403. ALTERNATIVE TESTS FOR QUALIFYING AS COOP-**  
20           **ERATIVE HOUSING CORPORATION.**

21           (a) *IN GENERAL.*—Subparagraph (D) of section  
22 216(b)(1) (defining cooperative housing corporation) is  
23 amended to read as follows:

24                           “(D) meeting 1 or more of the following re-  
25                           quirements for the taxable year in which the

1           *taxes and interest described in subsection (a) are*  
2           *paid or incurred:*

3                     “(i) 80 percent or more of the corpora-  
4                     tion’s gross income for such taxable year is  
5                     derived from tenant-stockholders.

6                     “(ii) At all times during such taxable  
7                     year, 80 percent or more of the total square  
8                     footage of the corporation’s property is used  
9                     or available for use by the tenant-stock-  
10                    holders for residential purposes or purposes  
11                    ancillary to such residential use.

12                    “(iii) 90 percent or more of the ex-  
13                    penditures of the corporation paid or in-  
14                    curred during such taxable year are paid or  
15                    incurred for the acquisition, construction,  
16                    management, maintenance, or care of the  
17                    corporation’s property for the benefit of the  
18                    tenant-stockholders.”.

19           (b) *EFFECTIVE DATE.*—*The amendment made by this*  
20           *section shall apply to taxable years ending after the date*  
21           *of the enactment of this Act.*

1 **SEC. 404. GAIN FROM SALE OF PRINCIPAL RESIDENCE AL-**  
2 **LOCATED TO NONQUALIFIED USE NOT EX-**  
3 **CLUDED FROM INCOME.**

4 (a) *IN GENERAL.*—Subsection (b) of section 121 (relat-  
5 ing to limitations) is amended by adding at the end the  
6 following new paragraph:

7 “(4) *EXCLUSION OF GAIN ALLOCATED TO NON-*  
8 *QUALIFIED USE.*—

9 “(A) *IN GENERAL.*—Subsection (a) shall not  
10 apply to so much of the gain from the sale or ex-  
11 change of property as is allocated to periods of  
12 nonqualified use.

13 “(B) *GAIN ALLOCATED TO PERIODS OF NON-*  
14 *QUALIFIED USE.*—For purposes of subparagraph  
15 (A), gain shall be allocated to periods of non-  
16 qualified use based on the ratio which—

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

20 “(ii) the period such property was  
21 owned by the taxpayer.

22 “(C) *PERIOD OF NONQUALIFIED USE.*—For  
23 purposes of this paragraph—

24 “(i) *IN GENERAL.*—The term ‘period of  
25 nonqualified use’ means any period (other  
26 than the portion of any period preceding



1           *January 1, 2008) during which the prop-*  
2           *erty is not used as the principal residence*  
3           *of the taxpayer or the taxpayer’s spouse or*  
4           *former spouse.*

5           “(ii) *EXCEPTIONS.—The term ‘period*  
6           *of nonqualified use’ does not include—*

7                   “(I) *any portion of the 5-year pe-*  
8                   *riod described in subsection (a) which*  
9                   *is after the last date that such property*  
10                   *is used as the principal residence of the*  
11                   *taxpayer or the taxpayer’s spouse,*

12                   “(II) *any period (not to exceed an*  
13                   *aggregate period of 10 years) during*  
14                   *which the taxpayer or the taxpayer’s*  
15                   *spouse is serving on qualified official*  
16                   *extended duty (as defined in subsection*  
17                   *(d)(9)(C)) described in clause (i), (ii),*  
18                   *or (iii) of subsection (d)(9)(A), and*

19                   “(III) *any other period of tem-*  
20                   *porary absence (not to exceed an aggre-*  
21                   *gate period of 2 years) due to change*  
22                   *of employment, health conditions, or*  
23                   *such other unforeseen circumstances as*  
24                   *may be specified by the Secretary.*

1                   “(D) *COORDINATION WITH RECOGNITION OF*  
2                   *GAIN ATTRIBUTABLE TO DEPRECIATION.—For*  
3                   *purposes of this paragraph—*

4                   “*(i) subparagraph (A) shall be applied*  
5                   *after the application of subsection (d)(6),*  
6                   *and*

7                   “*(ii) subparagraph (B) shall be ap-*  
8                   *plied without regard to any gain to which*  
9                   *subsection (d)(6) applies.”.*

10                  *(b) EFFECTIVE DATE.—The amendment made by this*  
11                  *section shall apply to sales and exchanges after December*  
12                  *31, 2007.*

13                                    **TITLE V—ADMINISTRATIVE**  
14                                    **PROVISIONS**

15                  **SEC. 501. REPEAL OF AUTHORITY TO ENTER INTO PRIVATE**  
16                                    **DEBT COLLECTION CONTRACTS.**

17                  *(a) IN GENERAL.—Subchapter A of chapter 64 is*  
18                  *amended by striking section 6306.*

19                  *(b) CONFORMING AMENDMENTS.—*

20                                  *(1) Subchapter B of chapter 76 is amended by*  
21                                  *striking section 7433A.*

22                                  *(2) Section 7811 is amended by striking sub-*  
23                                  *section (g).*

1           (3) *Section 1203 of the Internal Revenue Service*  
2 *Restructuring Act of 1998 is amended by striking*  
3 *subsection (e).*

4           (4) *The table of sections for subchapter A of*  
5 *chapter 64 is amended by striking the item relating*  
6 *to section 6306.*

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

10 *(c) EFFECTIVE DATE.—*

11           (1) *IN GENERAL.—Except as otherwise provided*  
12 *in this subsection, the amendments made by this sec-*  
13 *tion shall take effect on the date of the enactment of*  
14 *this Act.*

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

20           (3) *UNAUTHORIZED CONTRACTS AND EXTEN-*  
21 *SIONS TREATED AS VOID.—Any qualified tax collec-*  
22 *tion contract (as defined in section 6306 of the Inter-*  
23 *nal Revenue Code of 1986, as in effect before its re-*  
24 *peal) which is entered into on or after July 18, 2007,*  
25 *and any extension or renewal on or after such date*

1        *of any qualified tax collection contract (as so defined)*  
2        *shall be void.*

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

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

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

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

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

24            *(3) the application of such requirements to small*  
25        *expenditures for services and goods by governments.*

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

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

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

22 (a) *IN GENERAL.*—Subpart A of part II of subchapter  
23 N of chapter 1 is amended by inserting after section 877  
24 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 be-*  
6 *fore the expatriation date for its fair market value.*

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

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

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

18 *Proper adjustment shall be made in the amount of*  
19 *any gain or loss subsequently realized for gain or loss*  
20 *taken into account under the preceding sentence, de-*  
21 *termined without regard to paragraph (3).*

22               “(3) *EXCLUSION FOR CERTAIN GAIN.—*

23                       “(A) *IN GENERAL.—The amount which*  
24 *would (but for this paragraph) be includible in*  
25 *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 adjustment  
12 determined under section 1(f)(3) for  
13 the calendar year in which the taxable  
14 year begins, by substituting ‘calendar  
15 year 2007’ for ‘calendar year 1992’ in  
16 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 to  
20 the nearest multiple of \$1,000.

21 “(b) ELECTION TO DEFER TAX.—

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

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

7 “(2) *DETERMINATION OF TAX WITH RESPECT TO*  
8 *PROPERTY.—For purposes of paragraph (1), the addi-*  
9 *tional tax attributable to any property is an amount*  
10 *which bears the same ratio to the additional tax im-*  
11 *posed by this chapter for the taxable year solely by*  
12 *reason of subsection (a) as the gain taken into ac-*  
13 *count under subsection (a) with respect to such prop-*  
14 *erty bears to the total gain taken into account under*  
15 *subsection (a) with respect to all property to which*  
16 *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 return*  
20 *of tax imposed by this chapter for the taxable year*  
21 *which includes the date of death of the expatriate (or,*  
22 *if earlier, the time that the security provided with re-*  
23 *spect to the property fails to meet the requirements of*  
24 *paragraph (4), unless the taxpayer corrects such fail-*  
25 *ure within the time specified by the Secretary).*



1           “(4) *SECURITY.*—

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

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

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

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

19           “(5) *WAIVER OF CERTAIN RIGHTS.*—No election  
20           may be made under paragraph (1) unless the tax-  
21           payer makes an irrevocable waiver of any right under  
22           any treaty of the United States which would preclude  
23           assessment or collection of any tax imposed by reason  
24           of this section.

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

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

8           “(c) *EXCEPTION FOR CERTAIN PROPERTY.*—Sub-  
9           section (a) shall not apply to—

10           “(1) any deferred compensation item (as defined  
11           in subsection (d)(4)),

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

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

16           “(d) *TREATMENT OF DEFERRED COMPENSATION*  
17           *ITEMS.*—

18           “(1) *WITHHOLDING ON ELIGIBLE DEFERRED*  
19           *COMPENSATION ITEMS.*—

20           “(A) *IN GENERAL.*—In the case of any eligi-  
21           ble deferred compensation item, the payor shall  
22           deduct and withhold from any taxable payment  
23           to a covered expatriate with respect to such item  
24           a tax equal to 30 percent thereof.

1           “(B) *TAXABLE PAYMENT.*—For purposes of  
2           subparagraph (A), the term ‘taxable payment’  
3           means with respect to a covered expatriate any  
4           payment to the extent it would be includible in  
5           the gross income of the covered expatriate if such  
6           expatriate continued to be subject to tax as a cit-  
7           izen or resident of the United States. A deferred  
8           compensation item shall be taken into account as  
9           a payment under the preceding sentence when  
10          such item would be so includible.

11          “(2)   *OTHER DEFERRED COMPENSATION*  
12          *ITEMS.*—In the case of any deferred compensation  
13          item which is not an eligible deferred compensation  
14          item—

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

22               “(ii) with respect to any deferred compensa-  
23               tion item referred to in paragraph (4)(D), the  
24               rights of the covered expatriate to such item shall  
25               be treated as becoming transferable and not sub-

1           *ject to a substantial risk of forfeiture on the day*  
2           *before the expatriation date,*

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

5           *“(C) appropriate adjustments shall be made*  
6           *to subsequent distributions from the plan to re-*  
7           *flect such treatment.*

8           *“(3) ELIGIBLE DEFERRED COMPENSATION*  
9           *ITEMS.—For purposes of this subsection, the term ‘eli-*  
10           *gible deferred compensation item’ means any deferred*  
11           *compensation item with respect to which—*

12           *“(A) the payor of such item is—*

13           *“(i) a United States person, or*

14           *“(ii) a person who is not a United*  
15           *States person but who elects to be treated as*  
16           *a United States person for purposes of*  
17           *paragraph (1) and meets such requirements*  
18           *as the Secretary may provide to ensure that*  
19           *the payor will meet the requirements of*  
20           *paragraph (1), and*

21           *“(B) the covered expatriate—*

22           *“(i) notifies the payor of his status as*  
23           *a covered expatriate, and*

24           *“(ii) makes an irrevocable waiver of*  
25           *any right to claim any reduction under any*

1           *treaty with the United States in with-*  
2           *holding on such item.*

3           “(4) *DEFERRED COMPENSATION ITEM.*—*For pur-*  
4           *poses of this subsection, the term ‘deferred compensa-*  
5           *tion item’ means—*

6                   “(A) *any interest in a plan or arrangement*  
7                   *described in section 219(g)(5),*

8                   “(B) *any interest in a foreign pension plan*  
9                   *or similar retirement arrangement or program,*

10                   “(C) *any item of deferred compensation,*  
11                   *and*

12                   “(D) *any property, or right to property,*  
13                   *which the individual is entitled to receive in con-*  
14                   *nection with the performance of services to the*  
15                   *extent not previously taken into account under*  
16                   *section 83 or in accordance with section 83.*

17           “(5) *EXCEPTION.*—*Paragraphs (1) and (2) shall*  
18           *not apply to any deferred compensation item which*  
19           *is attributable to services performed outside the*  
20           *United States while the covered expatriate was not a*  
21           *citizen or resident of the United States.*

22           “(6) *SPECIAL RULES.*—

23                   “(A) *APPLICATION OF WITHHOLDING*  
24                   *RULES.*—*Rules similar to the rules of subchapter*

1           *B of chapter 3 shall apply for purposes of this*  
2           *subsection.*

3           “(B) *APPLICATION OF TAX.—Any item sub-*  
4           *ject to the withholding tax imposed under para-*  
5           *graph (1) shall be subject to tax under section*  
6           *871.*

7           “(C) *COORDINATION WITH OTHER WITH-*  
8           *HOLDING REQUIREMENTS.—Any item subject to*  
9           *withholding under paragraph (1) shall not be*  
10          *subject to withholding under section 1441 or*  
11          *chapter 24.*

12          “(e) *TREATMENT OF SPECIFIED TAX DEFERRED AC-*  
13          *COUNTS.—*

14                 “(1) *ACCOUNT TREATED AS DISTRIBUTED.—In*  
15                 *the case of any interest in a specified tax deferred ac-*  
16                 *count held by a covered expatriate on the day before*  
17                 *the expatriation date—*

18                         “(A) *the covered expatriate shall be treated*  
19                         *as receiving a distribution of his entire interest*  
20                         *in such account on the day before the expatria-*  
21                         *tion date,*

22                         “(B) *no early distribution tax shall apply*  
23                         *by reason of such treatment, and*

1           “(C) appropriate adjustments shall be made  
2           to subsequent distributions from the account to  
3           reflect such treatment.

4           “(2) SPECIFIED TAX DEFERRED ACCOUNT.—For  
5           purposes of paragraph (1), the term ‘specified tax de-  
6           ferred account’ means an individual retirement plan  
7           (as defined in section 7701(a)(37)) other than any ar-  
8           rangement described in subsection (k) or (p) of section  
9           408, a qualified tuition program (as defined in sec-  
10          tion 529), a Coverdell education savings account (as  
11          defined in section 530), a health savings account (as  
12          defined in section 223), and an Archer MSA (as de-  
13          fined in section 220).

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

15                 “(1) IN GENERAL.—In the case of a distribution  
16                 (directly or indirectly) of any property from a non-  
17                 grantor trust to a covered expatriate—

18                         “(A) the trustee shall deduct and withhold  
19                         from such distribution an amount equal to 30  
20                         percent of the taxable portion of the distribution,  
21                         and

22                         “(B) if the fair market value of such prop-  
23                         erty exceeds its adjusted basis in the hands of the  
24                         trust, gain shall be recognized to the trust as if

1           *such property were sold to the expatriate at its*  
2           *fair market value.*

3           “(2) *TAXABLE PORTION.*—*For purposes of this*  
4           *subsection, the term ‘taxable portion’ means, with re-*  
5           *spect to any distribution, that portion of the distribu-*  
6           *tion which would be includible in the gross income of*  
7           *the covered expatriate if such expatriate continued to*  
8           *be subject to tax as a citizen or resident of the United*  
9           *States.*

10           “(3) *NONGRANTOR TRUST.*—*For purposes of this*  
11           *subsection, the term ‘nongrantor trust’ means the por-*  
12           *tion of any trust that the individual is not considered*  
13           *the owner of under subpart E of part I of subchapter*  
14           *J. The determination under the preceding sentence*  
15           *shall be made immediately before the expatriation*  
16           *date.*

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

19                   “(A) *rules similar to the rules of subsection*  
20                   *(d)(6) shall apply, and*

21                   “(B) *the covered expatriate shall be treated*  
22                   *as having waived any right to claim any reduc-*  
23                   *tion under any treaty with the United States in*  
24                   *withholding on any distribution to which para-*  
25                   *graph (1)(A) applies.*



1           “(5) *APPLICATION.*—*This subsection shall apply*  
2           *to a nongrantor trust only if the covered expatriate*  
3           *was a beneficiary of the trust on the day before the*  
4           *expatriation date.*

5           “(g) *DEFINITIONS AND SPECIAL RULES RELATING TO*  
6           *EXPATRIATION.*—*For purposes of this section—*

7           “(1) *COVERED EXPATRIATE.*—

8                   “(A) *IN GENERAL.*—*The term ‘covered expa-*  
9                   *triate’ means an expatriate who meets the re-*  
10                   *quirements of subparagraph (A), (B), or (C) of*  
11                   *section 877(a)(2).*

12                   “(B) *EXCEPTIONS.*—*An individual shall*  
13                   *not be treated as meeting the requirements of*  
14                   *subparagraph (A) or (B) of section 877(a)(2)*  
15                   *if—*

16                           “(i) *the individual—*

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

23                                   “(II) *has been a resident of the*  
24                                   *United States (as defined in section*  
25                                   *7701(b)(1)(A)(ii)) for not more than*

1                   10 taxable years during the 15-taxable  
2                   year period ending with the taxable  
3                   year during which the expatriation  
4                   date occurs, or

5                   “(ii)(I) the individual’s relinquishment  
6                   of United States citizenship occurs before  
7                   such individual attains age 18½, and

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

12                  “(C) COVERED EXPATRIATES ALSO SUBJECT  
13                  TO TAX AS CITIZENS OR RESIDENTS.—In the  
14                  case of any covered expatriate who is subject to  
15                  tax as a citizen or resident of the United States  
16                  for any period beginning after the expatriation  
17                  date, such individual shall not be treated as a  
18                  covered expatriate during such period for pur-  
19                  poses of subsections (d)(1) and (f) and section  
20                  2801.

21                  “(2) EXPATRIATE.—The term ‘expatriate’  
22                  means—

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

1           “(B) any long-term resident of the United  
2 States who ceases to be a lawful permanent resi-  
3 dent of the United States (within the meaning of  
4 section 7701(b)(6)).

5           “(3) *EXPATRIATION DATE*.—The term ‘expatria-  
6 tion date’ means—

7           “(A) the date an individual relinquishes  
8 United States citizenship, or

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

14           “(4) *RELINQUISHMENT OF CITIZENSHIP*.—A cit-  
15 izen shall be treated as relinquishing his United  
16 States citizenship on the earliest of—

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

22           “(B) the date the individual furnishes to the  
23 United States Department of State a signed  
24 statement of voluntary relinquishment of United  
25 States nationality confirming the performance of

1           *an act of expatriation specified in paragraph*  
2           *(1), (2), (3), or (4) of section 349(a) of the Im-*  
3           *migration and Nationality Act (8 U.S.C.*  
4           *1481(a)(1)–(4)),*

5           *“(C) the date the United States Department*  
6           *of State issues to the individual a certificate of*  
7           *loss of nationality, or*

8           *“(D) the date a court of the United States*  
9           *cancels a naturalized citizen’s certificate of natu-*  
10          *ralization.*

11          *Subparagraph (A) or (B) shall not apply to any in-*  
12          *dividual unless the renunciation or voluntary relin-*  
13          *quishment is subsequently approved by the issuance to*  
14          *the individual of a certificate of loss of nationality by*  
15          *the United States Department of State.*

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

19          *“(6) EARLY DISTRIBUTION TAX.—The term*  
20          *‘early distribution tax’ means any increase in tax im-*  
21          *posed under section 72(t), 220(e)(4), 223(f)(4),*  
22          *409A(a)(1)(B), 529(c)(6), or 530(d)(4).*

23          *“(h) OTHER RULES.—*

1           “(1) *TERMINATION OF DEFERRALS, ETC.*—*In the*  
2 *case of any covered expatriate, notwithstanding any*  
3 *other provision of this title—*

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

9           “(B) *any extension of time for payment of*  
10 *tax shall cease to apply on the day before the ex-*  
11 *patriation date and the unpaid portion of such*  
12 *tax shall be due and payable at the time and in*  
13 *the manner prescribed by the Secretary.*

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

24           “(3) *COORDINATION WITH SECTION 684.*—*If the*  
25 *expatriation of any individual would result in the*

1       *recognition of gain under section 684, this section*  
 2       *shall be applied after the application of section 684.*

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

6       (b) *TAX ON GIFTS AND BEQUESTS RECEIVED BY*  
 7 *UNITED STATES CITIZENS AND RESIDENTS FROM EXPA-*  
 8 *TRIATES.*—

9               (1) *IN GENERAL.*—*Subtitle B (relating to estate*  
 10 *and gift taxes) is amended by inserting after chapter*  
 11 *14 the following new chapter:*

12       **“CHAPTER 15—GIFTS AND BEQUESTS**  
 13               **FROM EXPATRIATES**

*“Sec. 2801. Imposition of tax.*

14       **“SEC. 2801. IMPOSITION OF TAX.**

15       “(a) *IN GENERAL.*—*If, during any calendar year, any*  
 16 *United States citizen or resident receives any covered gift*  
 17 *or bequest, there is hereby imposed a tax equal to the prod-*  
 18 *uct of—*

19               “(1) *the highest rate of tax specified in the table*  
 20 *contained in section 2001(c) as in effect on the date*  
 21 *of such receipt (or, if greater, the highest rate of tax*  
 22 *specified in the table applicable under section 2502(a)*  
 23 *as in effect on the date), and*

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

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

4           “(c) *EXCEPTION FOR CERTAIN GIFTS.*—*Subsection (a)*  
5 *shall apply only to the extent that the value of covered gifts*  
6 *and bequests received by any person during the calendar*  
7 *year exceeds \$10,000.*

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

13           “(e) *COVERED GIFT OR BEQUEST.*—

14                 “(1) *IN GENERAL.*—*For purposes of this chapter,*  
15 *the term ‘covered gift or bequest’ means—*

16                         “(A) *any property acquired by gift directly*  
17 *or indirectly from an individual who, at the*  
18 *time of such acquisition, is a covered expatriate,*  
19 *and*

20                         “(B) *any property acquired directly or in-*  
21 *directly by reason of the death of an individual*  
22 *who, immediately before such death, was a cov-*  
23 *ered expatriate.*

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

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

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

12           “(3) *TRANSFERS IN TRUST.*—

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

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

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

22                   “(B) *FOREIGN TRUSTS.*—

23                           “(i) *IN GENERAL.*—*In the case of a*  
24                           *covered gift or bequest made to a foreign*  
25                           *trust, subsection (a) shall apply to any dis-*



1           *tribution attributable to such gift or bequest*  
2           *from such trust (whether from income or*  
3           *corpus) to a United States citizen or resi-*  
4           *dent in the same manner as if such dis-*  
5           *tribution were a covered gift or bequest.*

6           “(ii) *DEDUCTION FOR TAX PAID BY RE-*  
7           *CIPIENT.—There shall be allowed as a de-*  
8           *duction under section 164 the amount of tax*  
9           *imposed by this section which is paid or ac-*  
10          *crued by a United States citizen or resident*  
11          *by reason of a distribution from a foreign*  
12          *trust, but only to the extent such tax is im-*  
13          *posed on the portion of such distribution*  
14          *which is included in the gross income of*  
15          *such citizen or resident.*

16          “(iii) *ELECTION TO BE TREATED AS*  
17          *DOMESTIC TRUST.—Solely for purposes of*  
18          *this section, a foreign trust may elect to be*  
19          *treated as a domestic trust. Such an election*  
20          *may be revoked with the consent of the Sec-*  
21          *retary.*

22          “(f) *COVERED EXPATRIATE.—For purposes of this sec-*  
23          *tion, the term ‘covered expatriate’ has the meaning given*  
24          *to such term by section 877A(g)(1).”.*

1           (2) *CLERICAL AMENDMENT.*—*The table of chap-*  
2           *ters for subtitle B is amended by inserting after the*  
3           *item relating to chapter 14 the following new item:*

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

4           (c) *DEFINITION OF TERMINATION OF UNITED STATES*  
5           *CITIZENSHIP.*—

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

8           “(50) *TERMINATION OF UNITED STATES CITIZEN-*  
9           *SHIP.*—

10           “(A) *IN GENERAL.*—*An individual shall not*  
11           *cease to be treated as a United States citizen be-*  
12           *fore the date on which the individual’s citizen-*  
13           *ship is treated as relinquished under section*  
14           *877A(g)(4).*

15           “(B) *DUAL CITIZENS.*—*Under regulations*  
16           *prescribed by the Secretary, subparagraph (A)*  
17           *shall not apply to an individual who became at*  
18           *birth a citizen of the United States and a citizen*  
19           *of another country.”.*

20           (2) *CONFORMING AMENDMENTS.*—

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

23           “(1) *IN GENERAL.*—*Any long-term resident of*  
24           *the United States who ceases to be a lawful perma-*  
25           *nent resident of the United States (within the mean-*

1 *ing of section 7701(b)(6)) shall be treated for purposes*  
2 *of this section and sections 2107, 2501, and 6039G in*  
3 *the same manner as if such resident were a citizen of*  
4 *the United States who lost United States citizenship*  
5 *on the date of such cessation or commencement.”.*

6 *(B) Paragraph (6) of section 7701(b) is*  
7 *amended by adding at the end the following flush*  
8 *sentence:*

9 *“An individual shall cease to be treated as a lawful*  
10 *permanent resident of the United States if such indi-*  
11 *vidual commences to be treated as a resident of a for-*  
12 *foreign country under the provisions of a tax treaty be-*  
13 *tween the United States and the foreign country, does*  
14 *not waive the benefits of such treaty applicable to*  
15 *residents of the foreign country, and notifies the Sec-*  
16 *retary of the commencement of such treatment.”.*

17 *(C) Section 7701 is amended by striking*  
18 *subsection (n) and by redesignating subsections*  
19 *(o) and (p) as subsections (n) and (o), respec-*  
20 *tively.*

21 *(d) INFORMATION RETURNS.—Section 6039G is*  
22 *amended—*

23 *(1) by inserting “or 877A” after “section 877(b)”*  
24 *in subsection (a), and*

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

3           (e) *CLERICAL AMENDMENT.*—The table of sections for  
4           subpart A of part II of subchapter N of chapter 1 is amend-  
5           ed by inserting after the item relating to section 877 the  
6           following new item:

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

7           (f) *EFFECTIVE DATE.*—

8           (1) *IN GENERAL.*—Except as provided in this  
9           subsection, the amendments made by this section shall  
10          apply to expatriates (as defined in section 877A(g) of  
11          the Internal Revenue Code of 1986, as added by this  
12          section) whose expatriation date (as so defined) is on  
13          or after the date of the enactment of this Act.

14          (2) *GIFTS AND BEQUESTS.*—Chapter 15 of the  
15          Internal Revenue Code of 1986 (as added by sub-  
16          section (b)) shall apply to covered gifts and bequests  
17          (as defined in section 2801 of such Code, as so added)  
18          received on or after the date of the enactment of this  
19          Act, regardless of when the transferor expatriated.

20       **SEC. 505. REPEAL OF SUSPENSION OF CERTAIN PENALTIES**  
21                               **AND INTEREST.**

22          (a) *IN GENERAL.*—Section 6404 is amended by strik-  
23          ing subsection (g) and by redesignating subsection (h) as  
24          subsection (g).

1           (b) *EFFECTIVE DATE.*—*The amendment made by sub-*  
2 *section (a) shall apply to notices provided by the Secretary*  
3 *of the Treasury, or his delegate, after the date which is 6*  
4 *months after the date of the enactment of the Small Busi-*  
5 *ness and Work Opportunity Tax Act of 2007.*

6 **SEC. 506. UNUSED MERCHANDISE DRAWBACK.**

7           (a) *IN GENERAL.*—*Section 313(j)(2) of the Tariff Act*  
8 *of 1930 (19 U.S.C. 1313(j)(2)) is amended by adding at*  
9 *the end the following: “For purposes of subparagraph (A)*  
10 *of this paragraph, wine of the same color having a price*  
11 *variation not to exceed 50 percent between the imported*  
12 *wine and the exported wine shall be deemed to be commer-*  
13 *cially interchangeable.”.*

14           (b) *EFFECTIVE DATE.*—*The amendment made by sub-*  
15 *section (a) shall apply with respect to claims filed for draw-*  
16 *back under section 313(j)(2) of the Tariff Act of 1930 on*  
17 *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 Tax**  
5   **Indifferent Parties**

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

8           (a) *IN GENERAL.*—Subpart B of part II of subchapter  
9   *E* of chapter 1 (relating to taxable year for which items  
10   of gross income included) is amended by inserting after sec-  
11   tion 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 substantially  
22                   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 COMPENSA-  
11          TION.—

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 ac-  
17           count when ascertainable, and

18           “(B) the tax imposed under this chapter for  
19           the taxable year in which such compensation is  
20           taken into account under subparagraph (A) shall  
21           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 1  
5           percentage point on the underpayments that would  
6           have occurred had the deferred compensation been in-  
7           cludible in gross income for the taxable year in which  
8           first deferred or, if later, the first taxable year in  
9           which such deferred compensation is not subject to a  
10          substantial risk of forfeiture.

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

13                 “(1) *SUBSTANTIAL RISK OF FORFEITURE.*—The  
14                 rights of a person to compensation shall be treated as  
15                 subject to a substantial risk of forfeiture only if such  
16                 person’s rights to such compensation are conditioned  
17                 upon the future performance of substantial services by  
18                 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 of  
22                 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 satis-  
2           faction of the Secretary that such foreign country  
3           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 COMPENSATION*  
8           *PLAN.*—The term ‘nonqualified deferred compensation  
9           plan’ has the meaning given such term under section  
10          409A(d), except that such term shall include any plan  
11          that provides a right to compensation based on the  
12          appreciation in value of a specified number of equity  
13          units of the service recipient.

14          “(4) *APPLICATION OF RULES.*—Rules similar to  
15          the rules of paragraphs (5) and (6) of section 409A(d)  
16          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 regulations  
20          disregarding a substantial risk of forfeiture in cases where  
21          necessary to carry out the purposes of this section.”.

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

1 inserting “, and”, and by adding at the end the following  
2 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 of  
6 subpart B of part II of subchapter E of chapter 1 is amend-  
7 ed by inserting after the item relating to section 457 the  
8 following new item:

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

9 (d) EFFECTIVE DATE.—

10 (1) IN GENERAL.—Except as otherwise provided  
11 in this subsection, the amendments made by this sec-  
12 tion shall apply to amounts deferred which are attrib-  
13 utable to services performed after December 31, 2007.

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

22 (A) the last taxable year beginning before  
23 2017, or

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

7           (3) ACCELERATED PAYMENTS.—No later than 60  
8           days after the date of the enactment of this Act, the  
9           Secretary shall issue guidance providing a limited pe-  
10          riod of time during which a nonqualified deferred  
11          compensation arrangement attributable to services  
12          performed on or before December 31, 2007, may, with-  
13          out violating the requirements of section 409A(a) of  
14          the Internal Revenue Code of 1986, be amended to  
15          conform the date of distribution to the date the  
16          amounts are required to be included in income.

17       ***Subtitle B—Provisions Related to***  
18       ***Certain Investment Partnerships***

19       ***SEC. 611. INCOME OF PARTNERS FOR PERFORMING INVEST-***  
20                               ***MENT MANAGEMENT SERVICES TREATED AS***  
21                               ***ORDINARY INCOME RECEIVED FOR PERFORM-***  
22                               ***ANCE OF SERVICES.***

23           (a) *IN GENERAL.*—Part I of subchapter K of chapter  
24       1 is amended by adding at the end the following new sec-  
25       tion:

1 **“SEC. 710. SPECIAL RULES FOR PARTNERS PROVIDING IN-**  
2 **VESTMENT MANAGEMENT SERVICES TO**  
3 **PARTNERSHIP.**

4 *“(a) TREATMENT OF DISTRIBUTIVE SHARE OF PART-*  
5 *NERSHIP ITEMS.—For purposes of this title, in the case of*  
6 *an investment services partnership interest—*

7 *“(1) IN GENERAL.—Notwithstanding section*  
8 *702(b)—*

9 *“(A) any net income with respect to such*  
10 *interest for any partnership taxable year shall be*  
11 *treated as ordinary income for the performance*  
12 *of services, and*

13 *“(B) any net loss with respect to such inter-*  
14 *est for such year, to the extent not disallowed*  
15 *under paragraph (2) for such year, shall be*  
16 *treated as an ordinary loss.*

17 *“(2) TREATMENT OF LOSSES.—*

18 *“(A) LIMITATION.—Any net loss with re-*  
19 *spect to such interest shall be allowed for any*  
20 *partnership taxable year only to the extent that*  
21 *such loss does not exceed the excess (if any) of—*

22 *“(i) the aggregate net income with re-*  
23 *spect to such interest for all prior partner-*  
24 *ship taxable years, over*

25 *“(ii) the aggregate net loss with respect*  
26 *to such interest not disallowed under this*

1           *subparagraph for all prior partnership tax-*  
2           *able years.*

3           “(B) *CARRYFORWARD.*—*Any net loss for*  
4           *any partnership taxable year which is not al-*  
5           *lowed by reason of subparagraph (A) shall be*  
6           *treated as an item of loss with respect to such*  
7           *partnership interest for the succeeding partner-*  
8           *ship taxable year.*

9           “(C) *BASIS ADJUSTMENT.*—*No adjustment*  
10          *to the basis of a partnership interest shall be*  
11          *made on account of any net loss which is not al-*  
12          *lowed by reason of subparagraph (A).*

13          “(D) *EXCEPTION FOR BASIS ATTRIBUTABLE*  
14          *TO PURCHASE OF A PARTNERSHIP INTEREST.*—  
15          *In the case of an investment services partnership*  
16          *interest acquired by purchase, paragraph (1)(B)*  
17          *shall not apply to so much of any net loss with*  
18          *respect to such interest for any taxable year as*  
19          *does not exceed the excess of—*

20                 “(i) *the basis of such interest imme-*  
21                 *diately after such purchase, over*

22                 “(ii) *the aggregate net loss with respect*  
23                 *to such interest to which paragraph (1)(B)*  
24                 *did not apply by reason of this subpara-*  
25                 *graph for all prior taxable years.*

1           *Any net loss to which paragraph (1)(B) does not*  
2           *apply by reason of this subparagraph shall not*  
3           *be taken into account under subparagraph (A).*

4           “(E) *PRIOR PARTNERSHIP YEARS.*—*Any*  
5           *reference in this paragraph to prior partnership*  
6           *taxable years shall only include prior partner-*  
7           *ship taxable years to which this section applies.*

8           “(3) *NET INCOME AND LOSS.*—*For purposes of*  
9           *this section—*

10           “(A) *NET INCOME.*—*The term ‘net income’*  
11           *means, with respect to any investment services*  
12           *partnership interest, for any partnership taxable*  
13           *year, the excess (if any) of—*

14                   “(i) *all items of income and gain taken*  
15                   *into account by the holder of such interest*  
16                   *under section 702 with respect to such in-*  
17                   *terest for such year, over*

18                   “(ii) *all items of deduction and loss so*  
19                   *taken into account.*

20           “(B) *NET LOSS.*—*The term ‘net loss’ means*  
21           *with respect to such interest for such year, the*  
22           *excess (if any) of the amount described in sub-*  
23           *paragraph (A)(ii) over the amount described in*  
24           *subparagraph (A)(i).*

25           “(b) *DISPOSITIONS OF PARTNERSHIP INTERESTS.*—

1           “(1) *GAIN.*—Any gain on the disposition of an  
2           *investment services partnership interest shall be treat-*  
3           *ed as ordinary income for the performance of services.*

4           “(2) *LOSS.*—Any loss on the disposition of an  
5           *investment services partnership interest shall be treat-*  
6           *ed as an ordinary loss to the extent of the excess (if*  
7           *any) of—*

8                   “(A) *the aggregate net income with respect*  
9                   *to such interest for all partnership taxable years,*  
10                   *over*

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

14           “(3) *DISPOSITION OF PORTION OF INTEREST.*—  
15           *In the case of any disposition of an investment serv-*  
16           *ices partnership interest, the amount of net loss which*  
17           *otherwise would have (but for subsection (a)(2)(C))*  
18           *applied to reduce the basis of such interest shall be*  
19           *disregarded for purposes of this section for all suc-*  
20           *ceeding partnership taxable years.*

21           “(4) *DISTRIBUTIONS OF PARTNERSHIP PROP-*  
22           *ERTY.*—*In the case of any distribution of appreciated*  
23           *property by a partnership with respect to any invest-*  
24           *ment services partnership interest, gain shall be rec-*  
25           *ognized by the partnership in the same manner as if*

1        *the partnership sold such property at fair market*  
2        *value at the time of the distribution. For purposes of*  
3        *this paragraph, the term ‘appreciated property’*  
4        *means any property with respect to which gain would*  
5        *be determined if sold as described in the preceding*  
6        *sentence.*

7                *“(5) APPLICATION OF SECTION 751.—In applying*  
8        *section 751(a), an investment services partnership in-*  
9        *terest shall be treated as an inventory item.*

10              *“(c) INVESTMENT SERVICES PARTNERSHIP INTER-*  
11 *EST.—For purposes of this section—*

12                      *“(1) IN GENERAL.—The term ‘investment serv-*  
13        *ices partnership interest’ means any interest in a*  
14        *partnership which is held by any person if such per-*  
15        *son provides (directly or indirectly) a substantial*  
16        *quantity of any of the following services with respect*  
17        *to the assets of the partnership in the conduct of the*  
18        *trade or business of providing such services:*

19                      *“(A) Advising as to the advisability of in-*  
20        *vesting in, purchasing, or selling any specified*  
21        *asset.*

22                      *“(B) Managing, acquiring, or disposing of*  
23        *any specified asset.*

24                      *“(C) Arranging financing with respect to*  
25        *acquiring specified assets.*



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

3           For purposes of this paragraph, the term ‘specified  
4           asset’ means securities (as defined in section 475(c)(2)  
5           without regard to the last sentence thereof), real es-  
6           tate, commodities (as defined in section 475(e)(2)),  
7           or options or derivative contracts with respect to secu-  
8           rities (as so defined), real estate, or commodities (as  
9           so defined).

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

12           “(A) IN GENERAL.—If—

13                   “(i) a portion of an investment services  
14                   partnership interest is acquired on account  
15                   of a contribution of invested capital, and

16                           “(ii) the partnership makes a reason-  
17                           able allocation of partnership items between  
18                           the portion of the distributive share that is  
19                           with respect to invested capital and the por-  
20                           tion of such distributive share that is not  
21                           with respect to invested capital,

22           then subsection (a) shall not apply to the portion  
23           of the distributive share that is with respect to  
24           invested capital. An allocation will not be treat-  
25           ed as reasonable for purposes of this subpara-

1           *graph if such allocation would result in the part-*  
2           *nership allocating a greater portion of income to*  
3           *invested capital than any other partner not pro-*  
4           *viding services would have been allocated with*  
5           *respect to the same amount of invested capital.*

6           “(B) *SPECIAL RULE FOR DISPOSITIONS.—*

7           *In any case to which subparagraph (A) applies,*  
8           *subsection (b) shall not apply to any gain or loss*  
9           *allocable to invested capital. The portion of any*  
10           *gain or loss attributable to invested capital is the*  
11           *proportion of such gain or loss which is based on*  
12           *the distributive share of gain or loss that would*  
13           *have been allocable to invested capital under sub-*  
14           *paragraph (A) if the partnership sold all of its*  
15           *assets immediately before the disposition.*

16           “(C) *INVESTED CAPITAL.—For purposes of*

17           *this paragraph, the term ‘invested capital’*  
18           *means, the fair market value at the time of con-*  
19           *tribution of any money or other property con-*  
20           *tributed to the partnership.*

21           “(D) *TREATMENT OF CERTAIN LOANS.—*

22           “(i) *PROCEEDS OF PARTNERSHIP*  
23           *LOANS NOT TREATED AS INVESTED CAPITAL*  
24           *OF SERVICE PROVIDING PARTNERS.—For*  
25           *purposes of this paragraph, an investment*

1           *services partnership interest shall not be*  
2           *treated as acquired on account of a con-*  
3           *tribution of invested capital to the extent*  
4           *that such capital is attributable to the pro-*  
5           *ceeds of any loan or other advance made or*  
6           *guaranteed, directly or indirectly, by any*  
7           *partner or the partnership.*

8           “(ii) *LOANS FROM NONSERVICE PRO-*  
9           *VIDING PARTNERS TO THE PARTNERSHIP*  
10           *TREATED AS INVESTED CAPITAL.—For pur-*  
11           *poses of this paragraph, any loan or other*  
12           *advance to the partnership made or guaran-*  
13           *teed, directly or indirectly, by a partner not*  
14           *providing services to the partnership shall*  
15           *be treated as invested capital of such part-*  
16           *ner and amounts of income and loss treated*  
17           *as allocable to invested capital shall be ad-*  
18           *justed accordingly.*

19           “(d) *OTHER INCOME AND GAIN IN CONNECTION WITH*  
20           *INVESTMENT MANAGEMENT SERVICES.—*

21           “(1) *IN GENERAL.—If—*

22           “(A) *a person performs (directly or indi-*  
23           *rectly) investment management services for any*  
24           *entity,*

1           “(B) such person holds a disqualified inter-  
2           est with respect to such entity, and

3           “(C) the value of such interest (or payments  
4           thereunder) is substantially related to the  
5           amount of income or gain (whether or not real-  
6           ized) from the assets with respect to which the  
7           investment management services are performed,  
8           any income or gain with respect to such interest shall  
9           be treated as ordinary income for the performance of  
10          services. Rules similar to the rules of subsection (c)(2)  
11          shall apply where such interest was acquired on ac-  
12          count of invested capital in such entity.

13          “(2) DEFINITIONS.—For purposes of this sub-  
14          section—

15                 “(A) DISQUALIFIED INTEREST.—The term  
16                 ‘disqualified interest’ means, with respect to any  
17                 entity—

18                         “(i) any interest in such entity other  
19                         than indebtedness,

20                         “(ii) convertible or contingent debt of  
21                         such entity,

22                         “(iii) any option or other right to ac-  
23                         quire property described in clause (i) or  
24                         (ii), and

1                   “(iv) any derivative instrument en-  
2                   tered into (directly or indirectly) with such  
3                   entity or any investor in such entity.

4                   Such term shall not include a partnership inter-  
5                   est and shall not include stock in a taxable cor-  
6                   poration.

7                   “(B) TAXABLE CORPORATION.—The term  
8                   ‘taxable corporation’ means—

9                   “(i) a domestic C corporation, or

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

13                   “(C) INVESTMENT MANAGEMENT SERV-  
14                   ICES.—The term ‘investment management serv-  
15                   ices’ means a substantial quantity of any of the  
16                   services described in subsection (c)(1) which are  
17                   provided in the conduct of the trade or business  
18                   of providing such services.

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

22                   “(1) prevent the avoidance of the purposes of this  
23                   section, and

24                   “(2) coordinate this section with the other provi-  
25                   sions of this subchapter.

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

4       (b) *APPLICATION TO REAL ESTATE INVESTMENT*  
5 *TRUSTS.*—Subsection (c) of section 856 is amended by add-  
6 *ing at the end the following new paragraph:*

7               “(8) *EXCEPTION FROM RECHARACTERIZATION OF*  
8 *INCOME FROM INVESTMENT SERVICES PARTNERSHIP*  
9 *INTERESTS.*—

10               “(A) *IN GENERAL.*—Paragraphs (2), (3),  
11 *and (4) shall be applied without regard to sec-*  
12 *tion 710 (relating to special rules for partners*  
13 *providing investment management services to*  
14 *partnership).*

15               “(B) *SPECIAL RULE FOR PARTNERSHIPS*  
16 *OWNED BY REITS.*—Section 7704 shall be applied  
17 *without regard to section 710 in the case of a*  
18 *partnership which meets each of the following re-*  
19 *quirements:*

20               “(i) *Such partnership is treated as*  
21 *publicly traded under section 7704 solely by*  
22 *reason of interests in such partnership*  
23 *being convertible into interests in a real es-*  
24 *tate investment trust which is publicly trad-*  
25 *ed.*

1           “(ii) 50 percent or more of the capital  
2           and profits interests of such partnership are  
3           owned, directly or indirectly, at all times  
4           during the taxable year by such real estate  
5           investment trust (determined with the ap-  
6           plication of section 267(c)).

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

10       (c) *IMPOSITION OF PENALTY ON UNDERPAYMENTS.*—

11           (1) *IN GENERAL.*—Subsection (b) of section 6662  
12       is amended by inserting after paragraph (5) the fol-  
13       lowing new paragraph:

14           “(6) The application of subsection (d) of section  
15       710 or the regulations prescribed under section 710(e)  
16       to prevent the avoidance of the purposes of section  
17       710.”.

18           (2) *AMOUNT OF PENALTY.*—

19           (A) *IN GENERAL.*—Section 6662 is amended  
20       by adding at the end the following new sub-  
21       section:

22       “(i) *INCREASE IN PENALTY IN CASE OF PROPERTY*  
23       *TRANSFERRED FOR INVESTMENT MANAGEMENT SERV-*  
24       *ICES.*—In the case of any portion of an underpayment to  
25       which this section applies by reason of subsection (b)(6),

1 subsection (a) shall be applied with respect to such portion  
2 by substituting ‘40 percent’ for ‘20 percent’.”

3 (B) CONFORMING AMENDMENTS.—Subpara-  
4 graph (B) of section 6662A(e)(2) is amended—

5 (i) by striking “section 6662(h)” and  
6 inserting “subsection (h) or (i) of section  
7 6662”, and

8 (ii) by striking “GROSS VALUATION  
9 MISSTATEMENT PENALTY” in the heading  
10 and inserting “CERTAIN INCREASED UNDER-  
11 PAYMENT PENALTIES”.

12 (3) REASONABLE CAUSE EXCEPTION NOT APPLI-  
13 CABLE.—Subsection (c) of section 6664 is amended—

14 (A) by redesignating paragraphs (2) and  
15 (3) as paragraphs (3) and (4), respectively,

16 (B) by striking “paragraph (2)” in para-  
17 graph (4), as so redesignated, and inserting  
18 “paragraph (3)”, and

19 (C) by inserting after paragraph (1) the fol-  
20 lowing new paragraph:

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

24 (d) CONFORMING AMENDMENTS.—



1           (1) *Subsection (d) of section 731 is amended by*  
2 *inserting “section 710(b)(4) (relating to distributions*  
3 *of partnership property),” before “section 736”.*

4           (2) *Section 741 is amended by inserting “or sec-*  
5 *tion 710 (relating to special rules for partners pro-*  
6 *viding investment management services to partner-*  
7 *ship)” before the period at the end.*

8           (3) *Paragraph (13) of section 1402(a) is amend-*  
9 *ed—*

10           (A) *by striking “other than guaranteed”*  
11 *and inserting “other than—*

12           *“(A) guaranteed”,*

13           (B) *by striking the semi-colon at the end*  
14 *and inserting “, and”, and*

15           (C) *by adding at the end the following new*  
16 *subparagraph:*

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

21           (4) *Paragraph (12) of section 211(a) of the So-*  
22 *cial Security Act is amended—*

23           (A) *by striking “other than guaranteed”*  
24 *and inserting “other than—*

25           *“(A) guaranteed”,*

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

3           (C) by adding at the end the following new  
4           subparagraph:

5           “(B) any income treated as ordinary in-  
6           come under section 710 of the Internal Revenue  
7           Code of 1986 received by an individual who pro-  
8           vides investment management services (as de-  
9           fined in section 710(d)(2) of such Code);”.

10          (5) The table of sections for part I of subchapter  
11          K of chapter 1 is amended by adding at the end the  
12          following new item:

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

13          (e) *EFFECTIVE DATE.*—

14           (1) *IN GENERAL.*—Except as otherwise provided  
15           in this subsection, the amendments made by this sec-  
16           tion shall apply to taxable years ending after Novem-  
17           ber 1, 2007.

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

1     *entire partnership taxable year or the net income de-*  
2     *termined by only taking into account items attrib-*  
3     *utable to the portion of the partnership taxable year*  
4     *which is after such date.*

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

9             (4) *OTHER INCOME AND GAIN IN CONNECTION*  
10    *WITH INVESTMENT MANAGEMENT SERVICES.—Section*  
11    *710(d) of such Code (as added by this section) shall*  
12    *take effect on November 1, 2007.*

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

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

22            (a) *IN GENERAL.—Subsection (c) of section 514 (relat-*  
23    *ing to acquisition indebtedness) is amended by adding at*  
24    *the end the following new paragraph:*

1           “(10) *SECURITIES AND COMMODITIES ACQUIRED*  
2           *BY PARTNERSHIPS IN WHICH AN ORGANIZATION IS A*  
3           *PARTNER WITH LIMITED LIABILITY.*—

4           “(A) *IN GENERAL.*—*In the case of any orga-*  
5           *nization which is a partner with limited liabil-*  
6           *ity in a partnership, the term ‘acquisition in-*  
7           *debtedness’ does not, for purposes of this section,*  
8           *include indebtedness incurred or continued by*  
9           *such partnership in purchasing or carrying any*  
10           *qualified security or commodity.*

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

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

24           “(D) *REGULATIONS.*—*The Secretary may*  
25           *prescribe such regulations as may be necessary*

1           or appropriate to carry out the purposes of this  
2           paragraph, including regulations to prevent the  
3           abuse of this paragraph.”.

4           (b) *EFFECTIVE DATE.*—The amendment made by this  
5           section shall apply to taxable years beginning after the date  
6           of the enactment of this Act.

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

11           (a) *PARTNERSHIP INTERESTS.*—Subsection (a) of sec-  
12           tion 1239 is amended to read as follows:

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

17                   “(1) such property is, in the hands of the trans-  
18                   feree, of a character which is subject to the allowance  
19                   for depreciation provided in section 167, or

20                   “(2) such property is an interest in a partner-  
21                   ship, but only to the extent of gain attributable to un-  
22                   realized appreciation in property which is of a char-  
23                   acter subject to the allowance for depreciation pro-  
24                   vided in section 167.”.

1       **(b) TAX SHARING AGREEMENTS.**—*Section 1239 (relat-*  
2 *ing to gain from sale of depreciable property between cer-*  
3 *tain related taxpayers) is amended by adding at the end*  
4 *the following new subsection:*

5       **“(f) APPLICATION TO TAX SHARING AGREEMENTS.**—

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

10           **“(2) TAX SHARING AGREEMENT.**—*For purposes*  
11 *of this subsection, the term ‘tax sharing agreement’*  
12 *means any agreement which provides for the payment*  
13 *to the transferor of any amount which is determined*  
14 *by reference to any portion of the tax benefit realized*  
15 *by the transferee with respect to the depreciation (or*  
16 *amortization) of the property transferred.”.*

17       **(c) EFFECTIVE DATE.**—

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

22           **(2) EXCEPTION FOR BINDING CONTRACTS.**—*The*  
23 *amendment made by subsection (b) shall not apply to*  
24 *any sale or exchange pursuant to a written binding*  
25 *contract which includes a tax sharing agreement and*

1       *which is in effect on November 1, 2007, and not*  
2       *modified thereafter in any material respect.*

3       ***Subtitle C—Other Provisions***

4       ***SEC. 621. DELAY IN APPLICATION OF WORLDWIDE ALLOCA-***  
5       ***TION OF INTEREST.***

6       *(a) IN GENERAL.—Paragraphs (5)(D) and (6) of sec-*  
7       *tion 864(f) are each amended by striking “December 31,*  
8       *2008” and inserting “December 31, 2017”.*

9       *(b) EFFECTIVE DATE.—The amendments made by this*  
10       *section shall apply to taxable years beginning after Decem-*  
11       *ber 31, 2008.*

12       ***SEC. 622. BROKER REPORTING OF CUSTOMER’S BASIS IN***  
13       ***SECURITIES TRANSACTIONS.***

14       *(a) IN GENERAL.—*

15               *(1) BROKER REPORTING FOR SECURITIES TRANS-*  
16       *ACTIONS.—Section 6045 (relating to returns of bro-*  
17       *kers) is amended by adding at the end the following*  
18       *new subsection:*

19       *“(g) ADDITIONAL INFORMATION REQUIRED IN THE*  
20       *CASE OF SECURITIES TRANSACTIONS.—*

21               *“(1) IN GENERAL.—If a broker is otherwise re-*  
22       *quired to make a return under subsection (a) with re-*  
23       *spect to the gross proceeds of the sale of a covered se-*  
24       *curity, the broker shall include in such return the in-*  
25       *formation described in paragraph (2).*

1           “(2) *ADDITIONAL INFORMATION REQUIRED.*—

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

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

11                           “(i) *IN GENERAL.*—*The customer’s ad-*  
12                           *justed basis shall be determined—*

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

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

10           “(IV) in any other case, under the  
11           method for making such determination  
12           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 be*  
16           *determined without regard to section 1091*  
17           *(relating to loss from wash sales of stock or*  
18           *securities) unless the transactions occur in*  
19           *the same account with respect to identical*  
20           *securities.*

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

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

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

4           “(ii) was transferred to such account  
5           from an account in which such security was  
6           a covered security, but only if the broker re-  
7           ceived a statement under section 6045A  
8           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 case*  
6           *of any other specified security.*

7           “(4) *OPEN-END FUND.—For purposes of this sub-*  
8           *section, the term ‘open-end fund’ means a regulated*  
9           *investment company (as defined in section 851)*  
10          *which is offering for sale or has outstanding any re-*  
11          *deemable security of which it is the issuer and the*  
12          *shares of which are not traded on an established secu-*  
13          *rities 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 SECURI-*  
19          *TIES.—*

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 grant-*  
23                 *or of the option and the option was acquired in the*  
24                 *same account as the covered security, the amount re-*  
25                 *ceived for the grant of an option on a covered security*

1     *shall be treated as an adjustment to gross proceeds or*  
2     *as an adjustment to basis, as the case may be. A*  
3     *similar rule shall apply in the case of the exercise of*  
4     *an option where the taxpayer is not the grantor of the*  
5     *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 ac-*  
15    *count as adjusted basis. A similar rule shall apply in*  
16    *the case of a lapse or closing transaction where the*  
17    *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 this*  
22    *subsection, the term ‘covered security’ shall have the*  
23    *meaning given such term in subsection (g)(3).”.*

24             (3) *EXTENSION OF PERIOD FOR STATEMENTS*  
25    *SENT TO CUSTOMERS.—*

1           (A) *IN GENERAL.*—Subsection (b) of section  
2           6045 is amended by striking “January 31” and  
3           inserting “February 15”.

4           (B) *STATEMENTS RELATED TO SUBSTITUTE*  
5           *PAYMENTS.*—Subsection (d) of section 6045 is  
6           amended—

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

8                   (ii) by inserting after “other item.” the  
9           following new sentence: “The written state-  
10          ment required under the preceding sentence  
11          shall be furnished on or before February 15  
12          of the year following the calendar year dur-  
13          ing which such payment was made.”.

14          (C) *OTHER STATEMENTS.*—Subsection (b)  
15          of section 6045 is amended by adding at the end  
16          the following: “In the case of a consolidated re-  
17          porting statement (as defined in regulations)  
18          with respect to any account which includes the  
19          statement required by this subsection, any state-  
20          ment which would otherwise be required to be  
21          furnished on or before January 31 under section  
22          6042(c), 6049(c)(2)(A), or 6050N(b) with respect  
23          to any item in such account shall instead be re-  
24          quired to be furnished on or before February 15

1           *if furnished as part of such consolidated report-*  
2           *ing statement.”.*

3           **(b) DETERMINATION OF BASIS OF CERTAIN SECURI-**  
4 **TIES ON ACCOUNT BY ACCOUNT METHOD.—Section 1012**  
5 **(relating to basis of property—cost) is amended—**

6           (1) *by striking “The basis of property” and in-*  
7 *serting the following:*

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

9           (2) *by striking “The cost of real property” and*  
10 *inserting the following:*

11           “(b) **SPECIAL RULE FOR APPORTIONED REAL ESTATE**  
12 **TAXES.—The cost of real property”**, and

13           (3) *by adding at the end the following new sub-*  
14 *section:*

15           “(c) **DETERMINATIONS BY ACCOUNT.—**

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

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

22           “(A) **IN GENERAL.—Except as provided in**  
23 **subparagraph (B), any stock in an open-end**  
24 **fund acquired before January 1, 2009, shall be**

1           *treated as a separate account from any such*  
2           *stock acquired on or after such date.*

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

9                     “(i) *subparagraph (A) shall not apply*  
10                    *with respect to any stock in such fund held*  
11                    *by such stockholders, and*

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

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

21           (c) *INFORMATION BY TRANSFERORS TO AID BRO-*  
22           *KERS.—*

23                    (1) *IN GENERAL.—Subpart B of part III of sub-*  
24                    *chapter A of chapter 61 is amended by inserting after*  
25                    *section 6045 the following new section:*

1 **“SEC. 6045A. INFORMATION REQUIRED IN CONNECTION**  
2 **WITH TRANSFERS OF COVERED SECURITIES**  
3 **TO BROKERS.**

4 “(a) *FURNISHING OF INFORMATION.*—Every applica-  
5 ble person which transfers to a broker (as defined in section  
6 6045(c)(1)) a security which is a covered security (as de-  
7 fined in section 6045(g)(3)) in the hands of such applicable  
8 person shall furnish to such broker a written statement in  
9 such manner and setting forth such information as the Sec-  
10 retary may by regulations prescribe for purposes of ena-  
11 bling such broker to meet the requirements of section  
12 6045(g).

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

15 “(1) any broker (as defined in section  
16 6045(c)(1)), and

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

19 “(c) *TIME FOR FURNISHING STATEMENT.*—Any state-  
20 ment required by subsection (a) shall be furnished not later  
21 than the earlier of—

22 “(1) 45 days after the date of the transfer de-  
23 scribed in subsection (a), or

24 “(2) January 15 of the year following the cal-  
25 endar year during which such transfer occurred.”.



1           (2) *ASSESSABLE PENALTIES.*—Paragraph (2) of  
2           section 6724(d) (defining payee statement) is amend-  
3           ed by redesignating subparagraphs (I) through (CC)  
4           as subparagraphs (J) through (DD), respectively, and  
5           by inserting after subparagraph (H) the following  
6           new subparagraph:

7                     “(I) section 6045A (relating to information  
8                     required in connection with transfers of covered  
9                     securities to brokers).”.

10           (3) *CLERICAL AMENDMENT.*—The table of sec-  
11           tions for subpart B of part III of subchapter A of  
12           chapter 61 is amended by inserting after the item re-  
13           lating to section 6045 the following new item:

          “Sec. 6045A. Information required in connection with transfers of covered securi-  
          ties to brokers.”.

14           (d) *ADDITIONAL ISSUER INFORMATION TO AID BRO-*  
15 *KERS.*—

16                     (1) *IN GENERAL.*—Subpart B of part III of sub-  
17           chapter A of chapter 61 of the Internal Revenue Code  
18           of 1986, as amended by subsection (b), is amended by  
19           inserting after section 6045A the following new sec-  
20           tion:

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

3 “(a) *IN GENERAL.*—According to the forms or regula-  
4 tions prescribed by the Secretary, any issuer of a specified  
5 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 required  
14 by subsection (a) shall be filed not later than the earlier  
15 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 OF*  
21 *SPECIFIED SECURITIES OR THEIR NOMINEES.*—According  
22 to the forms or regulations prescribed by the Secretary,  
23 every person required to make a return under subsection  
24 (a) with respect to a specified security shall furnish to the  
25 nominee with respect to the specified security (or certificate

1 holder if there is no nominee) a written statement show-  
2 ing—

3           “(1) the name, address, and phone number of the  
4 information contact of the person required to make  
5 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 sec-  
15 tion, the term ‘specified security’ has the meaning given  
16 such term by section 6045(g)(3)(B). No return shall be re-  
17 quired under this section with respect to actions described  
18 in subsection (a) with respect to a specified security which  
19 occur before the applicable date (as defined in section  
20 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 person  
24 required to make the return under subsection (a) makes  
25 publicly available, in such form and manner as the Sec-

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

3           “(1) *the name, address, phone number, and*  
4 *email address of the information contact of such per-*  
5 *son, 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 6724(d)(1)*  
10 *of such Code (defining information return) is*  
11 *amended by redesignating clauses (iv) through*  
12 *(xix) as clauses (v) through (xx), respectively,*  
13 *and by inserting after clause (iii) the following*  
14 *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 amend-*  
20 *ed by subsection (c)(2), is amended by redesign-*  
21 *ating subparagraphs (J) through (DD) as sub-*  
22 *paragraphs (K) through (EE), respectively, and*  
23 *by inserting after subparagraph (I) the following*  
24 *new subparagraph:*

1           “(J) subsections (c) and (e) of section  
2           6045B (relating to returns relating to actions af-  
3           fecting 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 relating  
8           to section 6045A the following new item:

          “Sec. 6045B. Returns relating to actions affecting basis of specified securities.”.

9           (e) *EFFECTIVE DATE.*—The amendments made by this  
10          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 fol-  
14          lowing 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 subsection  
19               (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 re-  
9 turn, supply information, or pay tax), if any S corporation  
10 required to file a return under section 6037 for any taxable  
11 year—

12 “(1) fails to file such return at the time pre-  
13 scribed therefor (determined with regard to any exten-  
14 sion 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

1           “(2) *the number of persons who were share-*  
2           *holders in the S corporation during any part of the*  
3           *taxable year.*

4           “(c) *ASSESSMENT OF PENALTY.—The penalty imposed*  
5           *by subsection (a) shall be assessed against the S corpora-*  
6           *tion.*

7           “(d) *DEFICIENCY PROCEDURES NOT TO APPLY.—Sub-*  
8           *chapter B of chapter 63 (relating to deficiency procedures*  
9           *for income, estate, gift, and certain excise taxes) shall not*  
10           *apply in respect of the assessment or collection of any pen-*  
11           *alty imposed by subsection (a).”.*

12           “(b) *CLERICAL AMENDMENT.—The table of sections for*  
13           *part I of subchapter B of chapter 68 is amended by adding*  
14           *at the end the following new item:*

          “*Sec. 6699A. Failure to file S corporation return.*”.

15           “(c) *EFFECTIVE DATE.—The amendments made by this*  
16           *section shall apply to returns required to be filed after the*  
17           *date of the enactment of this Act.*

18           **SEC. 625. TIME FOR PAYMENT OF CORPORATE ESTIMATED**  
19   **TAXES.**

20           *Subparagraph (B) of section 401(1) of the Tax In-*  
21           *crease Prevention and Reconciliation Act of 2005 is amend-*  
22           *ed by striking “115 percent” and inserting “181 percent”.*

Union Calendar No. 271

110<sup>TH</sup> CONGRESS  
1<sup>ST</sup> Session

**H. R. 3996**

[Report No. 110-431]

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## **A BILL**

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

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NOVEMBER 6, 2007

Reported with an amendment, committed to the Committee of the Whole House on the State of the Union, and ordered to be printed