

***In the Senate of the United States,***

*July 30, 1999.*

*Resolved*, That the bill from the House of Representatives (H.R. 2488) entitled “An Act to provide for reconciliation pursuant to sections 105 and 211 of the concurrent resolution on the budget for fiscal year 2000.”, do pass with the following

**AMENDMENT:**

Strike out all after the enacting clause and insert:

1 ***SECTION 1. SHORT TITLE; ETC.***

2       (a) *SHORT TITLE*.—*This Act may be cited as the*  
3 *“Taxpayer Refund Act of 1999”*.

4       (b) *AMENDMENT OF 1986 CODE*.—*Except as otherwise*  
5 *expressly provided, whenever in this Act an amendment or*  
6 *repeal is expressed in terms of an amendment to, or repeal*  
7 *of, a section or other provision, the reference shall be consid-*  
8 *ered to be made to a section or other provision of the Inter-*  
9 *nal Revenue Code of 1986.*

1       (c) *SECTION 15 NOT TO APPLY.*—No amendment  
 2   made by this Act shall be treated as a change in a rate  
 3   of tax for purposes of section 15 of the Internal Revenue  
 4   Code of 1986.

5       (d) *TABLE OF CONTENTS.*—The table of contents for  
 6   this Act is as follows:

*Sec. 1. Short title; etc.*

#### *TITLE I—BROAD BASED TAX RELIEF*

*Sec. 101. Reduction of 15 percent individual income tax rate.*

*Sec. 102. Increase in maximum taxable income for 14 percent rate bracket.*

#### *TITLE II—FAMILY TAX RELIEF PROVISIONS*

*Sec. 201. Combined return to which unmarried rates apply.*

*Sec. 202. Marriage penalty relief for earned income credit.*

*Sec. 203. Exclusion for foster care payments to apply to payments by qualified placement agencies.*

*Sec. 204. Modification of dependent care credit.*

*Sec. 205. Allowance of credit for employer expenses for child care assistance.*

*Sec. 206. Modification of alternative minimum tax for individuals.*

*Sec. 207. Long-term capital gains deduction for individuals.*

*Sec. 208. Credit for interest on higher education loans.*

*Sec. 209. Elimination of marriage penalty in standard deduction.*

*Sec. 210. Expansion of adoption credit.*

*Sec. 211. Modification of tax rates for trusts for individuals who are disabled.*

#### *TITLE III—RETIREMENT SAVINGS TAX RELIEF*

##### *Subtitle A—Individual Retirement Arrangements*

*Sec. 301. Modification of deduction limits for IRA contributions.*

*Sec. 302. Modification of income limits on contributions and rollovers to Roth IRAs.*

*Sec. 303. Deemed IRAs under employer plans.*

*Sec. 304. Tax credit for matching contributions to Individual Development Accounts.*

*Sec. 305. Certain coins not treated as collectibles.*

##### *Subtitle B—Expanding Coverage*

*Sec. 311. Option to treat elective deferrals as after-tax contributions.*

*Sec. 312. Increase in elective contribution limits.*

*Sec. 313. Plan loans for subchapter S owners, partners, and sole proprietors.*

*Sec. 314. Elective deferrals not taken into account for purposes of deduction limits.*

*Sec. 315. Reduced PBGC premium for new plans of small employers.*

*Sec. 316. Reduction of additional PBGC premium for new plans.*

- Sec. 317. Elimination of user fee for requests to IRS regarding new pension plans.*
- Sec. 318. SAFE annuities and trusts.*
- Sec. 319. Modification of top-heavy rules.*

*Subtitle C—Enhancing Fairness for Women*

- Sec. 321. Catchup contributions for individuals age 50 or over.*
- Sec. 322. Equitable treatment for contributions of employees to defined contribution plans.*
- Sec. 323. Clarification of tax treatment of division of section 457 plan benefits upon divorce.*
- Sec. 324. Modification of safe harbor relief for hardship withdrawals from cash or deferred arrangements.*
- Sec. 325. Faster vesting of certain employer matching contributions.*

*Subtitle D—Increasing Portability for Participants*

- Sec. 331. Rollovers allowed among various types of plans.*
- Sec. 332. Rollovers of IRAs into workplace retirement plans.*
- Sec. 333. Rollovers of after-tax contributions.*
- Sec. 334. Hardship exception to 60-day rule.*
- Sec. 335. Treatment of forms of distribution.*
- Sec. 336. Rationalization of restrictions on distributions.*
- Sec. 337. Purchase of service credit in governmental defined benefit plans.*
- Sec. 338. Employers may disregard rollovers for purposes of cash-out amounts.*
- Sec. 339. Inclusion requirements for section 457 plans.*

*Subtitle E—Strengthening Pension Security and Enforcement*

- Sec. 341. Repeal of 150 percent of current liability funding limit.*
- Sec. 342. Extension of missing participants program to multiemployer plans.*
- Sec. 343. Excise tax relief for sound pension funding.*
- Sec. 344. Failure to provide notice by defined benefit plans significantly reducing future benefit accruals.*
- Sec. 345. Protection of investment of employee contributions to 401(k) plans.*
- Sec. 346. Treatment of multiemployer plans under section 415.*
- Sec. 347. Maximum contribution deduction rules modified and applied to all defined benefit plans.*
- Sec. 348. Increase in section 415 early retirement limit for governmental and other plans.*

*Subtitle F—Encouraging Retirement Education*

- Sec. 351. Periodic pension benefits statements.*
- Sec. 352. Clarification of treatment of employer-provided retirement advice.*

*Subtitle G—Reducing Regulatory Burdens*

- Sec. 361. Flexibility in nondiscrimination and coverage rules.*
- Sec. 362. Modification of timing of plan valuations.*
- Sec. 363. Substantial owner benefits in terminated plans.*
- Sec. 364. ESOP dividends may be reinvested without loss of dividend deduction.*
- Sec. 365. Notice and consent period regarding distributions.*
- Sec. 366. Repeal of transition rule relating to certain highly compensated employees.*
- Sec. 367. Employees of tax-exempt entities.*

- Sec. 368. Extension to international organizations of moratorium on application of certain nondiscrimination rules applicable to State and local plans.*
- Sec. 369. Annual report dissemination.*
- Sec. 370. Modification of exclusion for employer provided transit passes and passengers permitted to utilize otherwise empty seats on aircraft.*
- Sec. 371. Reporting simplification.*

*Subtitle H—Plan Amendments*

- Sec. 381. Provisions relating to plan amendments.*

**TITLE IV—EDUCATION TAX RELIEF PROVISIONS**

- Sec. 401. Elimination of 60-month limit and increase in income limitation on student loan interest deduction.*
- Sec. 402. Modifications to qualified tuition programs.*
- Sec. 403. Exclusion of certain amounts received under the National Health Service Corps Scholarship Program and the F. Edward Hebert Armed Forces Health Professions Scholarship and Financial Assistance Program.*
- Sec. 404. Extension of exclusion for employer-provided educational assistance.*
- Sec. 405. Additional increase in arbitrage rebate exception for governmental bonds used to finance educational facilities.*
- Sec. 406. Treatment of qualified public educational facility bonds as exempt facility bonds.*
- Sec. 407. Federal guarantee of school construction bonds by Federal Home Loan Banks.*
- Sec. 408. Certain educational benefits provided by an employer to children of employees excludable from gross income as a scholarship.*

**TITLE V—HEALTH CARE TAX RELIEF PROVISIONS**

- Sec. 501. Deduction for health and long-term care insurance costs of individuals not participating in employer-subsidized health plans.*
- Sec. 502. Long-term care insurance permitted to be offered under cafeteria plans and flexible spending arrangements.*
- Sec. 503. Additional personal exemption for taxpayer caring for elderly family member in taxpayer's home.*
- Sec. 504. Inclusion of certain vaccines against streptococcus pneumoniae to list of taxable vaccines; reduction in per dose tax rate.*

**TITLE VI—SMALL BUSINESS TAX RELIEF PROVISIONS**

- Sec. 601. Deduction for 100 percent of health insurance costs of self-employed individuals.*
- Sec. 602. Increase in expense treatment for small businesses.*
- Sec. 603. Repeal of Federal unemployment surtax.*
- Sec. 604. Income averaging for farmers and fishermen not to increase alternative minimum tax liability.*
- Sec. 605. Farm, Fishing, and Ranch Risk Management Accounts.*
- Sec. 606. Exclusion of investment securities income from passive income test for bank S corporations.*
- Sec. 607. Treatment of qualifying director shares.*
- Sec. 608. Increase in estate tax deduction for family-owned business interest.*
- Sec. 609. Credit for employee health insurance expenses.*

## TITLE VII—ESTATE AND GIFT TAX RELIEF PROVISIONS

### *Subtitle A—Reductions of Estate, Gift, and Generation-Skipping Transfer Taxes*

- Sec. 701. Reductions of estate, gift, and generation-skipping transfer taxes.*  
*Sec. 702. Unified credit against estate and gift taxes replaced with unified exemption amount.*

### *Subtitle B—Conservation Easements*

- Sec. 711. Expansion of estate tax rule for conservation easements.*

### *Subtitle C—Annual Gift Exclusion*

- Sec. 721. Increase in annual gift exclusion.*

### *Subtitle D—Simplification of Generation-Skipping Transfer Tax*

- Sec. 731. Retroactive allocation of GST exemption.*  
*Sec. 732. Severing of trusts.*  
*Sec. 733. Modification of certain valuation rules.*  
*Sec. 734. Relief provisions.*

## TITLE VIII—TAX EXEMPT ORGANIZATIONS PROVISIONS

- Sec. 801. Exemption from income tax for State-created organizations providing property and casualty insurance for property for which such coverage is otherwise unavailable.*  
*Sec. 802. Modifications to section 512(b)(13).*  
*Sec. 803. Simplification of lobbying expenditure limitation.*  
*Sec. 804. Tax-free distributions from individual retirement accounts for charitable purposes.*  
*Sec. 805. Mileage reimbursements to charitable volunteers excluded from gross income.*  
*Sec. 806. Charitable contribution deduction for certain expenses incurred in support of Native Alaskan subsistence whaling.*  
*Sec. 807. Charitable contributions to certain low income schools may be made in next taxable year.*  
*Sec. 808. Deduction for portion of charitable contributions to be allowed to individuals who do not itemize deductions.*  
*Sec. 809. Increase in limit on charitable contributions as percentage of AGI.*  
*Sec. 810. Limited exception to excess business holdings rule.*  
*Sec. 811. Certain costs of private foundation in removing hazardous substances treated as qualifying distribution.*  
*Sec. 812. Holding period reduced to 12 months for purposes of determining whether horses are section 1231 assets.*

## TITLE IX—INTERNATIONAL TAX RELIEF

- Sec. 901. Interest allocation rules.*  
*Sec. 902. Look-thru rules to apply to dividends from noncontrolled section 902 corporations.*  
*Sec. 903. Clarification of treatment of pipeline transportation income.*  
*Sec. 904. Subpart F treatment of income from transmission of high voltage electricity.*  
*Sec. 905. Advance pricing agreements treated as confidential taxpayer information.*

*Sec. 906. Airline mileage awards to certain foreign persons.*

*Sec. 907. Repeal of foreign tax credit limitation under alternative minimum tax.*

*Sec. 908. Treatment of military property of foreign sales corporations.*

## *TITLE X—HOUSING AND REAL ESTATE TAX RELIEF PROVISIONS*

### *Subtitle A—Low-Income Housing Credit*

*Sec. 1001. Modification of State ceiling on low-income housing credit.*

### *Subtitle B—Historic Homes*

*Sec. 1011. Tax credit for renovating historic homes.*

### *Subtitle C—Provisions Relating to Real Estate Investment Trusts*

## *PART I—TREATMENT OF INCOME AND SERVICES PROVIDED BY TAXABLE REIT SUBSIDIARIES*

*Sec. 1021. Modifications to asset diversification test.*

*Sec. 1022. Treatment of income and services provided by taxable REIT subsidiaries.*

*Sec. 1023. Taxable REIT subsidiary.*

*Sec. 1024. Limitation on earnings stripping.*

*Sec. 1025. 100 percent tax on improperly allocated amounts.*

*Sec. 1026. Effective date.*

## *PART II—HEALTH CARE REITS*

*Sec. 1031. Health care REITs.*

## *PART III—CONFORMITY WITH REGULATED INVESTMENT COMPANY RULES*

*Sec. 1041. Conformity with regulated investment company rules.*

## *PART IV—CLARIFICATION OF EXCEPTION FROM IMPERMISSIBLE TENANT SERVICE INCOME*

*Sec. 1051. Clarification of exception for independent operators.*

## *PART V—MODIFICATION OF EARNINGS AND PROFITS RULES*

*Sec. 1061. Modification of earnings and profits rules.*

## *PART VI—STUDY RELATING TO TAXABLE REIT SUBSIDIARIES*

*Sec. 1071. Study relating to taxable REIT subsidiaries.*

### *Subtitle D—Private Activity Bond Volume Cap*

*Sec. 1081. Increase in volume cap on private activity bonds.*

### *Subtitle E—Leasehold Improvements Depreciation*

*Sec. 1091. Recovery period for depreciation of certain leasehold improvements.*

## *TITLE XI—MISCELLANEOUS PROVISIONS*

*Sec. 1101. Repeal of certain motor fuel excise taxes on fuel used by railroads and on inland waterway transportation.*

*Sec. 1102. Tax treatment of Alaska Native Settlement Trusts.*

- Sec. 1103. Long-term unused credits allowed against minimum tax.*
- Sec. 1104. 5-year net operating loss carryback for losses attributable to operating mineral interests of independent oil and gas producers.*
- Sec. 1105. Election to expense geological and geophysical expenditures.*
- Sec. 1106. Election to expense delay rental payments*
- Sec. 1107. Modification of active business definition under section 355.*
- Sec. 1108. Temporary suspension of maximum amount of amortizable reforestation expenditures.*
- Sec. 1109. Modification of excise tax imposed on arrow components.*
- Sec. 1110. Increase in threshold for Joint Committee reports on refunds and credits.*
- Sec. 1111. Modification of rural airport definition.*
- Sec. 1112. Payment of dividends on stock of cooperatives without reducing patronage dividends.*
- Sec. 1113. Consolidation of life insurance companies with other corporations.*
- Sec. 1114. Expansion of exemption from personal holding company tax for lending or finance companies.*
- Sec. 1115. Credit for modifications to inter-city buses required under the Americans With Disabilities Act of 1990.*
- Sec. 1116. Increased deductibility of business meal expenses for individuals subject to Federal limitations on hours of service.*
- Sec. 1117. Tax-exempt financing of qualified highway infrastructure construction.*
- Sec. 1118. Expansion of DC homebuyer tax credit.*
- Sec. 1119. Extension of DC zero percent capital gains rate.*
- Sec. 1120. Natural gas gathering lines treated as 7-year property.*
- Sec. 1121. Exemption from ticket taxes for certain transportation provided by small seaplanes.*
- Sec. 1122. No Federal income tax on amounts and lands received by Holocaust victims or their heirs.*
- Sec. 1123. 2-Percent floor on miscellaneous itemized deductions not to apply to qualified professional development expenses and qualified incidental expenses of elementary and secondary school teachers.*
- Sec. 1124. Expansion of deduction for computer donations to schools.*
- Sec. 1125. Credit for computer donations to schools and senior centers.*
- Sec. 1126. Increase in mandatory spending for Child Care and Development Block Grant.*
- Sec. 1127. Sense of the Senate regarding savings incentives.*
- Sec. 1128. Sense of Congress regarding the need for additional Federal funding and tax incentives for empowerment zones and enterprise communities authorized and designated pursuant to 1997 and 1998 laws.*
- Sec. 1129. Sense of Congress regarding the need to encourage improvements in Main Street businesses by expanding existing small business tax expensing rules to include investments in buildings and other depreciable real property.*
- Sec. 1130. Certain Native American housing assistance disregarded in determining whether building is federally subsidized for purposes of the low-income housing credit.*
- Sec. 1131. Disclosure of tax information to facilitate combined employment tax reporting.*
- Sec. 1132. Treatment of maple syrup production.*
- Sec. 1133. Treatment of bonds issued to acquire renewable resources on land subject to conservation easement.*
- Sec. 1134. Modification of alternative minimum tax for individuals.*
- Sec. 1135. Exclusion from income of severance payment amounts.*

- Sec. 1136. Capital gain treatment under section 631(b) to apply to outright sales by land owner.*
- Sec. 1137. Credit for clinical testing research expenses attributable to certain qualified academic institutions including teaching hospitals.*

#### **TITLE XII—EXTENSION OF EXPIRED AND EXPIRING PROVISIONS**

- Sec. 1201. Permanent extension and modification of research credit.*
- Sec. 1202. Subpart F exemption for active financing income.*
- Sec. 1203. Taxable income limit on percentage depletion for marginal production.*
- Sec. 1204. Work opportunity credit and welfare-to-work credit.*
- Sec. 1205. Extension and modification of credit for producing electricity from certain renewable resources.*
- Sec. 1206. Alaska exemption from dyeing requirements.*
- Sec. 1207. Extension of expensing of environmental remediation costs.*

#### **TITLE XIII—REVENUE OFFSETS**

##### *Subtitle A—General Provisions*

- Sec. 1301. Modification to foreign tax credit carryback and carryover periods.*
- Sec. 1302. Returns relating to cancellations of indebtedness by organizations lending money.*
- Sec. 1303. Increase in elective withholding rate for nonperiodic distributions from deferred compensation plans.*
- Sec. 1304. Extension of Internal Revenue Service user fees.*
- Sec. 1305. Transfer of excess defined benefit plan assets for retiree health benefits.*
- Sec. 1306. Tax treatment of income and loss on derivatives.*

##### *Subtitle B—Loophole Closers*

- Sec. 1311. Limitation on use of non-accrual experience method of accounting.*
- Sec. 1312. Limitations on welfare benefit funds of 10 or more employer plans.*
- Sec. 1313. Modification of installment method and repeal of installment method for accrual method taxpayers.*
- Sec. 1314. Treatment of gain from constructive ownership transactions.*
- Sec. 1315. Charitable split-dollar life insurance, annuity, and endowment contracts.*
- Sec. 1316. Restriction on use of real estate investment trusts to avoid estimated tax payment requirements.*
- Sec. 1317. Prohibited allocations of S corporation stock held by an ESOP.*
- Sec. 1318. Modification of anti-abuse rules related to assumption of liability.*
- Sec. 1319. Allocation of basis on transfers of intangibles in certain nonrecognition transactions.*
- Sec. 1320. Controlled entities ineligible for REIT status.*
- Sec. 1321. Distributions to a corporate partner of stock in another corporation.*

#### **TITLE XIV—TECHNICAL CORRECTIONS**

- Sec. 1401. Amendments related to Tax and Trade Relief Extension Act of 1998.*
- Sec. 1402. Amendments related to Internal Revenue Service Restructuring and Reform Act of 1998.*
- Sec. 1403. Amendments related to Taxpayer Relief Act of 1997.*
- Sec. 1404. Other technical corrections.*
- Sec. 1405. Clerical changes.*
- Sec. 1406. Technical corrections to Saver Act.*



## TITLE XV—COMPLIANCE WITH CONGRESSIONAL BUDGET ACT

*Sec. 1501. Sunset of provisions of Act.*

1       ***TITLE I—BROAD BASED TAX***  
 2                               ***RELIEF***

3   ***SEC. 101. REDUCTION OF 15 PERCENT INDIVIDUAL INCOME***  
 4                               ***TAX RATE.***

5       (a) *REDUCTION IN RATE.*—Subsection (f) of section 1  
 6 *is amended by adding at the end the following new para-*  
 7 *graph:*

8               “(8) *RATE REDUCTION.*—In prescribing the ta-  
 9 *bles under paragraph (1) which apply with respect to*  
 10 *taxable years beginning in a calendar year after*  
 11 *2000, the rate applicable to the lowest income bracket*  
 12 *shall be 14 percent.”.*

13       (b) *CONFORMING AMENDMENTS.*—

14               (1) *Subparagraph (B) of section 1(f)(2) is*  
 15 *amended by inserting “, except as provided in para-*  
 16 *graph (8),” before “by not changing”.*

17               (2) *Subparagraph (C) of section 1(f)(2) is*  
 18 *amended by inserting “and the reduction under para-*  
 19 *graph (8) in the rate of tax” before the period.*

20               (3) *The heading for subsection (f) of section 1 is*  
 21 *amended by inserting “RATE REDUCTION;” before*  
 22 *“ADJUSTMENTS”.*

23               (4) *Section 1(g)(7)(B)(ii)(II) is amended by*  
 24 *striking “15 percent” and inserting “14 percent”.*

1           (5) Section 3402(p)(1)(B) is amended by strik-  
 2           ing “15” and inserting “14”.

3           (6) Section 3402(p)(2) is amended by striking  
 4           “15 percent” and inserting “14 percent”.

5           (c) *EFFECTIVE DATE.*—The amendments made by this  
 6           section shall apply to taxable years beginning after Decem-  
 7           ber 31, 2000.

8           **SEC. 102. INCREASE IN MAXIMUM TAXABLE INCOME FOR 14**  
 9           **PERCENT RATE BRACKET.**

10          (a) *IN GENERAL.*—Section 1(f) (relating to adjust-  
 11          ments in tax tables so that inflation will not result in tax  
 12          increases), as amended by section 101, is amended—

13               (1) in paragraph (2)—

14                       (A) by redesignating subparagraphs (B)  
 15                       and (C) as subparagraphs (C) and (D),

16                       (B) by inserting after subparagraph (A) the  
 17                       following:

18                               “(B) in the case of the tables contained in  
 19                               subsections (a), (b), (c), and (d), by increasing  
 20                               (after adjustment under paragraph (8)) the max-  
 21                               imum taxable income level for the 14 percent  
 22                               rate bracket and the minimum taxable income  
 23                               level for the 28 percent rate bracket otherwise de-  
 24                               termined under subparagraph (A) for taxable  
 25                               years beginning in any calendar year after 2005

1           *by the applicable dollar amount for such cal-*  
 2           *endar year,” and*

3                     *(C) by striking “subparagraph (A)” in sub-*  
 4           *paragraph (C) (as so redesignated) and inserting*  
 5           *“subparagraphs (A) and (B),” and*

6           *(2) by adding at the end the following:*

7                     *“(9) APPLICABLE DOLLAR AMOUNT.—For pur-*  
 8           *poses of paragraph (2)(B)—*

9                     *“(A) IN GENERAL.—The applicable dollar*  
 10           *amount for any calendar year shall be deter-*  
 11           *mined as follows:*

12                     *“(i) JOINT RETURNS AND SURVIVING*  
 13           *SPOUSES.—In the case of the table con-*  
 14           *tained in subsection (a)—*

<b>“Calendar year:</b>	<b>Applicable dollar amount:</b>
2006 .....	\$4,000
2007 and thereafter .....	\$5,000.

15                     *“(ii) OTHER TABLES.—In the case of*  
 16           *the table contained in subsection (b), (c), or*  
 17           *(d)—*

<b>“Calendar year:</b>	<b>Applicable dollar amount:</b>
2006 .....	\$2,000
2007 and thereafter .....	\$2,500.

18                     *“(B) COST-OF-LIVING ADJUSTMENT.—In the*  
 19           *case of any taxable year beginning in any cal-*  
 20           *endar year after 2007, the applicable dollar*

1           *amount shall be increased by an amount equal*  
 2           *to—*

3                     *“(i) such dollar amount, multiplied by*  
 4                     *“(ii) the cost-of living adjustment de-*  
 5                     *termined under paragraph (3) for the cal-*  
 6                     *endar year in which the taxable year be-*  
 7                     *gins, determined by substituting ‘calendar*  
 8                     *year 2006’ for ‘calendar year 1992’ in sub-*  
 9                     *paragraph (B) thereof.”.*

10       ***(b) ROUNDING.***—Section 1(f)(6)(A) is amended by in-  
 11       serting “(after being increased under paragraph (2)(B))”  
 12       after “paragraph (2)(A)”.

## 13       ***TITLE II—FAMILY TAX RELIEF*** 14                     ***PROVISIONS***

### 15       ***SEC. 201. COMBINED RETURN TO WHICH UNMARRIED*** 16                     ***RATES APPLY.***

17       ***(a) IN GENERAL.***—Subpart B of part II of subchapter  
 18       A of chapter 61 (relating to income tax returns) is amended  
 19       by inserting after section 6013 the following new section:

#### 20       ***“SEC. 6013A. COMBINED RETURN WITH SEPARATE RATES.***

21                     ***“(a) GENERAL RULE.***—A husband and wife may make  
 22       a combined return of income taxes under subtitle A under  
 23       which—

1           “(1) a separate taxable income is determined for  
2       each spouse by applying the rules provided in this  
3       section, and

4           “(2) the tax imposed by section 1 is the aggre-  
5       gate amount resulting from applying the separate  
6       rates set forth in section 1(c) to each such taxable in-  
7       come.

8       “(b) *TREATMENT OF INCOME.*—For purposes of this  
9       section—

10           “(1) earned income (within the meaning of sec-  
11       tion 911(d)), and any income received as a pension  
12       or annuity which arises from an employer-employee  
13       relationship, shall be treated as the income of the  
14       spouse who rendered the services, and

15           “(2) income from property shall be divided be-  
16       tween the spouses in accordance with their respective  
17       ownership rights in such property (equally in the case  
18       of property held jointly by the spouses).

19       “(c) *TREATMENT OF DEDUCTIONS.*—For purposes of  
20       this section—

21           “(1) except as otherwise provided in this sub-  
22       section, the deductions described in section 62(a) shall  
23       be allowed to the spouse treated as having the income  
24       to which such deductions relate,

1           “(2) the deduction for retirement savings de-  
2       scribed in paragraph (7) of section 62(a) shall be al-  
3       lowed to the spouse whose earned income qualified the  
4       savings for the deduction,

5           “(3) the deduction for alimony described in  
6       paragraph (10) of section 62(a) shall be allowed to the  
7       spouse who has the liability to pay the alimony,

8           “(4) the deduction described in paragraph (16)  
9       of section 62(a) (relating to contributions to medical  
10      savings accounts) shall be allowed to the spouse with  
11      respect to whose employment or self-employment such  
12      account relates,

13          “(5) the deductions allowable by section 151(b)  
14      (relating to personal exemptions for taxpayer and  
15      spouse) shall be determined by allocating 1 personal  
16      exemption to each spouse,

17          “(6) section 63 shall be applied as if such  
18      spouses were not married, except that the election  
19      whether or not to itemize deductions shall be made  
20      jointly by both spouses and apply to each, and

21          “(7) each spouse’s share of all other deductions  
22      shall be determined by multiplying the aggregate  
23      amount thereof by the fraction—

24                 “(A) the numerator of which is such  
25                 spouse’s adjusted gross income, and

1                   “(B) the denominator of which is the com-  
2                   bined adjusted gross incomes of the 2 spouses.

3 *Any fraction determined under paragraph (7) shall be*  
4 *rounded to the nearest percentage point.*

5           “(d) *TREATMENT OF CREDITS.*—Credits shall be deter-  
6 *mined (and applied against the joint liability of the couple*  
7 *for tax determined under this section) as if the spouses had*  
8 *filed a joint return.*

9           “(e) *TREATMENT AS JOINT RETURN.*—Except as other-  
10 *wise provided in this section or in the regulations pre-*  
11 *scribed hereunder, for purposes of this title (other than sec-*  
12 *tions 1 and 63(c)) a combined return under this section*  
13 *shall be treated as a joint return.*

14           “(f) *REGULATIONS.*—The Secretary shall prescribe  
15 *such regulations as may be necessary or appropriate to*  
16 *carry out this section.”.*

17           “(b) *UNMARRIED RATE MADE APPLICABLE.*—So much  
18 *of subsection (c) of section 1 as precedes the table is amend-*  
19 *ed to read as follows:*

20           “(c) *SEPARATE OR UNMARRIED RETURN RATE.*—  
21 *There is hereby imposed on the taxable income of every indi-*  
22 *vidual (other than a married individual (as defined in sec-*  
23 *tion 7703) filing a return which is not a combined return*  
24 *under section 6013A, a surviving spouse as defined in sec-*

tion 2(a), or a head of household as defined in section 2(b))  
a tax determined in accordance with the following table.”.

(c) **BASIC STANDARD DEDUCTION FOR UNMARRIED INDIVIDUALS MADE APPLICABLE.**—Subparagraph (C) of section 63(c)(2) is amended to read as follows:

“(C) \$3,000 in the case of an individual  
other than—

“(i) a married individual filing a return which is not a combined return under  
section 6013A,

“(ii) a surviving spouse, or

“(iii) a head of household, or”.

(d) **CLERICAL AMENDMENT.**—The table of sections for subpart B of part II of subchapter A of chapter 61 is amended by inserting after the item relating to section 6013 the following:

“Sec. 6013A. Combined return with separate rates.”.

(e) **EFFECTIVE DATE.**—The amendments made by this section shall apply to taxable years beginning after December 31, 2004.

**SEC. 202. MARRIAGE PENALTY RELIEF FOR EARNED INCOME CREDIT.**

(a) **IN GENERAL.**—Paragraph (2) of section 32(b) (relating to percentages and amounts) is amended—

(1) by striking “AMOUNTS.—The earned” and  
inserting “AMOUNTS.—



1                   “(A) *IN GENERAL.*—Subject to subpara-  
 2                   graph (B), the earned”, and  
 3                   (2) by adding at the end the following new sub-  
 4                   paragraph:

5                   “(B) *JOINT RETURNS.*—In the case of a  
 6                   joint return, the phaseout amount determined  
 7                   under subparagraph (A) shall be increased by  
 8                   \$2,000.”.

9                   (b) *INFLATION ADJUSTMENT.*—Paragraph (1)(B) of  
 10                  section 32(j) (relating to inflation adjustments) is amended  
 11                  to read as follows:

12                   “(B) the cost-of-living adjustment deter-  
 13                   mined under section 1(f)(3) for the calendar year  
 14                   in which the taxable year begins, determined—

15                   “(i) in the case of amounts in sub-  
 16                   sections (b)(1)(A) and (i)(1), by sub-  
 17                   stituting ‘calendar year 1995’ for ‘calendar  
 18                   year 1992’ in subparagraph (B) thereof,  
 19                   and

20                   “(ii) in the case of the \$2,000 amount  
 21                   in subsection (b)(1)(B), by substituting ‘cal-  
 22                   endar year 2004’ for ‘calendar year 1992’  
 23                   in subparagraph (B) of such section 1.”.

24                   (c) *ROUNDING.*—Section 32(j)(2)(A) (relating to  
 25                  rounding) is amended by striking “subsection (b)(2)” and

1 inserting “subsection (b)(2)(A) (after being increased under  
2 subparagraph (B) thereof)”.

3 (d) *EFFECTIVE DATE.*—*The amendments made by this*  
4 *section shall apply to taxable years beginning after Decem-*  
5 *ber 31, 2004.*

6 **SEC. 203. EXCLUSION FOR FOSTER CARE PAYMENTS TO**  
7 **APPLY TO PAYMENTS BY QUALIFIED PLACE-**  
8 **MENT AGENCIES.**

9 (a) *IN GENERAL.*—*The matter preceding subpara-*  
10 *graph (B) of section 131(b)(1) (defining qualified foster care*  
11 *payment) is amended to read as follows:*

12 “(1) *IN GENERAL.*—*The term ‘qualified foster*  
13 *care payment’ means any payment made pursuant to*  
14 *a foster care program of a State or political subdivi-*  
15 *sion thereof—*

16 “(A) *which is paid by—*

17 “(i) *the State or political subdivision*  
18 *thereof, or*

19 “(ii) *a qualified foster care placement*  
20 *agency of such State or political subdivi-*  
21 *sion, and”.*

22 (b) *QUALIFIED FOSTER INDIVIDUALS TO INCLUDE IN-*  
23 *DIVIDUALS PLACED BY QUALIFIED PLACEMENT AGEN-*  
24 *CIES.*—*Subparagraph (B) of section 131(b)(2) (defining*  
25 *qualified foster individual) is amended to read as follows:*

1                   “(B) a qualified foster care placement agen-  
2                   cy.”.

3           (c) *QUALIFIED FOSTER CARE PLACEMENT AGENCY*  
4 *DEFINED.*—Subsection (b) of section 131 is amended by re-  
5 *designating paragraph (3) as paragraph (4) and by insert-*  
6 *ing after paragraph (2) the following new paragraph:*

7                   “(3) *QUALIFIED FOSTER CARE PLACEMENT*  
8 *AGENCY.*—The term ‘qualified foster care placement  
9 *agency’ means any placement agency which is li-*  
10 *censed or certified by—*

11                   “(A) a State or political subdivision thereof,  
12                   or

13                   “(B) an entity designated by a State or po-  
14 *litical subdivision thereof,*  
15 *to make foster care payments under the foster care*  
16 *program of such State or political subdivision to pro-*  
17 *viders of foster care.”.*

18           (d) *EFFECTIVE DATE.*—The amendments made by this  
19 *section shall apply to taxable years beginning after Decem-*  
20 *ber 31, 1999.*

21 **SEC. 204. MODIFICATION OF DEPENDENT CARE CREDIT.**

22           (a) *INCREASE IN PERCENTAGE OF EMPLOYMENT-RE-*  
23 *LATED EXPENSES TAKEN INTO ACCOUNT.*—Subsection  
24 (a)(2) of section 21 (relating to expenses for household and

1 *dependent care services necessary for gainful employment)*  
 2 *is amended—*

3 *(1) by striking “30 percent” and inserting “40*  
 4 *percent”,*

5 *(2) by striking “\$2,000” and inserting “\$1,000”,*  
 6 *and*

7 *(3) by striking “\$10,000” and inserting*  
 8 *“\$30,000”.*

9 *(b) INDEXING OF LIMIT ON EMPLOYMENT-RELATED*  
 10 *EXPENSES.—Section 21(c) (relating to dollar limit on*  
 11 *amount creditable) is amended to read as follows:*

12 *“(c) DOLLAR LIMIT ON AMOUNT CREDITABLE.—*

13 *“(1) IN GENERAL.—The amount of the employ-*  
 14 *ment-related expenses incurred during any taxable*  
 15 *year which may be taken into account under sub-*  
 16 *section (a) shall not exceed—*

17 *“(A) an amount equal to 50 percent of the*  
 18 *amount determined under subparagraph (B) if*  
 19 *there is 1 qualifying individual with respect to*  
 20 *the taxpayer for such taxable year, or*

21 *“(B) \$4,800 if there are 2 or more quali-*  
 22 *fying individuals with respect to the taxpayer*  
 23 *for such taxable year.*

24 *The amount determined under subparagraph (A) or*  
 25 *(B) (whichever is applicable) shall be reduced by the*

1       *aggregate amount excludable from gross income under*  
 2       *section 129 for the taxable year.*

3               “(2) *COST-OF-LIVING ADJUSTMENT.*—

4                       “(A) *IN GENERAL.*—*In the case of a taxable*  
 5       *year beginning after 2000, the \$4,800 amount*  
 6       *under paragraph (1)(B) shall be increased by an*  
 7       *amount equal to—*

8                               “(i) *such dollar amount, multiplied by*

9                               “(ii) *the cost-of-living adjustment de-*  
 10       *termined under section 1(f)(3) for the cal-*  
 11       *endar year in which the taxable year be-*  
 12       *gins, determined by substituting ‘calendar*  
 13       *year 1999’ for ‘calendar year 1992’ in sub-*  
 14       *paragraph (B) thereof.*

15                       “(B) *ROUNDING RULES.*—*If any amount*  
 16       *after adjustment under subparagraph (A) is not*  
 17       *a multiple of \$50, such amount shall be rounded*  
 18       *to the next lower multiple of \$50.’.*

19       (c) *MINIMUM DEPENDENT CARE CREDIT ALLOWED*  
 20       *FOR STAY-AT-HOME PARENTS.*—*Section 21(e) (relating to*  
 21       *special rules) is amended by adding at the end the fol-*  
 22       *lowing:*

23                       “(11) *MINIMUM CREDIT ALLOWED FOR STAY-AT-*  
 24       *HOME PARENTS.*—

1           “(A) *IN GENERAL.*—Notwithstanding sub-  
2           section (d), in the case of any taxpayer with 1  
3           or more qualifying individuals described in sub-  
4           section (b)(1)(A) under the age of 1, such tax-  
5           payer shall be deemed to have employment-re-  
6           lated expenses for the taxable year with respect  
7           to each such qualifying individual in an amount  
8           equal to the sum of—

9                   “(i) \$200 for each month in such tax-  
10                  able year during which such qualifying in-  
11                  dividual is under the age of 1, and

12                  “(ii) the amount of employment-related  
13                  expenses otherwise incurred for such quali-  
14                  fying individual for the taxable year (deter-  
15                  mined under this section without regard to  
16                  this paragraph).

17           “(B) *ELECTION TO NOT APPLY THIS PARA-*  
18           *GRAPH.*—This paragraph shall not apply with  
19           respect to any qualifying individual for any tax-  
20           able year if the taxpayer elects to not have this  
21           paragraph apply to such qualifying individual  
22           for such taxable year.”.

23           (d) *EFFECTIVE DATE.*—The amendments made by this  
24           section shall apply to taxable years beginning after Decem-  
25           ber 31, 2000.

1 **SEC. 205. ALLOWANCE OF CREDIT FOR EMPLOYER EX-**  
 2 **PENSES FOR CHILD CARE ASSISTANCE.**

3 (a) *IN GENERAL.*—Subpart D of part IV of subchapter  
 4 A of chapter 1 (relating to business related credits) is  
 5 amended by adding at the end the following new section:

6 **“SEC. 45D. EMPLOYER-PROVIDED CHILD CARE CREDIT.**

7 “(a) *ALLOWANCE OF CREDIT.*—For purposes of section  
 8 38, the employer-provided child care credit determined  
 9 under this section for the taxable year is an amount equal  
 10 to the sum of—

11 “(1) 25 percent of the qualified child care ex-  
 12 penditures, and

13 “(2) 10 percent of the qualified child care re-  
 14 source and referral expenditures,  
 15 of the taxpayer for such taxable year.

16 “(b) *DOLLAR LIMITATION.*—The credit allowable  
 17 under subsection (a) for any taxable year shall not exceed  
 18 \$150,000.

19 “(c) *DEFINITIONS.*—For purposes of this section—

20 “(1) *QUALIFIED CHILD CARE EXPENDITURE.*—

21 “(A) *IN GENERAL.*—The term ‘qualified  
 22 child care expenditure’ means any amount paid  
 23 or incurred—

24 “(i) to acquire, construct, rehabilitate,  
 25 or expand property—

1                   “(I) which is to be used as part of  
2                   an eligible qualified child care facility  
3                   of the taxpayer,

4                   “(II) with respect to which a de-  
5                   duction for depreciation (or amortiza-  
6                   tion in lieu of depreciation) is allow-  
7                   able, and

8                   “(III) which does not constitute  
9                   part of the principal residence (within  
10                  the meaning of section 121) of the tax-  
11                  payer or any employee of the taxpayer,

12                  “(ii) for the operating costs of an eligi-  
13                  ble qualified child care facility of the tax-  
14                  payer, including costs related to the train-  
15                  ing of employees of the child care facility, to  
16                  scholarship programs, to the providing of  
17                  differential compensation to employees  
18                  based on level of child care training, and to  
19                  expenses associated with achieving accredi-  
20                  tation, or

21                  “(iii) under a contract with a quali-  
22                  fied child care facility to provide child care  
23                  services to employees of the taxpayer.

24                  “(B) EXCLUSION FOR AMOUNTS FUNDED BY  
25                  GRANTS, ETC.—The term ‘qualified child care ex-



penditure’ shall not include any amount to the extent such amount is funded by any grant, contract, or otherwise by another person (or any governmental entity).

“(C) *NONDISCRIMINATION.*—The term ‘qualified child care expenditure’ shall not include any amount expended in relation to any child care services unless the providing of such services to employees of the taxpayer does not discriminate in favor of highly compensated employees (within the meaning of section 404(q)).

“(2) *QUALIFIED CHILD CARE FACILITY.*—

“(A) *IN GENERAL.*—The term ‘qualified child care facility’ means a facility—

“(i) the principal use of which is to provide child care assistance, and

“(ii) which meets the requirements of all applicable laws and regulations of the State or local government in which it is located, including, but not limited to, the licensing of the facility as a child care facility.

Clause (i) shall not apply to a facility which is the principal residence (within the meaning of section 121) of the operator of the facility.

1           “(B) *ELIGIBLE QUALIFIED CHILD CARE FA-*  
 2           *CILITY.—A qualified child care facility shall be*  
 3           *treated as an eligible qualified child care facility*  
 4           *with respect to the taxpayer if—*

5                   “(i) *enrollment in the facility is open*  
 6                   *to employees of the taxpayer during the tax-*  
 7                   *able year,*

8                   “(ii) *the facility is not the principal*  
 9                   *trade or business of the taxpayer, and*

10                   “(iii) *at least 30 percent of the enroll-*  
 11                   *ees of such facility are dependents of em-*  
 12                   *ployees of the taxpayer.*

13           “(C) *APPLICATION OF SUBPARAGRAPH*  
 14           *(B).—In the case of a new facility, the facility*  
 15           *shall be treated as meeting the requirement of*  
 16           *subparagraph (B)(iii) if not later than 2 years*  
 17           *after placing such facility in service at least 30*  
 18           *percent of the enrollees of such facility are de-*  
 19           *pendents of employees of the taxpayer.*

20           “(3) *QUALIFIED CHILD CARE RESOURCE AND RE-*  
 21           *FERRAL EXPENDITURE.—*

22                   “(A) *IN GENERAL.—The term ‘qualified*  
 23                   *child care resource and referral expenditure’*  
 24                   *means any amount paid or incurred under a*

1           *contract to provide child care resource and refer-*  
 2           *ral services to employees of the taxpayer.*

3           “(B) *EXCLUSION FOR AMOUNTS FUNDED BY*  
 4           *GRANTS, ETC.—The term ‘qualified child care re-*  
 5           *source and referral expenditure’ shall not include*  
 6           *any amount to the extent such amount is funded*  
 7           *by any grant, contract, or otherwise by another*  
 8           *person (or any governmental entity).*

9           “(C)    *NONDISCRIMINATION.—The     term*  
 10          *‘qualified child care resource and referral ex-*  
 11          *penditure’ shall not include any amount ex-*  
 12          *pended in relation to any child care resource*  
 13          *and referral services unless the providing of such*  
 14          *services to employees of the taxpayer does not*  
 15          *discriminate in favor of highly compensated em-*  
 16          *ployees (within the meaning of section 404(q)).*

17          “(d) *RECAPTURE OF ACQUISITION AND CONSTRUCTION*  
 18          *CREDIT.—*

19               “(1) *IN GENERAL.—If, as of the close of any tax-*  
 20          *able year, there is a recapture event with respect to*  
 21          *any eligible qualified child care facility of the tax-*  
 22          *payer, then the tax of the taxpayer under this chapter*  
 23          *for such taxable year shall be increased by an amount*  
 24          *equal to the product of—*

1           “(A) the applicable recapture percentage,  
2           and

3           “(B) the aggregate decrease in the credits  
4           allowed under section 38 for all prior taxable  
5           years which would have resulted if the qualified  
6           child care expenditures of the taxpayer described  
7           in subsection (c)(1)(A) with respect to such facil-  
8           ity had been zero.

9           “(2) *APPLICABLE RECAPTURE PERCENTAGE.*—

10           “(A) *IN GENERAL.*—For purposes of this  
11           subsection, the applicable recapture percentage  
12           shall be determined from the following table:

<b><i>“If the recapture event occurs in:</i></b>	<b><i>The applicable recapture percentage is:</i></b>
<i>Year 1</i> .....	<i>100</i>
<i>Year 2</i> .....	<i>80</i>
<i>Year 3</i> .....	<i>60</i>
<i>Year 4</i> .....	<i>40</i>
<i>Year 5</i> .....	<i>20</i>
<i>Years 6 and thereafter</i> .....	<i>0.</i>

13           “(B) *YEARS.*—For purposes of subpara-  
14           graph (A), year 1 shall begin on the first day of  
15           the taxable year in which the eligible qualified  
16           child care facility is placed in service by the tax-  
17           payer.

18           “(3) *RECAPTURE EVENT DEFINED.*—For pur-  
19           poses of this subsection, the term ‘recapture event’  
20           means—

1           “(A) *CESSATION OF OPERATION.*—*The ces-*  
 2           *sation of the operation of the facility as an eligi-*  
 3           *ble qualified child care facility.*

4           “(B) *CHANGE IN OWNERSHIP.*—

5           “(i) *IN GENERAL.*—*Except as provided*  
 6           *in clause (ii), the disposition of a tax-*  
 7           *payer’s interest in an eligible qualified*  
 8           *child care facility with respect to which the*  
 9           *credit described in subsection (a) was allow-*  
 10          *able.*

11          “(ii) *AGREEMENT TO ASSUME RECAP-*  
 12          *TURE LIABILITY.*—*Clause (i) shall not*  
 13          *apply if the person acquiring such interest*  
 14          *in the facility agrees in writing to assume*  
 15          *the recapture liability of the person dis-*  
 16          *posing of such interest in effect immediately*  
 17          *before such disposition. In the event of such*  
 18          *an assumption, the person acquiring the in-*  
 19          *terest in the facility shall be treated as the*  
 20          *taxpayer for purposes of assessing any re-*  
 21          *capture liability (computed as if there had*  
 22          *been no change in ownership).*

23          “(4) *SPECIAL RULES.*—

24          “(A) *TAX BENEFIT RULE.*—*The tax for the*  
 25          *taxable year shall be increased under paragraph*

1           *(1) only with respect to credits allowed by reason*  
 2           *of this section which were used to reduce tax li-*  
 3           *ability. In the case of credits not so used to re-*  
 4           *duce tax liability, the carryforwards and*  
 5           *carrybacks under section 39 shall be appro-*  
 6           *priately adjusted.*

7           “(B) *NO CREDITS AGAINST TAX.*—*Any in-*  
 8           *crease in tax under this subsection shall not be*  
 9           *treated as a tax imposed by this chapter for pur-*  
 10           *poses of determining the amount of any credit*  
 11           *under subpart A, B, or D of this part.*

12           “(C) *NO RECAPTURE BY REASON OF CAS-*  
 13           *UALTY LOSS.*—*The increase in tax under this*  
 14           *subsection shall not apply to a cessation of oper-*  
 15           *ation of the facility as a qualified child care fa-*  
 16           *cility by reason of a casualty loss to the extent*  
 17           *such loss is restored by reconstruction or replace-*  
 18           *ment within a reasonable period established by*  
 19           *the Secretary.*

20           “(e) *SPECIAL RULES.*—*For purposes of this section—*

21           “(1) *AGGREGATION RULES.*—*All persons which*  
 22           *are treated as a single employer under subsections (a)*  
 23           *and (b) of section 52 shall be treated as a single tax-*  
 24           *payer.*

1           “(2) *PASS-THRU IN THE CASE OF ESTATES AND*  
 2           *TRUSTS.*—Under regulations prescribed by the Sec-  
 3           retary, rules similar to the rules of subsection (d) of  
 4           section 52 shall apply.

5           “(3) *ALLOCATION IN THE CASE OF PARTNER-*  
 6           *SHIPS.*—In the case of partnerships, the credit shall  
 7           be allocated among partners under regulations pre-  
 8           scribed by the Secretary.

9           “(f) *NO DOUBLE BENEFIT.*—

10           “(1) *REDUCTION IN BASIS.*—For purposes of this  
 11           subtitle—

12           “(A) *IN GENERAL.*—If a credit is deter-  
 13           mined under this section with respect to any  
 14           property by reason of expenditures described in  
 15           subsection (c)(1)(A), the basis of such property  
 16           shall be reduced by the amount of the credit so  
 17           determined.

18           “(B) *CERTAIN DISPOSITIONS.*—If during  
 19           any taxable year there is a recapture amount de-  
 20           termined with respect to any property the basis  
 21           of which was reduced under subparagraph (A),  
 22           the basis of such property (immediately before  
 23           the event resulting in such recapture) shall be in-  
 24           creased by an amount equal to such recapture  
 25           amount. For purposes of the preceding sentence,

1           the term ‘recapture amount’ means any increase  
 2           in tax (or adjustment in carrybacks or  
 3           carryovers) determined under subsection (d).

4           “(2) *OTHER DEDUCTIONS AND CREDITS.*—No de-  
 5           duction or credit shall be allowed under any other  
 6           provision of this chapter with respect to the amount  
 7           of the credit determined under this section.”.

8           (b) *CONFORMING AMENDMENTS.*—

9           (1) *Section 38(b) is amended—*

10                 (A) *by striking out “plus” at the end of*  
 11                 *paragraph (11),*

12                 (B) *by striking out the period at the end of*  
 13                 *paragraph (12), and inserting a comma and*  
 14                 *“plus”, and*

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

17                         “(13) *the employer-provided child care credit de-*  
 18                         *termined under section 45D.*”.

19           (2) *The table of sections for subpart D of part*  
 20           *IV of subchapter A of chapter 1 is amended by adding*  
 21           *at the end the following new item:*

                              “*Sec. 45D. Employer-provided child care credit.*”.

22           (c) *EFFECTIVE DATE.*—*The amendments made by this*  
 23           *section shall apply to taxable years beginning after Decem-*  
 24           *ber 31, 2000.*



1 **SEC. 206. MODIFICATION OF ALTERNATIVE MINIMUM TAX**  
 2 **FOR INDIVIDUALS.**

3 (a) *NONREFUNDABLE PERSONAL CREDITS FULLY AL-*  
 4 *LOWED AGAINST REGULAR TAX LIABILITY.—*

5 (1) *IN GENERAL.—*Subsection (a) of section 26  
 6 *(relating to limitation based on amount of tax) is*  
 7 *amended to read as follows:*

8 “(a) *LIMITATION BASED ON AMOUNT OF TAX.—*The  
 9 *aggregate amount of credits allowed by this subpart for the*  
 10 *taxable year shall not exceed the taxpayer’s regular tax li-*  
 11 *ability for the taxable year.”.*

12 (2) *CHILD CREDIT.—*Subsection (d) of section 24  
 13 *is amended by striking paragraph (2) and by redesign-*  
 14 *ating paragraph (3) as paragraph (2).*

15 (3) *EFFECTIVE DATE.—*The amendments made  
 16 *by this subsection shall apply to taxable years begin-*  
 17 *ning after December 31, 1998.*

18 (b) *PERSONAL EXEMPTIONS ALLOWED IN COMPUTING*  
 19 *MINIMUM TAX.—*

20 (1) *IN GENERAL.—*Subparagraph (E) of section  
 21 *56(b)(1) is amended to read as follows:*

22 “(E) *SPECIAL RULE FOR CERTAIN DEDUC-*  
 23 *TIONS.—*The standard deduction under section  
 24 *63(c) shall not be allowed and the deduction for*  
 25 *personal exemptions under section 151 and the*

1           deduction under section 642(b) shall each be al-  
 2           lowed, but shall each be reduced by \$250.”.

3           (2) *EFFECTIVE DATE.*—The amendments made  
 4           by this subsection shall apply to taxable years begin-  
 5           ning after December 31, 2005.

6   **SEC. 207. LONG-TERM CAPITAL GAINS DEDUCTION FOR IN-**  
 7           **DIVIDUALS.**

8           (a) *GENERAL RULE.*—Part I of subchapter P of chap-  
 9           ter 1 (relating to treatment of capital gains) is amended  
 10          by redesignating section 1202 as section 1203 and by insert-  
 11          ing after section 1201 the following new section:

12   **“SEC. 1202. CAPITAL GAINS DEDUCTION FOR INDIVIDUALS.**

13          “(a) *IN GENERAL.*—In the case of an individual, there  
 14          shall be allowed as a deduction for the taxable year an  
 15          amount equal to the lesser of—

16                 “(1) the net capital gain of the taxpayer for the  
 17                 taxable year, or

18                 “(2) \$1,000.

19          “(b) *SALES BETWEEN RELATED PARTIES.*—Gains  
 20          from sales and exchanges to any related person (within the  
 21          meaning of section 267(b) or 707(b)(1)) shall not be taken  
 22          into account in determining net capital gain.

23          “(c) *SPECIAL RULE FOR SECTION 1250 PROPERTY.*—  
 24          Solely for purposes of this section, in applying section 1250  
 25          to any disposition of section 1250 property, all depreciation

1 *adjustments in respect of the property shall be treated as*  
 2 *additional depreciation.*

3 “(d) *SECTION NOT TO APPLY TO CERTAIN TAX-*  
 4 *PAYERS.—No deduction shall be allowed under this section*  
 5 *to—*

6 “(1) *an individual with respect to whom a de-*  
 7 *duction under section 151 is allowable to another tax-*  
 8 *payer for a taxable year beginning in the calendar*  
 9 *year in which such individual’s taxable year begins,*

10 “(2) *a married individual (within the meaning*  
 11 *of section 7703) filing a separate return for the tax-*  
 12 *able year, or*

13 “(3) *an estate or trust.*

14 “(e) *SPECIAL RULE FOR PASS-THRU ENTITIES.—*

15 “(1) *IN GENERAL.—In applying this section*  
 16 *with respect to any pass-thru entity, the determina-*  
 17 *tion of when the sale or exchange occurs shall be made*  
 18 *at the entity level.*

19 “(2) *PASS-THRU ENTITY DEFINED.—For pur-*  
 20 *poses of paragraph (1), the term ‘pass-thru entity’*  
 21 *means—*

22 “(A) *a regulated investment company,*

23 “(B) *a real estate investment trust,*

24 “(C) *an S corporation,*

25 “(D) *a partnership,*

1                   “(E) an estate or trust, and

2                   “(F) a common trust fund.”.

3           (b) *COORDINATION WITH MAXIMUM CAPITAL GAINS*

4 *RATE.*—Paragraph (3) of section 1(h) (relating to max-  
5 imum capital gains rate) is amended to read as follows:

6                   “(3) *COORDINATION WITH OTHER PROVISIONS.*—

7           *For purposes of this subsection, the amount of the net*  
8 *capital gain shall be reduced (but not below zero) by*  
9 *the sum of—*

10                   “(A) *the amount of the net capital gain*  
11 *taken into account under section 1202(a) for the*  
12 *taxable year, plus*

13                   “(B) *the amount which the taxpayer elects*  
14 *to take into account as investment income for the*  
15 *taxable year under section 163(d)(4)(B)(iii).*”.

16           (c) *DEDUCTION ALLOWABLE IN COMPUTING ADJUSTED*

17 *GROSS INCOME.*—Subsection (a) of section 62 (defining ad-  
18 justed gross income) is amended by inserting after para-  
19 graph (17) the following new paragraph:

20                   “(18) *LONG-TERM CAPITAL GAINS.*—*The deduc-*  
21 *tion allowed by section 1202.*”.

22           (d) *TREATMENT OF COLLECTIBLES.*—

23                   (1) *IN GENERAL.*—Section 1222 (relating to  
24 *other terms relating to capital gains and losses*) is

1       amended by inserting after paragraph (11) the fol-  
2       lowing new paragraph:

3               “(12) *SPECIAL RULE FOR COLLECTIBLES.*—

4               “(A) *IN GENERAL.*—Any gain or loss from  
5       the sale or exchange of a collectible shall be treat-  
6       ed as a short-term capital gain or loss (as the  
7       case may be), without regard to the period such  
8       asset was held. The preceding sentence shall  
9       apply only to the extent the gain or loss is taken  
10      into account in computing taxable income.

11              “(B) *TREATMENT OF CERTAIN SALES OF IN-*  
12      *TEREST IN PARTNERSHIP, ETC.*—For purposes of  
13      subparagraph (A), any gain from the sale or ex-  
14      change of an interest in a partnership, S cor-  
15      poration, or trust which is attributable to unre-  
16      alized appreciation in the value of collectibles  
17      held by such entity shall be treated as gain from  
18      the sale or exchange of a collectible. Rules simi-  
19      lar to the rules of section 751(f) shall apply for  
20      purposes of the preceding sentence.

21              “(C) *COLLECTIBLE.*—For purposes of this  
22      paragraph, the term ‘collectible’ means any cap-  
23      ital asset which is a collectible (as defined in sec-  
24      tion 408(m) without regard to paragraph (3)  
25      thereof).”.

1           (2) *CHARITABLE DEDUCTION NOT AFFECTED.*—

2           (A) *Paragraph (1) of section 170(e) is*  
 3           *amended by adding at the end the following new*  
 4           *sentence: “For purposes of this paragraph, sec-*  
 5           *tion 1222 shall be applied without regard to*  
 6           *paragraph (12) thereof (relating to special rule*  
 7           *for collectibles).”.*

8           (B) *Clause (iv) of section 170(b)(1)(C) is*  
 9           *amended by inserting before the period at the*  
 10          *end the following: “and section 1222 shall be ap-*  
 11          *plied without regard to paragraph (12) thereof*  
 12          *(relating to special rule for collectibles).”.*

13          (e) *CONFORMING AMENDMENTS.*—

14          (1) *Section 57(a)(7) is amended by striking*  
 15          *“1202” and inserting “1203”.*

16          (2) *Clause (iii) of section 163(d)(4)(B) is amend-*  
 17          *ed to read as follows:*

18                  *“(iii) the sum of—*

19                         *“(I) the portion of the net capital*  
 20                         *gain referred to in clause (ii)(II) (or,*  
 21                         *if lesser, the net capital gain referred*  
 22                         *to in clause (ii)(I)) taken into account*  
 23                         *under section 1202, reduced by the*  
 24                         *amount of the deduction allowed with*

1                   *respect to such gain under section*  
2                   *1202, plus*

3                   *“(II) so much of the gain de-*  
4                   *scribed in subclause (I) which is not*  
5                   *taken into account under section 1202*  
6                   *and which the taxpayer elects to take*  
7                   *into account under this clause.”.*

8                   *(3) Subparagraph (B) of section 172(d)(2) is*  
9                   *amended to read as follows:*

10                   *“(B) the deduction under section 1202 and*  
11                   *the exclusion under section 1203 shall not be al-*  
12                   *lowed.”.*

13                   *(4) Section 642(c)(4) is amended by striking*  
14                   *“1202” and inserting “1203”.*

15                   *(5) Section 643(a)(3) is amended by striking*  
16                   *“1202” and inserting “1203”.*

17                   *(6) Paragraph (4) of section 691(c) is amended*  
18                   *inserting “1203,” after “1202,”.*

19                   *(7) The second sentence of section 871(a)(2) is*  
20                   *amended by inserting “or 1203” after “section 1202”.*

21                   *(8) The last sentence of section 1044(d) is*  
22                   *amended by striking “1202” and inserting “1203”.*

23                   *(9) Paragraph (1) of section 1402(i) is amended*  
24                   *by inserting “, and the deduction provided by section*

1       1202 and the exclusion provided by section 1203 shall  
 2       not apply” before the period at the end.

3           (10) Section 121 is amended by adding at the  
 4       end the following new subsection:

5       “(h) *CROSS REFERENCE.*—

**“For treatment of eligible gain not excluded under  
 subsection (a), see section 1202.”.**

6           (11) Section 1203, as redesignated by subsection  
 7       (a), is amended by adding at the end the following  
 8       new subsection:

9       “(l) *CROSS REFERENCE.*—

**“For treatment of eligible gain not excluded under  
 subsection (a), see section 1202.”.**

10          (12) The table of sections for part I of subchapter  
 11       P of chapter 1 is amended by striking the item relat-  
 12       ing to section 1202 and by inserting after the item re-  
 13       lating to section 1201 the following new items:

“Sec. 1202. Capital gains deduction.

“Sec. 1203. 50-percent exclusion for gain from certain small busi-  
 ness stock.”.

14       (f) *EFFECTIVE DATES.*—

15           (1) *IN GENERAL.*—Except as provided in para-  
 16       graph (2), the amendments made by this section shall  
 17       apply to taxable years beginning after December 31,  
 18       2005.

19           (2) *COLLECTIBLES.*—The amendments made by  
 20       subsection (d) shall apply to sales and exchanges after  
 21       December 31, 2005.



1 **SEC. 208. CREDIT FOR INTEREST ON HIGHER EDUCATION**  
 2 **LOANS.**

3 (a) *IN GENERAL.*—Subpart A of part IV of subchapter  
 4 A of chapter 1 (relating to nonrefundable personal credits)  
 5 is amended by inserting after section 25A the following new  
 6 section:

7 **“SEC. 25B. INTEREST ON HIGHER EDUCATION LOANS.**

8 “(a) *ALLOWANCE OF CREDIT.*—In the case of an indi-  
 9 vidual, there shall be allowed as a credit against the tax  
 10 imposed by this chapter for the taxable year an amount  
 11 equal to the interest paid by the taxpayer during the taxable  
 12 year on any qualified education loan.

13 “(b) *MAXIMUM CREDIT.*—

14 “(1) *IN GENERAL.*—Except as provided in para-  
 15 graph (2), the credit allowed by subsection (a) for the  
 16 taxable year shall not exceed \$1,500.

17 “(2) *LIMITATION BASED ON MODIFIED ADJUSTED*  
 18 *GROSS INCOME.*—

19 “(A) *IN GENERAL.*—If the modified adjusted  
 20 gross income of the taxpayer for the taxable year  
 21 exceeds \$50,000 (\$80,000 in the case of a joint  
 22 return), the amount which would (but for this  
 23 paragraph) be allowable as a credit under this  
 24 section shall be reduced (but not below zero) by  
 25 the amount which bears the same ratio to the

1           *amount which would be so allowable as such ex-*  
 2           *cess bears to \$20,000.*

3           “(B) *MODIFIED ADJUSTED GROSS IN-*  
 4           *COME.—The term ‘modified adjusted gross in-*  
 5           *come’ means adjusted gross income determined*  
 6           *without regard to sections 911, 931, and 933.*

7           “(C) *INFLATION ADJUSTMENT.—In the case*  
 8           *of any taxable year beginning after 2005, the*  
 9           *\$50,000 and \$80,000 amounts referred to in sub-*  
 10          *paragraph (A) shall be increased by an amount*  
 11          *equal to—*

12                   “(i) *such dollar amount, multiplied by*

13                   “(ii) *the cost-of-living adjustment de-*  
 14                   *termined under section (1)(f)(3) for the cal-*  
 15                   *endar year in which the taxable year be-*  
 16                   *gins, by substituting ‘2004’ for ‘1992’.*

17           “(D) *ROUNDING.—If any amount as ad-*  
 18           *justed under subparagraph (C) is not a multiple*  
 19           *of \$50, such amount shall be rounded to the*  
 20           *nearest multiple of \$50.*

21          “(c) *DEPENDENTS NOT ELIGIBLE FOR CREDIT.—No*  
 22          *credit shall be allowed by this section to an individual for*  
 23          *the taxable year if a deduction under section 151 with re-*  
 24          *spect to such individual is allowed to another taxpayer for*

1 *the taxable year beginning in the calendar year in which*  
 2 *such individual's taxable year begins.*

3 “(d) *LIMIT ON PERIOD CREDIT ALLOWED.*—*A credit*  
 4 *shall be allowed under this section only with respect to in-*  
 5 *terest paid on any qualified education loan during the first*  
 6 *60 months (whether or not consecutive) in which interest*  
 7 *payments are required. For purposes of this paragraph, any*  
 8 *loan and all refinancings of such loan shall be treated as*  
 9 *1 loan.*

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

11 “(1) *QUALIFIED EDUCATION LOAN.*—*The term*  
 12 *‘qualified education loan’ has the meaning given such*  
 13 *term by section 221(e)(1).*

14 “(2) *DEPENDENT.*—*The term ‘dependent’ has the*  
 15 *meaning given such term by section 152.*

16 “(f) *SPECIAL RULES.*—

17 “(1) *DENIAL OF DOUBLE BENEFIT.*—*No credit*  
 18 *shall be allowed under this section for any amount*  
 19 *taken into account for any deduction under any other*  
 20 *provision of this chapter.*

21 “(2) *MARRIED COUPLES MUST FILE JOINT RE-*  
 22 *TURN.*—*If the taxpayer is married at the close of the*  
 23 *taxable year, the credit shall be allowed under sub-*  
 24 *section (a) only if the taxpayer and the taxpayer’s*  
 25 *spouse file a joint return for the taxable year.*

1           “(3) *MARITAL STATUS.*—*Marital status shall be*  
 2           *determined in accordance with section 7703.*”.

3           (b) *CONFORMING AMENDMENT.*—*The table of sections*  
 4           *for subpart A of part IV of subchapter A of chapter 1 is*  
 5           *amended by inserting after the item relating to section 25A*  
 6           *the following new item:*

*“Sec. 25B. Interest on higher education loans.”.*

7           (c) *EFFECTIVE DATE.*—*The amendments made by this*  
 8           *section shall apply to any qualified education loan (as de-*  
 9           *finied in section 25B(e)(1) of the Internal Revenue Code of*  
 10           *1986, as added by this section) incurred on, before, or after*  
 11           *the date of the enactment of this Act, but only with respect*  
 12           *to any loan interest payment due after December 31, 2004.*

13   **SEC. 209. ELIMINATION OF MARRIAGE PENALTY IN STAND-**  
 14           **ARD DEDUCTION.**

15           (a) *IN GENERAL.*—*Paragraph (2) of section 63(c) (re-*  
 16           *lating to standard deduction) is amended—*

17                   (1) *by striking “\$5,000” in subparagraph (A)*  
 18                   *and inserting “twice the dollar amount in effect*  
 19                   *under subparagraph (C) for the taxable year”,*

20                   (2) *by adding “or” at the end of subparagraph*  
 21                   *(B),*

22                   (3) *by striking “in the case of” and all that fol-*  
 23                   *lows in subparagraph (C) and inserting “in any*  
 24                   *other case.”, and*

25                   (4) *by striking subparagraph (D).*

1       (b) *PHASE-IN*.—Subsection (c) of section 63 is amend-  
 2   ed by adding at the end the following new paragraph:

3               “(7) *PHASE-IN OF INCREASE IN BASIC STANDARD*  
 4       *DEDUCTION*.—In the case of taxable years beginning  
 5       before January 1, 2008—

6               “(A) paragraph (2)(A) shall be applied by  
 7       substituting for ‘twice’—

8               “(i) ‘1.671 times’ in the case of taxable  
 9       years beginning during 2001,

10              “(ii) ‘1.70 times’ in the case of taxable  
 11       years beginning during 2002,

12              “(iii) ‘1.727 times’ in the case of tax-  
 13       able years beginning during 2003,

14              “(iv) ‘1.837 times’ in the case of tax-  
 15       able years beginning during 2004,

16              “(v) ‘1.951 times’ in the case of taxable  
 17       years beginning during 2005,

18              “(vi) ‘1.953 times’ in the case of tax-  
 19       able years beginning during 2006, and

20              “(vii) ‘1.973 times’ in the case of tax-  
 21       able years beginning during 2007, and

22              “(B) the basic standard deduction for a  
 23       married individual filing a separate return shall  
 24       be one-half of the amount applicable under para-  
 25       graph (2)(A).

1     *If any amount determined under subparagraph (A) is*  
 2     *not a multiple of \$50, such amount shall be rounded*  
 3     *to the next lowest multiple of \$50.”.*

4     *(c) TECHNICAL AMENDMENTS.—*

5             *(1) Subparagraph (B) of section 1(f)(6) is*  
 6     *amended by striking “(other than with” and all that*  
 7     *follows through “shall be applied” and inserting*  
 8     *“(other than with respect to sections 63(c)(4) and*  
 9     *151(d)(4)(A)) shall be applied”.*

10            *(2) Paragraph (4) of section 63(c) is amended by*  
 11     *adding at the end the following flush sentence:*

12     *“The preceding sentence shall not apply to the*  
 13     *amount referred to in paragraph (2)(A).”.*

14     *(d) EFFECTIVE DATE.—The amendments made by this*  
 15     *section shall apply to taxable years beginning after Decem-*  
 16     *ber 31, 2000.*

17     **SEC. 210. EXPANSION OF ADOPTION CREDIT.**

18            *(a) IN GENERAL.—Section 23(a)(1) (relating to allow-*  
 19     *ance of credit) is amended to read as follows:*

20             *“(1) IN GENERAL.—In the case of an individual,*  
 21     *there shall be allowed as a credit against the tax im-*  
 22     *posed by this chapter—*

23             *“(A) in the case of an adoption of a child*  
 24     *other than a child with special needs, the*

1           *amount of the qualified adoption expenses paid*  
2           *or incurred by the taxpayer, and*

3           “(B) *in the case of an adoption of a child*  
4           *with special needs, \$10,000.*”.

5       (b) *DOLLAR LIMITATION.*—Section 23(b)(1) *is*  
6 *amended—*

7           (1) *by striking “(\$6,000, in the case of a child*  
8           *with special needs)”*, and

9           (2) *by striking “subsection (a)” and inserting*  
10          *“subsection (a)(1)”*.

11       (c) *YEAR CREDIT ALLOWED.*—Section 23(a)(2) *is*  
12 *amended by adding at the end the following new flush sen-*  
13 *tence:*

14          *“In the case of the adoption of a child with special*  
15          *needs, the credit allowed under paragraph (1) shall be*  
16          *allowed for the taxable year in which the adoption be-*  
17          *comes final.”*.

18       (d) *DEFINITION OF ELIGIBLE CHILD.*—Section  
19 23(d)(2) *is amended to read as follows:*

20           “(2) *ELIGIBLE CHILD.*—The term ‘eligible child’  
21          *means any individual who—*

22                  “(A) *has not attained age 18, or*

23                  “(B) *is physically or mentally incapable of*  
24          *caring for himself.*”.

1       (e) *EFFECTIVE DATE.*—*The amendments made by this*  
 2 *section shall apply to taxable years beginning after Decem-*  
 3 *ber 31, 2000.*

4       **SEC. 211. MODIFICATION OF TAX RATES FOR TRUSTS FOR**  
 5               **INDIVIDUALS WHO ARE DISABLED.**

6       (a) *IN GENERAL.*—*Section 1(e) (relating to tax im-*  
 7 *posed on estates and trusts) is amended to read as follows:*

8               “(e) *ESTATES AND TRUSTS.*—

9                       “(1) *IN GENERAL.*—*Except as provided in para-*  
 10 *graph (2), there is hereby imposed on the taxable in-*  
 11 *come of—*

12                               “(A) *every estate, and*

13                               “(B) *every trust,*

14               *taxable under this subsection a tax determined in ac-*  
 15 *cordance with the following table:*

<b><i>If taxable income is:</i></b>	<b><i>The tax is:</i></b>
<i>Not over \$1,500 .....</i>	<i>15% of taxable income.</i>
<i>Over \$1,500 but not over \$3,500 ....</i>	<i>\$225, plus 28% of the excess over</i> <i>\$1,500.</i>
<i>Over \$3,500 but not over \$5,500 ....</i>	<i>\$785, plus 31% of the excess over</i> <i>\$3,500.</i>
<i>Over \$5,500 but not over \$7,500 ....</i>	<i>\$1,405, plus 36% of the excess over</i> <i>\$5,500.</i>
<i>Over \$7,500 .....</i>	<i>\$2,125, plus 39.6% of the excess over</i> <i>\$7,500.</i>

16               “(2) *SPECIAL RULE FOR TRUSTS FOR DISABLED*  
 17 *INDIVIDUALS.*—

18                       “(A) *IN GENERAL.*—*There is hereby im-*  
 19 *posed on the taxable income of an eligible trust*



1       taxable under this subsection a tax determined  
2       in the same manner as under subsection (c).

3               “(B) *ELIGIBLE TRUST.*—For purposes of  
4       subparagraph (A), a trust shall be treated as an  
5       eligible trust for any taxable year if, at all times  
6       during such year during which the trust is in ex-  
7       istence, the exclusive purpose of the trust is to  
8       provide reasonable amounts for the support and  
9       maintenance of 1 beneficiary who is perma-  
10      nently and totally disabled (within the meaning  
11      of section 22(e)(3)). A trust shall not fail to meet  
12      the requirements of this subparagraph merely be-  
13      cause the corpus of the trust may revert to the  
14      grantor or a member of the grantor’s family  
15      upon the death of the beneficiary.”.

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

19                   ***TITLE III—RETIREMENT***  
20                   ***SAVINGS TAX RELIEF***

21      ***Subtitle A—Individual Retirement***  
22                   ***Arrangements***

23      ***SEC. 301. MODIFICATION OF DEDUCTION LIMITS FOR IRA***  
24                   ***CONTRIBUTIONS.***

25      (a) *INCREASE IN CONTRIBUTION LIMIT.*—

1           (1) *IN GENERAL.*—Paragraph (1)(A) of section  
 2           219(b) (relating to maximum amount of deduction) is  
 3           amended by striking “\$2,000” and inserting “the de-  
 4           ductible amount”.

5           (2) *DEDUCTIBLE AMOUNT.*—Section 219(b) is  
 6           amended by adding at the end the following new  
 7           paragraph:

8           “(5) *DEDUCTIBLE AMOUNT.*—For purposes of  
 9           paragraph (1)(A)—

10           “(A) *IN GENERAL.*—The deductible amount  
 11           shall be determined in accordance with the fol-  
 12           lowing table:

<b><i>“For taxable years beginning in:</i></b>	<b><i>The deductible amount is:</i></b>
2001 .....	\$3,000
2002 .....	\$4,000
2003 and thereafter .....	\$5,000.

13           “(B) *COST-OF-LIVING ADJUSTMENT.*—

14           “(i) *IN GENERAL.*—In the case of any  
 15           taxable year beginning in a calendar year  
 16           after 2003, the \$5,000 amount under sub-  
 17           paragraph (A) shall be increased by an  
 18           amount equal to—

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

21           “(II) the cost-of-living adjustment  
 22           determined under section 1(f)(3) for  
 23           the calendar year in which the taxable

1                    *year begins, determined by substituting*  
 2                    *‘calendar year 2002’ for ‘calendar year*  
 3                    *1992’ in subparagraph (B) thereof.*

4                    *“(ii) ROUNDING RULES.—If any*  
 5                    *amount after adjustment under clause (i) is*  
 6                    *not a multiple of \$100, such amount shall*  
 7                    *be rounded to the next lower multiple of*  
 8                    *\$100.”.*

9                    *(b) INCREASE IN ADJUSTED GROSS INCOME LIMITS*  
 10                   *FOR ACTIVE PARTICIPANTS.—*

11                   *(1) IN GENERAL.—Subparagraph (B) of section*  
 12                   *219(g)(3) (relating to applicable dollar amount) is*  
 13                   *amended to read as follows:*

14                   *“(B) APPLICABLE DOLLAR AMOUNT.—The*  
 15                   *term ‘applicable dollar amount’ means the fol-*  
 16                   *lowing:*

17                   *“(i) In the case of a taxpayer filing a*  
 18                   *joint return:*

<b><i>“For taxable years beginning in:</i></b>	<b><i>The applicable dollar amount is:</i></b>
<i>2001 .....</i>	<i>\$53,000</i>
<i>2002 .....</i>	<i>\$54,000</i>
<i>2003 .....</i>	<i>\$60,000</i>
<i>2004 .....</i>	<i>\$65,000</i>
<i>2005 .....</i>	<i>\$70,000</i>
<i>2006 .....</i>	<i>\$75,000</i>
<i>2007 .....</i>	<i>\$80,000</i>
<i>2008 .....</i>	<i>\$84,000</i>
<i>2009 .....</i>	<i>\$89,000</i>
<i>2010 and thereafter .....</i>	<i>\$94,000.</i>

1                   “(ii) *In the case of any other taxpayer*  
 2                   *(other than a married individual filing a*  
 3                   *separate return):*

<b><i>“For taxable years beginning in:</i></b>	<b><i>The applicable dollar amount is:</i></b>
2001 .....	\$33,000
2002 .....	\$34,000
2003 .....	\$40,000
2004 .....	\$45,000
2005, 2006, and 2007 .....	\$50,000
2008 .....	\$52,000
2009 .....	\$54,500
2010 and thereafter .....	\$57,000.”.

4                   (2) *COST-OF-LIVING ADJUSTMENT.—Section*  
 5                   *219(g)(3) is amended by adding at the end the fol-*  
 6                   *lowing new subparagraph:*

7                   “(C) *COST-OF-LIVING ADJUSTMENT.—*

8                   “(i) *IN GENERAL.—In the case of any*  
 9                   *taxable year beginning in a calendar year*  
 10                   *after 2010, the \$94,000 amount in subpara-*  
 11                   *graph (B)(i) and the \$57,000 amount in*  
 12                   *subparagraph(B)(ii) shall each be increased*  
 13                   *by an amount equal to—*

14                   “(I) *such dollar amount, multi-*  
 15                   *plied by*

16                   “(II) *the cost-of-living adjustment*  
 17                   *determined under section 1(f)(3) for*  
 18                   *the calendar year in which the taxable*  
 19                   *year begins, determined by substituting*

1                   *‘calendar year 2009’ for ‘calendar year*  
 2                   *1992’ in subparagraph (B) thereof.*

3                   “(ii) *ROUNDING RULES.—If any*  
 4                   *amount after adjustment under clause (i) is*  
 5                   *not a multiple of \$1,000, such amount shall*  
 6                   *be reduced to the next lowest multiple of*  
 7                   *\$1,000.”.*

8                   *(c) CONFORMING AMENDMENTS.—*

9                   *(1) Section 408(a)(1) is amended by striking “in*  
 10                   *excess of \$2,000 on behalf of any individual” and in-*  
 11                   *serting “on behalf of any individual in excess of the*  
 12                   *amount in effect for such taxable year under section*  
 13                   *219(b)(1)(A)”.*

14                   *(2) Section 408(b)(2)(B) is amended by striking*  
 15                   *“\$2,000” and inserting “the dollar amount in effect*  
 16                   *under section 219(b)(1)(A)”.*

17                   *(3) Section 408(b) is amended by striking*  
 18                   *“\$2,000” in the matter following paragraph (4) and*  
 19                   *inserting “the dollar amount in effect under section*  
 20                   *219(b)(1)(A)”.*

21                   *(4) Section 408(j) is amended by striking*  
 22                   *“\$2,000”.*

23                   *(5) Section 408(p)(8) is amended by striking*  
 24                   *“\$2,000” and inserting “the dollar amount in effect*  
 25                   *under section 219(b)(1)(A)”*

1       (d) *EFFECTIVE DATE.*—*The amendments made by this*  
 2 *section shall apply to taxable years beginning after Decem-*  
 3 *ber 31, 2000.*

4       **SEC. 302. MODIFICATION OF INCOME LIMITS ON CONTRIBU-**  
 5                                   **TIONS AND ROLLOVERS TO ROTH IRAS.**

6       (a) *REPEAL OF AGI LIMIT ON CONTRIBUTIONS.*—*Sec-*  
 7 *tion 408A(c)(3) (relating to limits based on modified ad-*  
 8 *justed gross income) is amended by striking subparagraph*  
 9 *(A) and by redesignating subparagraphs (B), (C), and (D)*  
 10 *as subparagraphs (A), (B), and (C), respectively.*

11       (b) *INCREASE IN AGI LIMIT FOR ROLLOVER CON-*  
 12 *TRIBUTIONS.*—*Section 408A(c)(3)(A) (relating to rollover*  
 13 *from IRA), as redesignated by subsection (a), is amended*  
 14 *to read as follows:*

15                               “(A) *ROLLOVER FROM IRA.*—*A taxpayer*  
 16                               *shall not be allowed to make a qualified rollover*  
 17                               *contribution from an individual retirement plan*  
 18                               *other than a Roth IRA during any taxable year*  
 19                               *if, for the taxable year of the distribution to*  
 20                               *which the contribution relates, the taxpayer’s ad-*  
 21                               *justed gross income exceeds \$1,000,000.”.*

22       (c) *CONFORMING AMENDMENTS.*—

23                               (1) *Subparagraph (B) of section 408A(c)(3), as*  
 24                               *redesignated by subsection (a) and as in effect before*  
 25                               *and after the amendments made by the Internal Rev-*

1 *enue Service Restructuring and Reform Act of 1998,*  
 2 *is amended to read as follows:*

3 “(B) *DEFINITION OF ADJUSTED GROSS IN-*  
 4 *COME.—For purposes of subparagraph (A), ad-*  
 5 *justed gross income shall be determined—*

6 “(i) *after application of sections 86*  
 7 *and 469, and*

8 “(ii) *without regard to sections 135,*  
 9 *137, 221, and 911, the deduction allowable*  
 10 *under section 219, or any amount included*  
 11 *in gross income under subsection (d)(3).”.*

12 (2) *Subparagraph (B) of section 408A(c)(3), as*  
 13 *amended by paragraph (1), is amended by inserting*  
 14 *“or by reason of a required distribution under a pro-*  
 15 *vision described in paragraph (5)” before the period*  
 16 *at the end.*

17 (d) *EFFECTIVE DATES.—*

18 (1) *IN GENERAL.—The amendments made by*  
 19 *this section shall apply to taxable years beginning*  
 20 *after December 31, 2002.*

21 (2) *ROLLOVERS.—The amendment made by sub-*  
 22 *section (b) shall apply to taxable years beginning*  
 23 *after December 31, 2002.*

1           (3) *ADJUSTED GROSS INCOME.*—*The amendment*  
 2           *made by subsection (c)(2) shall apply to taxable years*  
 3           *beginning after December 31, 2004.*

4   **SEC. 303. DEEMED IRAS UNDER EMPLOYER PLANS.**

5           (a) *IN GENERAL.*—*Section 408 (relating to individual*  
 6           *retirement accounts) is amended by redesignating sub-*  
 7           *section (q) as subsection (r) and by inserting after sub-*  
 8           *section (p) the following new subsection:*

9           “(q) *DEEMED IRAS UNDER QUALIFIED EMPLOYER*  
 10          *PLANS.*—

11           “(1) *GENERAL RULE.*—*If—*

12                   “(A) *a qualified employer plan elects to*  
 13                   *allow employees to make voluntary employee*  
 14                   *contributions to a separate account or annuity*  
 15                   *established under the plan, and*

16                   “(B) *under the terms of the qualified em-*  
 17                   *ployer plan, such account or annuity meets the*  
 18                   *applicable requirements of this section or section*  
 19                   *408A for an individual retirement account or*  
 20                   *annuity,*

21           *then such account or annuity shall be treated for pur-*  
 22           *poses of this title in the same manner as an indi-*  
 23           *vidual retirement plan (and contributions to such ac-*  
 24           *count or annuity as contributions to an individual*



1       *retirement plan). For purposes of subparagraph (B),*  
 2       *the requirements of subsection (a)(5) shall not apply.*

3               “(2) *SPECIAL RULES FOR QUALIFIED EMPLOYER*  
 4       *PLANS.—For purposes of this title—*

5               “(A) *a qualified employer plan shall not*  
 6       *fail to meet any requirement of this title solely*  
 7       *by reason of establishing and maintaining a pro-*  
 8       *gram described in paragraph (1), and*

9               “(B) *any account or annuity described in*  
 10       *paragraph (1), and any contribution to the ac-*  
 11       *count or annuity, shall not be subject to any re-*  
 12       *quirement of this title applicable to a qualified*  
 13       *employer plan or taken into account in applying*  
 14       *any such requirement to any other contributions*  
 15       *under the plan.*

16               “(3) *DEFINITIONS.—For purposes of this*  
 17       *subsection—*

18               “(A) *QUALIFIED EMPLOYER PLAN.—The*  
 19       *term ‘qualified employer plan’ has the meaning*  
 20       *given such term by section 72(p)(4).*

21               “(B) *VOLUNTARY EMPLOYEE CONTRIBU-*  
 22       *TION.—The term ‘voluntary employee contribu-*  
 23       *tion’ means any contribution (other than a man-*  
 24       *datory contribution within the meaning of sec-*  
 25       *tion 411(c)(2)(C))—*

1                   “(i) *which is made by an individual as*  
 2                   *an employee under a qualified employer*  
 3                   *plan which allows employees to elect to*  
 4                   *make contributions described in paragraph*  
 5                   *(1), and*

6                   “(ii) *with respect to which the indi-*  
 7                   *vidual has designated the contribution as a*  
 8                   *contribution to which this subsection ap-*  
 9                   *plies.*”.

10           (b) *AMENDMENT OF ERISA.*—

11                   (1) *IN GENERAL.*—*Section 4 of the Employee Re-*  
 12                   *tirement Income Security Act of 1974 (29 U.S.C.*  
 13                   *1003) is amended by adding at the end the following*  
 14                   *new subsection:*

15                   “(c) *If a pension plan allows an employee to elect to*  
 16                   *make voluntary employee contributions to accounts and an-*  
 17                   *nuities as provided in section 408(q) of the Internal Rev-*  
 18                   *enue Code of 1986, such accounts and annuities (and con-*  
 19                   *tributions thereto) shall not be treated as part of such plan*  
 20                   *(or as a separate pension plan) for purposes of any provi-*  
 21                   *sion of this title other than section 403(c), 404, or 405 (re-*  
 22                   *lating to exclusive benefit, and fiduciary and co-fiduciary*  
 23                   *responsibilities).*”.

1           (2) *CONFORMING AMENDMENT.*—Section 4(a) of  
 2           such Act (29 U.S.C. 1003(a)) is amended by inserting  
 3           “or (c)” after “subsection (b)”.

4           (c) *EFFECTIVE DATE.*—The amendments made by this  
 5           section shall apply to plan years beginning after December  
 6           31, 1999.

7           **SEC. 304. TAX CREDIT FOR MATCHING CONTRIBUTIONS TO**  
 8                                   **INDIVIDUAL DEVELOPMENT ACCOUNTS.**

9           (a) *IN GENERAL.*—Subchapter F of chapter 1 (relating  
 10          to exempt organizations) is amended by adding at the end  
 11          the following new part:

12                           **“PART IX—INDIVIDUAL DEVELOPMENT**  
 13                                   **ACCOUNTS**

                                  “Sec. 530A. Individual development accounts.

14          **“SEC. 530A. INDIVIDUAL DEVELOPMENT ACCOUNTS.**

15           “(a) *INDIVIDUAL DEVELOPMENT ACCOUNT.*—For pur-  
 16          poses of this section, the term ‘Individual Development Ac-  
 17          count’ means a custodial account established for the exclu-  
 18          sive benefit of an eligible individual or such individual’s  
 19          beneficiaries, but only if the written governing instrument  
 20          creating the account meets the following requirements:

21                   “(1) Except in the case of a qualified rollover (as  
 22          defined in subsection (c)(2)(E))—

23                           “(A) no contribution will be accepted unless  
 24                           it is in cash, and

1                   “(B) contributions will not be accepted for  
2                   the taxable year in excess of the lesser of—

3                   “(i) \$350, or

4                   “(ii) an amount equal to the com-  
5                   pensation includible in the eligible individ-  
6                   ual’s gross income for such taxable year.

7                   “(2) The custodian of the account is a qualified  
8                   financial institution.

9                   “(3) The interest of an eligible individual in the  
10                  balance of the account (determined without regard to  
11                  any such matching contribution or earnings thereon)  
12                  is nonforfeitable.

13                  “(4) The assets of the account will not be com-  
14                  mingled with other property except in a common  
15                  trust fund or common investment fund.

16                  “(5) Except as provided in subsection (c), any  
17                  amount in the account may be paid out only for  
18                  qualified expense distributions.

19                  “(b) MATCHING CONTRIBUTIONS WITH RESPECT TO  
20                  INDIVIDUAL DEVELOPMENT ACCOUNTS.—

21                  “(1) IN GENERAL.—If an eligible individual es-  
22                  tablishes an Individual Development Account with a  
23                  qualified financial institution, the qualified financial  
24                  institution may deposit into a separate, parallel, in-  
25                  dividual or pooled matching account an eligible

1        *matching contribution for the taxable year. The quali-*  
2        *fied financial institution shall maintain a separate*  
3        *accounting of matching contributions and earnings*  
4        *thereon.*

5            “(2) *ELIGIBLE MATCHING CONTRIBUTION.*—*For*  
6        *purposes of this section, the term ‘eligible matching*  
7        *contribution’ means a dollar-for-dollar match of the*  
8        *contributions made by the eligible individual into the*  
9        *Individual Development Account described in para-*  
10       *graph (1) with respect to any taxable year.*

11           “(3) *ALLOWANCE OF CREDIT FOR ELIGIBLE*  
12        *MATCHING CONTRIBUTIONS.*—

13           “(A) *IN GENERAL.*—*In the case of a quali-*  
14        *fied financial institution, there shall be allowed*  
15        *as a credit against the tax imposed by this chap-*  
16        *ter for the taxable year an amount equal to 85*  
17        *percent of the eligible matching contributions*  
18        *made by such institution with respect to an eli-*  
19        *gible individual under this subsection for such*  
20        *taxable year (determined without regard to any*  
21        *amount described in paragraph (4)(B)). If any*  
22        *amount determined under the preceding sentence*  
23        *is not a multiple of \$10, such amount shall be*  
24        *rounded to the next highest multiple of \$10.*

1           “(B) *LIMITATION BASED ON AMOUNT OF*  
 2           *TAX.—The credit allowed under subparagraph*  
 3           *(A) for any taxable year shall not exceed the ex-*  
 4           *cess of—*

5                     “(i) *the sum of the regular tax liability*  
 6                     *(as defined in section 26(b)) plus the tax*  
 7                     *imposed by section 55, over*

8                     “(ii) *the sum of the credits allowable*  
 9                     *under part IV of subchapter A of this chap-*  
 10                    *ter.*

11           “(C) *CREDIT TREATED AS ALLOWED UNDER*  
 12           *PART IV OF SUBCHAPTER A.—For purposes of*  
 13           *subtitle F, the credit allowed under subpara-*  
 14           *graph (A) shall be treated as a credit allowable*  
 15           *under part IV of subchapter A of this chapter.*

16           “(4) *FORFEITURE OF MATCHING FUNDS.—*

17                     “(A) *IN GENERAL.—Amounts in the match-*  
 18                     *ing account established under this subsection for*  
 19                     *an eligible individual shall be reduced by the*  
 20                     *amount of any distribution from an Individual*  
 21                     *Development Account of such individual which is*  
 22                     *not a qualified expense distribution and which is*  
 23                     *not recontributed as part of a qualified rollover*  
 24                     *(as defined in subsection (c)(2)(E)).*

1           “(B) *USE OF FORFEITED FUNDS.*—*Eligible*  
 2           *matching contributions which are forfeited by an*  
 3           *eligible individual under subparagraph (A) shall*  
 4           *be used by the qualified financial institution to*  
 5           *make eligible matching contributions for other*  
 6           *Individual Development Account contributions*  
 7           *by eligible individuals.*

8           “(5) *EXCLUSION FROM INCOME.*—*Gross income*  
 9           *of an eligible individual shall not include any eligible*  
 10          *matching contribution and the earnings thereon de-*  
 11          *posited into a matching account under paragraph (1)*  
 12          *on behalf of such individual.*

13          “(6) *REGULAR REPORTING OF MATCHING CON-*  
 14          *TRIBUTIONS.*—*Any qualified financial institution*  
 15          *shall report eligible matching contributions to eligible*  
 16          *individuals with Individual Development Accounts on*  
 17          *not less than a quarterly basis.*

18          “(7) *TERMINATION.*—*No eligible matching con-*  
 19          *tribution may be made for any taxable year begin-*  
 20          *ning after December 31, 2005.*

21          “(c) *QUALIFIED EXPENSE DISTRIBUTION.*—*For pur-*  
 22          *poses of this section—*

23                 “(1) *IN GENERAL.*—*The term ‘qualified expense*  
 24                 *distribution’ means any amount paid or distributed*  
 25                 *out of an Individual Development Account and the*

1       *matching account established under subsection (b) for*  
2       *an eligible individual if such amount—*

3               “(A) *is used exclusively to pay the qualified*  
4               *expenses of such individual or such individual’s*  
5               *spouse or dependents,*

6               “(B) *is paid by the qualified financial in-*  
7               *stitution directly to the person to whom the*  
8               *amount is due or to another Individual Develop-*  
9               *ment Account, and*

10              “(C) *is paid after the holder of the Indi-*  
11              *vidual Development Account has completed an*  
12              *economic literacy course offered by the qualified*  
13              *financial institution, a nonprofit organization,*  
14              *or a government entity.*

15              “(2) *QUALIFIED EXPENSES.—*

16              “(A) *IN GENERAL.—The term ‘qualified ex-*  
17              *penses’ means any of the following:*

18                      “(i) *Qualified higher education ex-*  
19                      *penses.*

20                      “(ii) *Qualified first-time homebuyer*  
21                      *costs.*

22                      “(iii) *Qualified business capitalization*  
23                      *costs.*

24                      “(iv) *Qualified rollovers.*



1                   “(B) *QUALIFIED HIGHER EDUCATION EX-*  
2                   *PENSES.*—

3                   “(i) *IN GENERAL.*—*The term ‘qualified*  
4                   *higher education expenses’ has the meaning*  
5                   *given such term by section 72(t)(7), deter-*  
6                   *mined by treating postsecondary vocational*  
7                   *educational schools as eligible educational*  
8                   *institutions.*

9                   “(ii) *POSTSECONDARY VOCATIONAL*  
10                   *EDUCATION SCHOOL.*—*The term ‘postsec-*  
11                   *ondary vocational educational school’*  
12                   *means an area vocational education school*  
13                   *(as defined in subparagraph (C) or (D) of*  
14                   *section 521(4) of the Carl D. Perkins Voca-*  
15                   *tional and Applied Technology Education*  
16                   *Act (20 U.S.C. 2471(4))) which is in any*  
17                   *State (as defined in section 521(33) of such*  
18                   *Act), as such sections are in effect on the*  
19                   *date of the enactment of this section.*

20                   “(iii) *COORDINATION WITH OTHER*  
21                   *BENEFITS.*—*The amount of qualified higher*  
22                   *education expenses for any taxable year*  
23                   *shall be reduced as provided in section*  
24                   *25A(g)(2) and by the amount of such ex-*  
25                   *penses for which a credit or exclusion is al-*

1           lowed under this chapter for such taxable  
2           year.

3           “(C) *QUALIFIED FIRST-TIME HOMEBUYER*  
4           *COSTS.*—The term ‘qualified first-time home-  
5           buyer costs’ means qualified acquisition costs (as  
6           defined in section 72(t)(8) without regard to sub-  
7           paragraph (B) thereof) with respect to a prin-  
8           cipal residence (within the meaning of section  
9           121) for a qualified first-time homebuyer (as de-  
10          fined in section 72(t)(8)).

11          “(D) *QUALIFIED BUSINESS CAPITALIZATION*  
12          *COSTS.*—

13               “(i) *IN GENERAL.*—The term ‘qualified  
14               business capitalization costs’ means quali-  
15               fied expenditures for the capitalization of a  
16               qualified business pursuant to a qualified  
17               business plan.

18               “(ii) *QUALIFIED EXPENDITURES.*—The  
19               term ‘qualified expenditures’ means expend-  
20               itures included in a qualified business plan,  
21               including capital, plant, equipment, work-  
22               ing capital and inventory expenses.

23               “(iii) *QUALIFIED BUSINESS.*—The  
24               term ‘qualified business’ means any busi-  
25               ness that does not contravene any law.

1                   “(iv) *QUALIFIED BUSINESS PLAN.*—

2                   *The term ‘qualified business plan’ means a*  
 3                   *business plan which meets such require-*  
 4                   *ments as the Secretary of Housing and*  
 5                   *Urban Development may specify.*

6                   “(E) *QUALIFIED ROLLOVERS.*—*The term*  
 7                   *‘qualified rollover’ means, with respect to any*  
 8                   *distribution from an Individual Development*  
 9                   *Account, the payment, within 120 days of such*  
 10                   *distribution, of all or a portion of such distribu-*  
 11                   *tion to such account or to another Individual*  
 12                   *Development Account established in another*  
 13                   *qualified financial institution for the benefit of*  
 14                   *the eligible individual. Rules similar to the rules*  
 15                   *of section 408(d)(3) (other than subparagraph*  
 16                   *(C) thereof) shall apply for purposes of this sub-*  
 17                   *paragraph.*

18                   “(d) *DEFINITIONS AND SPECIAL RULES.*—*For pur-*  
 19                   *poses of this section—*

20                   “(1) *ELIGIBLE INDIVIDUAL.*—

21                   “(A) *IN GENERAL.*—*The term ‘eligible indi-*  
 22                   *vidual’ means an individual who—*

23                   “(i) *has attained the age of 18 years,*

24                   “(ii) *is a citizen or legal resident of the*  
 25                   *United States, and*

1 “(iii) is a member of a household—

2 “(I) which is eligible for the  
3 earned income tax credit under section  
4 32,

5 “(II) which is eligible for assist-  
6 ance under a State program funded  
7 under part A of title IV of the Social  
8 Security Act, or

9 “(III) the gross income of which  
10 does not exceed 60 percent of the area  
11 median income (as determined by the  
12 Department of Housing and Urban Af-  
13 fairs) and the net worth of which does  
14 not exceed \$10,000.

15 “(B) *HOUSEHOLD*.—The term ‘household’  
16 means all individuals who share use of a dwell-  
17 ing unit as primary quarters for living and eat-  
18 ing separate from other individuals.

19 “(C) *DETERMINATION OF NET WORTH*.—

20 “(i) *IN GENERAL*.—For purposes of  
21 subparagraph (A)(iii)(III), the net worth of  
22 a household is the amount equal to—

23 “(I) the aggregate fair market  
24 value of all assets that are owned in

1                   *whole or in part by any member of a*  
2                   *household, minus*

3                   “(II) *the obligations or debts of*  
4                   *any member of the household.*

5                   “(ii)     CERTAIN     ASSETS     DIS-  
6                   REGARDED.—*For purposes of determining*  
7                   *the net worth of a household, a household’s*  
8                   *assets shall not be considered to include the*  
9                   *primary dwelling unit and 1 motor vehicle*  
10                  *owned by the household.*

11                  “(D) PROOF OF COMPENSATION AND STA-  
12                  TUS AS AN ELIGIBLE INDIVIDUAL.—*Statements*  
13                  *under section 6051 and other forms specified by*  
14                  *the Secretary proving the eligible individual’s*  
15                  *wages and other compensation and the status of*  
16                  *the individual as an eligible individual shall be*  
17                  *presented to the custodian at the time of the es-*  
18                  *tablishment of the Individual Development Ac-*  
19                  *count and at least once annually thereafter.*

20                  “(2) QUALIFIED FINANCIAL INSTITUTION.—*The*  
21                  *term ‘qualified financial institution’ means any per-*  
22                  *son authorized to be a trustee of any individual re-*  
23                  *tirement account under section 408(a)(2).*

1           “(3) *TREATMENT OF MORE THAN ONE AC-*  
2           *COUNT.—All Individual Development Accounts of an*  
3           *individual shall be treated as one account.*

4           “(4) *OTHER RULES TO APPLY.—Rules similar to*  
5           *the rules of paragraphs (1), (2), and (3) of section*  
6           *219(f), section 220(f)(8), paragraphs (4) and (6) of*  
7           *section 408(d), and section 408(m) shall apply for*  
8           *purposes of this section.*

9           “(5) *REPORTS.—The custodian of an Individual*  
10          *Development Account shall make such reports regard-*  
11          *ing such account to the Secretary and to the indi-*  
12          *vidual for whom the account is maintained with re-*  
13          *spect to contributions (and the years to which they re-*  
14          *late), distributions, and such other matters as the Sec-*  
15          *retary may require under regulations. The reports re-*  
16          *quired by this paragraph—*

17                 “(A) *shall be filed at such time and in such*  
18                 *manner as the Secretary prescribes in such regu-*  
19                 *lations, and*

20                 “(B) *shall be furnished to individuals—*

21                         “(i) *not later than January 31 of the*  
22                         *calendar year following the calendar year to*  
23                         *which such reports relate, and*

24                         “(ii) *in such manner as the Secretary*  
25                         *prescribes in such regulations.*

1       “(e) *APPLICATION OF SECTION.*—*This section shall*  
 2 *apply to amounts paid to an Individual Development Ac-*  
 3 *count for any taxable year beginning after December 31,*  
 4 *2000, and before January 1, 2006.*”.

5       (b) *TAX ON EXCESS CONTRIBUTIONS.*—

6           (1) *TAX IMPOSED.*—*Subsection (a) of section*  
 7 *4973 is amended by striking “or” at the end of para-*  
 8 *graph (3), adding “or” at the end of paragraph (4),*  
 9 *and inserting after paragraph (4) the following new*  
 10 *paragraph:*

11           “(5) *an Individual Development Account (within*  
 12 *the meaning of section 530A(a)),*”.

13           (2) *EXCESS CONTRIBUTIONS.*—*Section 4973 is*  
 14 *amended by adding at the end the following new sub-*  
 15 *section:*

16       “(g) *INDIVIDUAL DEVELOPMENT ACCOUNTS.*—*For*  
 17 *purposes of this section, in the case of Individual Develop-*  
 18 *ment Accounts, the term ‘excess contributions’ means the*  
 19 *excess (if any) of—*

20           “(1) *the amount contributed for the taxable year*  
 21 *to the accounts (other than a qualified rollover, as de-*  
 22 *finied in section 530A(c)(2)(E)), over*

23           “(2) *the amount allowable as a contribution*  
 24 *under section 530A.*

1 *For purposes of this subsection, any contribution which is*  
 2 *distributed from the Individual Development Account in a*  
 3 *distribution to which rules similar to the rules of section*  
 4 *408(d)(4) apply by reason of section 530A(d)(4) shall be*  
 5 *treated as an amount not contributed.”.*

6 *(c) INFORMATION RELATING TO CERTAIN TRUSTS AND*  
 7 *ANNUITY PLANS.—Subsection (c) of section 6047 is*  
 8 *amended—*

9 *(1) by inserting “or section 530A” after “section*  
 10 *219”; and*

11 *(2) by inserting “, of any Individual Develop-*  
 12 *ment Account described in section 530A(a),”, after*  
 13 *“section 408(a)”.*

14 *(d) FAILURE TO PROVIDE REPORTS ON INDIVIDUAL*  
 15 *DEVELOPMENT ACCOUNTS.—Paragraph (2) of section*  
 16 *6693(a) is amended by striking “and” at the end of sub-*  
 17 *paragraph (C), by striking the period and inserting “, and”*  
 18 *at the end of subparagraph (D), and by adding at the end*  
 19 *the following new subparagraph:*

20 *“(E) section 530(d)(5) (relating to Indi-*  
 21 *vidual Development Accounts).”.*

22 *(e) CLERICAL AMENDMENT.—The table of parts for*  
 23 *subchapter F of chapter 1 is amended by adding at the end*  
 24 *the following new item:*

*“Part IX. Individual development accounts.”.*



1       (f) *FUNDS IN ACCOUNTS DISREGARDED FOR PUR-*  
2 *POSES OF CERTAIN MEANS-TESTED FEDERAL PRO-*  
3 *GRAMS.*—*Notwithstanding any other provision of the Inter-*  
4 *nal Revenue Code of 1986 or the Social Security Act that*  
5 *requires consideration of 1 or more financial circumstances*  
6 *of an individual, for the purpose of determining eligibility*  
7 *to receive, or the amount of, any assistance or benefit au-*  
8 *thorized by such provision to be provided to or for the ben-*  
9 *efit of such individual, contributions (including earnings*  
10 *thereon) in any Individual Development Account and ap-*  
11 *plicable matching account under section 530A of such Code*  
12 *shall be disregarded for such purpose.*

13       (g) *EFFECTIVE DATE.*—*The amendments made by this*  
14 *section shall apply to taxable years beginning after Decem-*  
15 *ber 31, 2000.*

16 **SEC. 305. CERTAIN COINS NOT TREATED AS COLLECTIBLES.**

17       (a) *IN GENERAL.*—*Subparagraph (A) of section*  
18 *408(m)(3) (relating to exception for certain coins and bul-*  
19 *lion) is amended to read as follows:*

20                       “(A) any coin certified by a recognized  
21                       grading service and traded on a nationally rec-  
22                       ognized electronic network, or listed by a recog-  
23                       nized wholesale reporting service, and—

24                       “(i) which is or was at any time legal  
25                       tender in the United States, or

1                   “(ii) issued under the laws of any  
2                   State, or”.

3           (b) *EFFECTIVE DATE.*—The amendment made by this  
4 section shall apply to taxable years beginning after Decem-  
5 ber 31, 1999.

## 6       ***Subtitle B—Expanding Coverage***

### 7       ***SEC. 311. OPTION TO TREAT ELECTIVE DEFERRALS AS*** 8                   ***AFTER-TAX CONTRIBUTIONS.***

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

### 13       ***“SEC. 402A. OPTIONAL TREATMENT OF ELECTIVE DEFER-*** 14                   ***RALS AS PLUS CONTRIBUTIONS.***

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

17                   “(1) any designated plus contribution made by  
18 an employee pursuant to the program shall be treated  
19 as an elective deferral for purposes of this chapter, ex-  
20 cept that such contribution shall not be excludable  
21 from gross income, and

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

1       “(b) *QUALIFIED PLUS CONTRIBUTION PROGRAM.*—

2       *For purposes of this section—*

3               “(1) *IN GENERAL.*—*The term ‘qualified plus con-*  
 4       *tribution program’ means a program under which an*  
 5       *employee may elect to make designated plus contribu-*  
 6       *tions in lieu of all or a portion of elective deferrals*  
 7       *the employee is otherwise eligible to make under the*  
 8       *applicable retirement plan.*

9               “(2) *SEPARATE ACCOUNTING REQUIRED.*—*A pro-*  
 10       *gram shall not be treated as a qualified plus contribu-*  
 11       *tion program unless the applicable retirement plan—*

12               “(A) *establishes separate accounts (‘des-*  
 13       *ignated plus accounts’) for the designated plus*  
 14       *contributions of each employee and any earnings*  
 15       *properly allocable to the contributions, and*

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

18       “(c) *DEFINITIONS AND RULES RELATING TO DES-*  
 19       *IGNATED PLUS CONTRIBUTIONS.*—*For purposes of this*  
 20       *section—*

21               “(1) *DESIGNATED PLUS CONTRIBUTION.*—*The*  
 22       *term ‘designated plus contribution’ means any elec-*  
 23       *tive deferral which—*

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

1           “(B) the employee designates (at such time  
2           and in such manner as the Secretary may pre-  
3           scribe) as not being so excludable.

4           “(2) *DESIGNATION LIMITS.*—The amount of elec-  
5           tive deferrals which an employee may designate under  
6           paragraph (1) shall not exceed the excess (if any) of—

7           “(A) the maximum amount of elective defer-  
8           rals excludable from gross income of the employee  
9           for the taxable year (without regard to this sec-  
10          tion), over

11          “(B) the aggregate amount of elective defer-  
12          rals of the employee for the taxable year which  
13          the employee does not designate under paragraph  
14          (1).

15          “(3) *ROLLOVER CONTRIBUTIONS.*—

16          “(A) *IN GENERAL.*—A rollover contribution  
17          of any payment or distribution from a des-  
18          ignated plus account which is otherwise allow-  
19          able under this chapter may be made only if the  
20          contribution is to—

21                 “(i) another designated plus account of  
22                 the individual from whose account the pay-  
23                 ment or distribution was made, or

24                 “(ii) a Roth IRA of such individual.

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

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

7                   “(1) *EXCLUSION.*—Any qualified distribution  
 8                   *from a designated plus account shall not be includible*  
 9                   *in gross income.*

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

12                         “(A) *IN GENERAL.*—The term ‘qualified dis-  
 13                         *tribution’ has the meaning given such term by*  
 14                         *section 408A(d)(2)(A) (without regard to clause*  
 15                         *(iv) thereof).*

16                         “(B) *DISTRIBUTIONS WITHIN NONEXCLU-*  
 17                         *SION PERIOD.*—A payment or distribution from  
 18                         *a designated plus account shall not be treated as*  
 19                         *a qualified distribution if such payment or dis-*  
 20                         *tribution is made within the 5-taxable-year pe-*  
 21                         *riod beginning with the earlier of—*

22                                 “(i) *the 1st taxable year for which the*  
 23                                 *individual made a designated plus con-*  
 24                                 *tribution to any designated plus account es-*

1            *tablished for such individual under the*  
 2            *same applicable retirement plan, or*

3            *“(ii) if a rollover contribution was*  
 4            *made to such designated plus account from*  
 5            *a designated plus account previously estab-*  
 6            *lished for such individual under another*  
 7            *applicable retirement plan, the 1st taxable*  
 8            *year for which the individual made a des-*  
 9            *ignated plus contribution to such previously*  
 10           *established account.*

11           *“(C) DISTRIBUTIONS OF EXCESS DEFER-*  
 12           *RALS AND EARNINGS.—The term ‘qualified dis-*  
 13           *tribution’ shall not include any distribution of*  
 14           *any excess deferral under section 402(g)(2) and*  
 15           *any income on the excess deferral.*

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

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

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

1           “(A) an employees’ trust described in sec-  
 2           tion 401(a) which is exempt from tax under sec-  
 3           tion 501(a), and

4           “(B) a plan under which amounts are con-  
 5           tributed by an individual’s employer for an an-  
 6           nuity contract described in section 403(b).

7           “(2) *ELECTIVE DEFERRAL*.—The term ‘elective  
 8           deferral’ means any elective deferral described in sub-  
 9           paragraph (A) or (C) of section 402(g)(3).”.

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

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

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

20          (c) *ROLLOVERS*.—Subparagraph (B) of section  
 21          402(c)(8) is amended by adding at the end the following:

22           “If any portion of an eligible rollover distribu-  
 23           tion is attributable to payments or distributions  
 24           from a designated plus account (as defined in  
 25           section 402A), an eligible retirement plan with

1           *respect to such portion shall include only another*  
 2           *designated plus account and a Roth IRA.”.*

3           *(d) REPORTING REQUIREMENTS.—*

4           *(1) W-2 INFORMATION.—Section 6051(a)(8) is*  
 5           *amended by inserting “, including the amount of des-*  
 6           *ignated plus contributions (as defined in section*  
 7           *402A)” before the comma at the end.*

8           *(2) INFORMATION.—Section 6047 is amended by*  
 9           *redesignating subsection (f) as subsection (g) and by*  
 10          *inserting after subsection (e) the following new sub-*  
 11          *section:*

12          *“(f) DESIGNATED PLUS CONTRIBUTIONS.—The Sec-*  
 13          *retary shall require the plan administrator of each applica-*  
 14          *ble retirement plan (as defined in section 402A) to make*  
 15          *such returns and reports regarding designated plus con-*  
 16          *tributions (as so defined) to the Secretary, participants and*  
 17          *beneficiaries of the plan, and such other persons as the Sec-*  
 18          *retary may prescribe.”.*

19          *(e) CONFORMING AMENDMENTS.—*

20           *(1) Section 408A(e) is amended by adding after*  
 21           *the first sentence the following new sentence: “Such*  
 22           *term includes a rollover contribution described in sec-*  
 23           *tion 402A(c)(3)(A).”.*

24           *(2) The table of sections for subpart A of part I*  
 25           *of subchapter D of chapter 1 is amended by inserting*



1       *after the item relating to section 402 the following*  
 2       *new item:*

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

3       (f) *EFFECTIVE DATE.*—*The amendments made by this*  
 4       *section shall apply to taxable years beginning after Decem-*  
 5       *ber 31, 2000.*

6       **SEC. 312. INCREASE IN ELECTIVE CONTRIBUTION LIMITS.**

7       (a) *ELECTIVE DEFERRALS.*—

8               (1) *IN GENERAL.*—*Paragraph (1) of section*  
 9       *402(g) (relating to limitation on exclusion for elective*  
 10       *deferrals) is amended to read as follows:*

11               “(1) *IN GENERAL.*—

12                       “(A) *LIMITATION.*—*Notwithstanding sub-*  
 13       *sections (e)(3) and (h)(1)(B), the elective defer-*  
 14       *rals of any individual for any taxable year shall*  
 15       *be included in such individual’s gross income to*  
 16       *the extent the amount of such deferrals for the*  
 17       *taxable year exceeds the applicable dollar*  
 18       *amount.*

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

<b>“For taxable years beginning in calendar year:</b>	<b>The applicable dollar amount is:</b>
2001 .....	\$11,000
2002 .....	\$12,000

<b><i>“For taxable years beginning in calendar year:</i></b>	<b><i>The applicable dollar amount is:</i></b>
2003 .....	\$13,000
2004 .....	\$14,000
2005 or thereafter .....	\$15,000.”.

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

3           “*(5) COST-OF-LIVING ADJUSTMENT.—In the case*  
4           *of taxable years beginning after December 31, 2005,*  
5           *the Secretary shall adjust the \$15,000 amount under*  
6           *paragraph (1)(B) at the same time and in the same*  
7           *manner as under section 415(d); except that the base*  
8           *period shall be the calendar quarter beginning July 1,*  
9           *2004, and any increase under this paragraph which*  
10           *is not a multiple of \$500 shall be rounded to the next*  
11           *lowest multiple of \$500.”.*

12           (3) *CONFORMING AMENDMENTS.—*

13           (A) *Section 402(g) (relating to limitation*  
14           *on exclusion for elective deferrals), as amended*  
15           *by paragraphs (1) and (2), is further amended*  
16           *by striking paragraph (4) and redesignating*  
17           *paragraphs (5), (6), (7), (8), and (9) as para-*  
18           *graphs (4), (5), (6), (7), and (8), respectively.*

19           (B) *Paragraph (2) of section 457(c) is*  
20           *amended by striking “402(g)(8)(A)(iii)” and in-*  
21           *serting “402(g)(7)(A)(iii)”.*

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

4           (b) *DEFERRED COMPENSATION PLANS OF STATE AND*  
 5           *LOCAL GOVERNMENTS AND TAX-EXEMPT ORGANIZA-*  
 6           *TIONS.—*

7           (1) *IN GENERAL.—*Section 457 (relating to de-  
 8           ferred compensation plans of State and local govern-  
 9           ments and tax-exempt organizations) is amended—

10           (A) by striking “\$7,500” each place it ap-  
 11           pears in subsections (b)(2)(A) and (c)(1) and in-  
 12           serting “the applicable dollar amount”, and

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

16           (2) *APPLICABLE DOLLAR AMOUNT; COST-OF-LIV-*  
 17           *ING ADJUSTMENT.—*Paragraph (15) of section 457(e)  
 18           is amended to read as follows:

19           “(15) *APPLICABLE DOLLAR AMOUNT.—*

20           “(A) *IN GENERAL.—*The applicable dollar  
 21           amount shall be the amount determined in ac-  
 22           cordance with the following table:

<b>“For taxable years beginning in calendar year:</b>	<b>The applicable dollar amount is:</b>
2001 .....	\$9,000
2002 .....	\$10,000
2003 .....	\$11,000
2004 or thereafter .....	\$12,000.

1                   “(B) *COST-OF-LIVING ADJUSTMENTS.*—In  
2                   *the case of taxable years beginning after Decem-*  
3                   *ber 31, 2004, the Secretary shall adjust the*  
4                   *\$12,000 amount specified in the table in sub-*  
5                   *paragraph (A) at the same time and in the same*  
6                   *manner as under section 415(d), except that the*  
7                   *base period shall be the calendar quarter begin-*  
8                   *ning July 1, 2003, and any increase under this*  
9                   *paragraph which is not a multiple of \$500 shall*  
10                   *be rounded to the next lowest multiple of \$500.”.*

11                   (c) *SIMPLE RETIREMENT ACCOUNTS.*—

12                   (1) *LIMITATION.*—Clause (ii) of section  
13                   408(p)(2)(A) (relating to general rule for qualified  
14                   salary reduction arrangement) is amended by striking  
15                   “\$6,000” and inserting “the applicable dollar  
16                   amount”.

17                   (2) *APPLICABLE DOLLAR AMOUNT.*—Subpara-  
18                   graph (E) of 408(p)(2) is amended to read as follows:

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

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

<b><i>“For taxable years beginning in calendar year:</i></b>	<b><i>The applicable dollar amount is:</i></b>
2001 .....	\$7,000

<b><i>“For taxable years beginning in calendar year:</i></b>	<b><i>The applicable dollar amount is:</i></b>
2002 .....	\$8,000
2003 .....	\$9,000
2004 or thereafter .....	\$10,000.

1                   “(ii) *COST-OF-LIVING ADJUSTMENT.*—

2                   *In the case of a year beginning after Decem-*  
3                   *ber 31, 2004, the Secretary shall adjust the*  
4                   *\$10,000 amount under clause (i) at the*  
5                   *same time and in the same manner as*  
6                   *under section 415(d), except that the base*  
7                   *period taken into account shall be the cal-*  
8                   *endar quarter beginning July 1, 2003, and*  
9                   *any increase under this subparagraph*  
10                  *which is not a multiple of \$500 shall be*  
11                  *rounded to the next lower multiple of*  
12                  *\$500.”.*

13                  (3) *CONFORMING AMENDMENTS.*—

14                  (A)     *Subclause (I) of section*  
15                  *401(k)(11)(B)(i) is amended by striking*  
16                  *“\$6,000” and inserting “the amount in effect*  
17                  *under section 408(p)(2)(A)(ii)”.*

18                  (B) *Section 401(k)(11) is amended by strik-*  
19                  *ing subparagraph (E).*

20                  (d) *EFFECTIVE DATE.*—*The amendments made by this*  
21                  *section shall apply to years beginning after December 31,*  
22                  *2000.*

1 **SEC. 313. PLAN LOANS FOR SUBCHAPTER S OWNERS, PART-**  
 2 **NERS, AND SOLE PROPRIETORS.**

3 (a) *AMENDMENT TO 1986 CODE.*—Subparagraph (B)  
 4 of section 4975(f)(6) (relating to exemptions not to apply  
 5 to certain transactions) is amended by adding at the end  
 6 the following new clause:

7 “(iii) *LOAN EXCEPTION.*—For purposes  
 8 of subparagraph (A)(i), the term ‘owner-em-  
 9 ployee’ shall only include a person described  
 10 in subclause (II) or (III) of clause (i).”.

11 (b) *AMENDMENT TO ERISA.*—Section 408(d)(2) of the  
 12 Employee Retirement Income Security Act of 1974 (29  
 13 U.S.C. 1108(d)(2)) is amended by adding at the end the  
 14 following new subparagraph:

15 “(C) For purposes of paragraph (1)(A), the term  
 16 ‘owner-employee’ shall only include a person described in  
 17 clause (ii) or (iii) of subparagraph (A).”.

18 (c) *EFFECTIVE DATE.*—The amendments made by this  
 19 section shall apply to loans made after December 31, 2000.

20 **SEC. 314. ELECTIVE DEFERRALS NOT TAKEN INTO AC-**  
 21 **COUNT FOR PURPOSES OF DEDUCTION LIM-**  
 22 **ITS.**

23 (a) *IN GENERAL.*—Section 404 (relating to deduction  
 24 for contributions of an employer to an employees’ trust or  
 25 annuity plan and compensation under a deferred payment

1 plan) is amended by adding at the end the following new  
 2 subsection:

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

10 (b) *EFFECTIVE DATE.*—*The amendment made by this*  
 11 *section shall apply to years beginning after December 31,*  
 12 *2000.*

13 **SEC. 315. REDUCED PBGC PREMIUM FOR NEW PLANS OF**  
 14 **SMALL EMPLOYERS.**

15 (a) *IN GENERAL.*—*Subparagraph (A) of section*  
 16 *4006(a)(3) of the Employee Retirement Income Security*  
 17 *Act of 1974 (29 U.S.C. 1306(a)(3)(A)) is amended—*

18 (1) *in clause (i), by inserting “other than a new*  
 19 *single-employer plan (as defined in subparagraph*  
 20 *(F)) maintained by a small employer (as so de-*  
 21 *finied),” after “single-employer plan,”,*

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

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

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

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

10          “(F)(i) For purposes of this paragraph, a single-em-  
 11          ployer plan maintained by a contributing sponsor shall be  
 12          treated as a new single-employer plan for each of its first  
 13          5 plan years if, during the 36-month period ending on the  
 14          date of the adoption of such plan, the sponsor or any mem-  
 15          ber of such sponsor’s controlled group (or any predecessor  
 16          of either) had not established or maintained a plan to which  
 17          this title applies with respect to which benefits were accrued  
 18          for substantially the same employees as are in the new sin-  
 19          gle-employer plan.

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



1       “(II) In the case of a plan maintained by 2 or more  
 2 contributing sponsors that are not part of the same con-  
 3 trolled group, the employees of all contributing sponsors and  
 4 controlled groups of such sponsors shall be aggregated for  
 5 purposes of determining whether any contributing sponsor  
 6 is a small employer.”.

7       (c) *EFFECTIVE DATE.*—The amendments made by this  
 8 section shall apply to plans established after December 31,  
 9 2000.

10 **SEC. 316. REDUCTION OF ADDITIONAL PBGC PREMIUM FOR**  
 11 **NEW PLANS.**

12       (a) *IN GENERAL.*—Subparagraph (E) of section  
 13 4006(a)(3) of the Employee Retirement Income Security  
 14 Act of 1974 (29 U.S.C. 1306(a)(3)(E)) is amended by add-  
 15 ing at the end the following new clause:

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

22               “(I) 0 percent, for the first plan year.

23               “(II) 20 percent, for the second plan year.

24               “(III) 40 percent, for the third plan year.

25               “(IV) 60 percent, for the fourth plan year.

1           “(V) 80 percent, for the fifth plan year.

2   *For purposes of this clause, a defined benefit plan (as de-*  
 3 *defined in section 3(35)) maintained by a contributing spon-*  
 4 *sor shall be treated as a new defined benefit plan for its*  
 5 *first 5 plan years if, during the 36-month period ending*  
 6 *on the date of the adoption of the plan, the sponsor and*  
 7 *each member of any controlled group including the sponsor*  
 8 *(or any predecessor of either) did not establish or maintain*  
 9 *a plan to which this title applies with respect to which bene-*  
 10 *fits were accrued for substantially the same employees as*  
 11 *are in the new plan.”.*

12           (b) *EFFECTIVE DATE.*—*The amendments made by this*  
 13 *section shall apply to plans established after December 31,*  
 14 *2000.*

15   **SEC. 317. ELIMINATION OF USER FEE FOR REQUESTS TO**  
 16                           **IRS REGARDING NEW PENSION PLANS.**

17           (a) *ELIMINATION OF CERTAIN USER FEES.*—*The Sec-*  
 18 *retary of the Treasury or the Secretary’s delegate shall not*  
 19 *require payment of user fees under the program established*  
 20 *under section 7527 of the Internal Revenue Code of 1986*  
 21 *for requests to the Internal Revenue Service for ruling let-*  
 22 *ters, opinion letters, and determination letters or similar*  
 23 *requests with respect to the qualified status of a new pension*  
 24 *benefit plan or any trust which is part of the plan.*

1       (b) *NEW PENSION BENEFIT PLAN.*—For purposes of  
2 *this section*—

3           (1) *IN GENERAL.*—The term “new pension ben-  
4 *efit plan*” means a pension, profit-sharing, stock  
5 *bonus, annuity, or employee stock ownership plan*  
6 *which is maintained by one or more eligible employ-*  
7 *ers if such employer (or any predecessor employer)*  
8 *has not made a prior request described in subsection*  
9 *(a) for such plan (or any predecessor plan).*

10          (2) *ELIGIBLE EMPLOYER.*—The term “eligible  
11 *employer*” means an employer (or any predecessor  
12 *employer) which has not established or maintained a*  
13 *qualified employer plan with respect to which con-*  
14 *tributions were made, or benefits were accrued for*  
15 *service, in the 3 most recent taxable years ending*  
16 *prior to the first taxable year in which the request is*  
17 *made.*

18       (c) *EFFECTIVE DATE.*—The provisions of this section  
19 *shall apply with respect to requests made after December*  
20 *31, 2000.*

21 **SEC. 318. SAFE ANNUITIES AND TRUSTS.**

22       (a) *IN GENERAL.*—Subpart A of part I of subchapter  
23 *D of chapter 1 (relating to deferred compensation, etc.) is*  
24 *amended by inserting after section 408A the following new*  
25 *section:*

1 **“SEC. 408B. SAFE ANNUITIES AND TRUSTS.**

2 “(a) *EMPLOYER ELIGIBILITY.*—

3 “(1) *IN GENERAL.*—*An employer may establish*  
 4 *and maintain a SAFE annuity or a SAFE trust for*  
 5 *any year only if—*

6 “(A) *the employer is an eligible employer*  
 7 *(as defined in section 408(p)(2)(C)), and*

8 “(B) *the employer does not maintain (and*  
 9 *no predecessor of the employer maintains) a*  
 10 *qualified plan (other than a permissible plan)*  
 11 *with respect to which contributions were made,*  
 12 *or benefits were accrued, for service in any year*  
 13 *in the period beginning with the year such an-*  
 14 *nuity or trust became effective and ending with*  
 15 *the year for which the determination is being*  
 16 *made.*

17 “(2) *DEFINITIONS.*—*For purposes of paragraph*  
 18 *(1)—*

19 “(A) *QUALIFIED PLAN.*—*The term ‘qualified*  
 20 *plan’ has the meaning given such term by sec-*  
 21 *tion 408(p)(2)(D)(ii).*

22 “(B) *PERMISSIBLE PLAN.*—*The term ‘per-*  
 23 *missible plan’ means—*

24 “(i) *a SIMPLE plan described in sec-*  
 25 *tion 408(p),*

1                   “(ii) a *SIMPLE* 401(k) plan described  
2                   in section 401(k)(11),

3                   “(iii) an eligible deferred compensation  
4                   plan described in section 457(b),

5                   “(iv) a collectively bargained plan but  
6                   only if the employees eligible to participate  
7                   in such plan are not also entitled to a ben-  
8                   efit described in subsection (b)(5) or (c)(5),  
9                   or

10                  “(v) a plan under which there may be  
11                  made only—

12                         “(I) elective deferrals described in  
13                         section 402(g)(3), and

14                         “(II) employer matching contribu-  
15                         tions not in excess of the amounts de-  
16                         scribed in subclauses (I) and (II) of  
17                         section 401(k)(12)(B)(i).

18                  “(b) *SAFE ANNUITY*.—

19                         “(1) *IN GENERAL*.—For purposes of this title, the  
20                         term ‘*SAFE annuity*’ means an individual retire-  
21                         ment annuity (as defined in section 408(b) without  
22                         regard to paragraph (2) thereof and without regard  
23                         to the limitation on aggregate annual premiums con-  
24                         tained in the flush language of section 408(b)) if—

1           “(A) *such annuity meets the requirements of*  
 2           *paragraphs (2) through (7), and*

3           “(B) *the only contributions to such annuity*  
 4           *(other than rollover contributions) are employer*  
 5           *contributions.*

6           *Nothing in this section shall be construed as pre-*  
 7           *venting an employer from using a group annuity con-*  
 8           *tract which is divisible into individual retirement an-*  
 9           *nuities for purposes of providing SAFE annuities.*

10          “(2) *PARTICIPATION REQUIREMENTS.—*

11           “(A) *IN GENERAL.—The requirements of*  
 12           *this paragraph are met for any year only if all*  
 13           *employees of the employer who—*

14                   “(i) *received at least \$5,000 in com-*  
 15                   *pensation from the employer during any 2*  
 16                   *consecutive preceding years, and*

17                   “(ii) *received at least \$5,000 in com-*  
 18                   *pensation during the year,*

19           *are entitled to the benefit described in paragraph*  
 20           *(5) for such year.*

21           “(B) *EXCLUDABLE EMPLOYEES.—An em-*  
 22           *ployer may elect to exclude from the require-*  
 23           *ments under subparagraph (A) employees de-*  
 24           *scribed in section 410(b)(3).*

1           “(3) *VESTING.*—*The requirements of this para-*  
 2           *graph are met if the employee’s rights to any benefits*  
 3           *under the annuity are nonforfeitable.*

4           “(4) *BENEFIT FORM.*—

5                 “(A) *IN GENERAL.*—*The requirements of*  
 6                 *this paragraph are met if the only form of ben-*  
 7                 *efit is—*

8                         “(i) *a benefit payable annually in the*  
 9                         *form of a single life annuity with monthly*  
 10                         *payments (with no ancillary benefits) be-*  
 11                         *ginning at age 65, or*

12                         “(ii) *at the election of the participant,*  
 13                         *any other form of benefit which is the actu-*  
 14                         *arial equivalent (based on the assumptions*  
 15                         *specified in the SAFE annuity) of the ben-*  
 16                         *efit described in clause (i).*

17           *The requirements of sections 401(a)(11) and*  
 18           *411(b)(1)(H) shall apply to the benefits described*  
 19           *in this subparagraph.*

20                 “(B) *DIRECT TRANSFERS AND ROLL-*  
 21                 *OVERS.*—*A plan shall not fail to meet the re-*  
 22                 *quirements of this paragraph by reason of per-*  
 23                 *mitting, at the election of the employee, a trust-*  
 24                 *ee-to-trustee transfer or a rollover contribution.*

25           “(5) *AMOUNT OF ANNUAL ACCRUED BENEFIT.*—

1           “(A) *IN GENERAL.*—*The requirements of*  
2           *this paragraph are met for any year if the ac-*  
3           *crued benefit of each participant derived from*  
4           *employer contributions for such year, when ex-*  
5           *pressed as a benefit described in paragraph*  
6           *(4)(A), is not less than the applicable percentage*  
7           *of the participant’s compensation for such year.*

8           “(B) *APPLICABLE PERCENTAGE.*—*For pur-*  
9           *poses of this paragraph—*

10           “(i) *IN GENERAL.*—*The term ‘applica-*  
11           *ble percentage’ means 3 percent.*

12           “(ii) *ELECTION OF LOWER PERCENT-*  
13           *AGE.*—*An employer may elect to apply an*  
14           *applicable percentage of 1 percent, 2 percent*  
15           *or zero percent for any plan year for all*  
16           *employees eligible to participate in the plan*  
17           *for such year if the employer notifies the*  
18           *employees of such percentage within a rea-*  
19           *sonable period before the beginning of such*  
20           *year.*

21           “(C) *COMPENSATION LIMIT.*—*The com-*  
22           *penetration taken into account under this para-*  
23           *graph for any year shall not exceed the limita-*  
24           *tion in effect for such year under section*  
25           *401(a)(17).*



1           “(D) *CREDIT FOR SERVICE BEFORE PLAN*  
2           *ADOPTED.*—

3           “(i) *IN GENERAL.*—*An employer may*  
4           *elect to take into account a specified number*  
5           *of years of service (not greater than 10) per-*  
6           *formed before the adoption of the plan (each*  
7           *hereinafter referred to as a ‘prior service*  
8           *year’)* *as service under the plan if the same*  
9           *specified number of years is available to all*  
10           *employees eligible to participate in the plan*  
11           *for the first plan year.*

12           “(ii) *ACCRUAL OF PRIOR SERVICE BEN-*  
13           *EFIT.*—*Such an election shall be effective for*  
14           *a prior service year only if the requirements*  
15           *of this paragraph are met for an eligible*  
16           *plan year (with respect to employees enti-*  
17           *tled to credit for such prior service year) by*  
18           *doubling the applicable percentage (if any)*  
19           *for such plan year. For purposes of the pre-*  
20           *ceding sentence, an eligible plan year is a*  
21           *plan year in the period of consecutive plan*  
22           *years (but not more than the number speci-*  
23           *fied under clause (i)) beginning with the*  
24           *first plan year that the plan is in effect.*

1                   “(iii) *ELECTION MAY NOT APPLY TO*  
2                   *CERTAIN PRIOR SERVICE YEARS.—This sub-*  
3                   *paragraph shall not apply with respect to*  
4                   *any prior service year of an employee if—*

5                   “(I) *for any part of such prior*  
6                   *service year such employee was an ac-*  
7                   *tive participant (within the meaning*  
8                   *of section 219(g)(5)) under any defined*  
9                   *benefit plan of the employer (or any*  
10                  *predecessor thereof), or*

11                  “(II) *such employee received dur-*  
12                  *ing such prior service year less than*  
13                  *\$5,000 in compensation from the em-*  
14                  *ployer.*

15                  “(6) *FUNDING.—*

16                  “(A) *IN GENERAL.—The requirements of*  
17                  *this paragraph are met only if the employer is*  
18                  *required to contribute to the annuity for each*  
19                  *plan year the amount necessary to purchase a*  
20                  *SAFE annuity in the amount of the benefit ac-*  
21                  *crued for such year for each participant entitled*  
22                  *to such benefit.*

23                  “(B) *TIME WHEN CONTRIBUTIONS DEEMED*  
24                  *MADE.—For purposes of this paragraph, an em-*  
25                  *ployer shall be deemed to have made a contribu-*

tion on the last day of the preceding taxable year if the payment is on account of such taxable year and is made not later than the time prescribed by law for filing the return for such taxable year (including extensions thereof).

“(C) *PENALTY FOR FAILURE TO MAKE REQUIRED CONTRIBUTION.*—The taxes imposed by section 4971 shall apply to a failure to make the contribution required by this paragraph in the same manner as if the amount of the failure were an accumulated funding deficiency to which such section applies.

“(7) *LIMITATION ON DISTRIBUTIONS.*—The requirements of this paragraph are met only if payments under the contract may be made only after the employee attains age 65 or when the employee separates from service, dies, or becomes disabled (within the meaning of section 72(m)(7)).

“(c) *SAFE TRUST.*—

“(1) *IN GENERAL.*—For purposes of this title, the term ‘SAFE trust’ means a trust forming part of a defined benefit plan if—

“(A) such trust meets the requirements of section 401(a) as modified by subsection (d),

1           “(B) a participant’s benefits under the plan  
2           are based solely on the balance of a separate ac-  
3           count in such plan of such participant,

4           “(C) such plan meets the requirements of  
5           paragraphs (2) through (8), and

6           “(D) the only contributions to such trust  
7           (other than rollover contributions) are employer  
8           contributions.

9           “(2) *PARTICIPATION REQUIREMENTS.*—A plan  
10          meets the requirements of this paragraph for any year  
11          only if the requirements of subsection (b)(2) are met  
12          for such year.

13          “(3) *VESTING.*—A plan meets the requirements  
14          of this paragraph for any year only if the require-  
15          ments of subsection (b)(3) are met for such year.

16          “(4) *BENEFIT FORM.*—

17                 “(A) *IN GENERAL.*—Except as provided in  
18                 subparagraph (B), a plan meets the requirements  
19                 of this paragraph only if the trustee distributes  
20                 a *SAFE* annuity that satisfies subsection (b)(4)  
21                 where the annual benefit described in subsection  
22                 (b)(4)(A) is not less than the accrued benefit de-  
23                 termined under paragraph (5).

24                 “(B) *DIRECT TRANSFERS TO INDIVIDUAL*  
25                 *RETIREMENT PLAN OR SAFE ANNUITY.*—A plan

1        *shall not fail to meet the requirements of this*  
 2        *paragraph by reason of permitting, as an op-*  
 3        *tional form of benefit, the distribution of the en-*  
 4        *tire balance to the credit of the employee. If the*  
 5        *employee is under age 65, such distribution must*  
 6        *be in the form of a direct trustee-to-trustee trans-*  
 7        *fer to a SAFE annuity, another SAFE trust, or*  
 8        *a SAFE rollover plan (or, in the case of a dis-*  
 9        *tribution that does not exceed the dollar limit in*  
 10       *effect under section 411(a)(11)(A), any other in-*  
 11       *dividual retirement plan).*

12            *“(C) SAFE ROLLOVER PLAN.—For purposes*  
 13        *of this section, the term ‘SAFE rollover plan’*  
 14        *means an individual retirement plan for the*  
 15        *benefit of the employee to which a rollover was*  
 16        *made from a SAFE annuity, SAFE trust, or an-*  
 17        *other SAFE rollover plan.*

18            *“(5) AMOUNT OF ANNUAL ACCRUED BENEFIT.—*  
 19        *A plan meets the requirements of this paragraph for*  
 20        *any year only if the requirements of subsection (b)(5)*  
 21        *are met for such year.*

22            *“(6) FUNDING.—*

23            *“(A) IN GENERAL.—A plan meets the re-*  
 24        *quirements of this paragraph for any year only*  
 25        *if—*

1           “(i) the requirements of subsection  
2           (b)(6) are met for such year,

3           “(ii) in the case of a plan which has  
4           an unfunded annuity amount with respect  
5           to the account of any participant, the plan  
6           requires that the employer make an addi-  
7           tional contribution to such plan (at the  
8           time the annuity contract to which such  
9           amount relates is purchased) equal to the  
10          unfunded annuity amount, and

11          “(iii) in the case of a plan which has  
12          an unfunded prior year liability as of the  
13          close of such plan year, the plan requires  
14          that the employer make an additional con-  
15          tribution to such plan for such year equal  
16          to the amount of such unfunded prior year  
17          liability no later than 8½ months following  
18          the end of the plan year.

19          “(B) UNFUNDED ANNUITY AMOUNT.—For  
20          purposes of this paragraph, the term ‘unfunded  
21          annuity amount’ means, with respect to the ac-  
22          count of any participant for whom an annuity  
23          is being purchased, the excess (if any) of—

24                 “(i) the amount necessary to purchase  
25                 an annuity contract which meets the re-

1            *quirements of subsection (b)(4) in the*  
 2            *amount of the participant's accrued benefit*  
 3            *determined under paragraph (5), over*

4            *“(ii) the balance in such account at the*  
 5            *time such contract is purchased.*

6            *“(C) UNFUNDED PRIOR YEAR LIABILITY.—*  
 7            *For purposes of this paragraph, the term ‘un-*  
 8            *funded prior year liability’ means, with respect*  
 9            *to any plan year, the excess (if any) of—*

10           *“(i) the aggregate of the present value*  
 11           *of the accrued liabilities under the plan as*  
 12           *of the close of the prior plan year, over*

13           *“(ii) the value of the plan's assets de-*  
 14           *termined under section 412(c)(2) as of the*  
 15           *close of the plan year (determined without*  
 16           *regard to any contributions for such plan*  
 17           *year).*

18           *Such present value shall be determined using the*  
 19           *assumptions specified in subparagraph (D).*

20           *“(D) ACTUARIAL ASSUMPTIONS.—In deter-*  
 21           *mining the amount required to be contributed*  
 22           *under subparagraph (A)—*

23           *“(i) the assumed interest rate shall be*  
 24           *not less than 3 percent, and not greater*  
 25           *than 5 percent, per year,*

1           “(ii) *the assumed mortality shall be de-*  
 2           *termined under the applicable mortality*  
 3           *table (as defined in section 417(e)(3), as*  
 4           *modified by the Secretary so that it does not*  
 5           *include any assumption for preretirement*  
 6           *mortality), and*

7           “(iii) *the assumed retirement age shall*  
 8           *be 65.*

9           “(E) *CHANGES IN MORTALITY TABLE.—If,*  
 10          *for purposes of this subsection, the applicable*  
 11          *mortality table under section 417(e)(3) for any*  
 12          *plan year is not the same as such table for the*  
 13          *prior plan year, the Secretary shall prescribe*  
 14          *regulations for such purposes which phase in the*  
 15          *effect of the changes over a reasonable period of*  
 16          *plan years determined by the Secretary.*

17          “(F) *PENALTY FOR FAILURE TO MAKE RE-*  
 18          *QUIRED CONTRIBUTION.—The taxes imposed by*  
 19          *section 4971 shall apply to a failure to make the*  
 20          *contribution required by this paragraph in the*  
 21          *same manner as if the amount of the failure*  
 22          *were an accumulated funding deficiency to*  
 23          *which such section applies.*



1           “(7) *SEPARATE ACCOUNTS FOR PARTICIPANTS.*—

2           *A plan meets the requirements of this paragraph for*  
3           *any year only if the plan provides—*

4                   “(A) *for an individual account for each*  
5                   *participant, and*

6                   “(B) *for benefits based solely on—*

7                           “(i) *the amount contributed to the par-*  
8                           *ticipant’s account,*

9                           “(ii) *any income, expenses, gains and*  
10                          *losses, and any forfeitures of accounts of*  
11                          *other participants which may be allocated*  
12                          *to such participant’s account, and*

13                          “(iii) *the amount of any unfunded an-*  
14                          *nuity amount with respect to the partici-*  
15                          *pant.*

16           “(8) *TRUST MAY NOT HOLD SECURITIES WHICH*  
17           *ARE NOT READILY TRADABLE.*—*A plan meets the re-*  
18           *quirements of this paragraph only if the plan pro-*  
19           *hibits the trust from holding directly or indirectly se-*  
20           *curities which are not readily tradable on an estab-*  
21           *lished securities market or otherwise. Nothing in this*  
22           *paragraph shall prohibit the trust from holding in-*  
23           *surance company products regulated by State law.*

24           “(d) *SPECIAL RULES FOR SAFE ANNUITIES AND*  
25           *TRUSTS.*—

1           “(1) *CERTAIN REQUIREMENTS TREATED AS*  
 2           *MET.—For purposes of section 401(a), a SAFE annu-*  
 3           *ity and a SAFE trust shall be treated as meeting the*  
 4           *requirements of the following provisions:*

5                   “(A) *Section 401(a)(4) (relating to non-*  
 6                   *discrimination rules).*

7                   “(B) *Section 401(a)(26) (relating to min-*  
 8                   *imum participation).*

9                   “(C) *Section 410 (relating to minimum*  
 10                  *participation and coverage requirements).*

11                  “(D) *Except as provided in subsection*  
 12                  *(b)(4(A), section 411(b) (relating to accrued ben-*  
 13                  *efit requirements).*

14                  “(E) *Section 412 (relating to minimum*  
 15                  *funding standards).*

16                  “(F) *Section 415 (relating to limitations on*  
 17                  *benefits and contributions under qualified*  
 18                  *plans).*

19                  “(G) *Section 416 (relating to special rules*  
 20                  *for top-heavy plans).*

21           “(2) *CONTRIBUTIONS NOT TAKEN INTO ACCOUNT*  
 22           *IN APPLYING LIMITS TO OTHER PLANS.—*

23                   “(A) *DEDUCTION LIMITS.—Contributions to*  
 24                   *a SAFE annuity or a SAFE trust shall not be*

1           *taken into account in applying sections 404 to*  
 2           *other plans maintained by the employer.*

3           “(B) *BENEFIT LIMITS.*—A *SAFE* annuity  
 4           or a *SAFE* trust shall be treated as a defined  
 5           benefit plan for purposes of section 415.

6           “(3) *USE OF DESIGNATED FINANCIAL INSTITU-*  
 7           *TIONS.*—A rule similar to the rule of section  
 8           408(p)(7) (without regard to the last sentence thereof)  
 9           shall apply for purposes of this section.

10          “(4) *DEFINITIONS.*—The definitions in section  
 11          408(p)(6) shall apply for purposes of this section.”.

12          (b) *DEDUCTION LIMITS NOT TO APPLY TO EMPLOYER*  
 13          *CONTRIBUTIONS.*—

14               (1) *IN GENERAL.*—Section 404 (relating to de-  
 15               ductions for contributions of an employer to pension,  
 16               etc., plans), as amended by section 314, is amended  
 17               by adding at the end the following new subsection:

18               “(o) *SPECIAL RULES FOR SAFE ANNUITIES.*—

19                       (1) *IN GENERAL.*—Employer contributions to a  
 20                       *SAFE* annuity shall be treated as if they are made  
 21                       to a plan subject to the requirements of this section.

22                       (2) *DEDUCTIBLE LIMIT.*—For purposes of sub-  
 23                       section (a)(1)(A)(i), the amount necessary to satisfy  
 24                       the minimum funding requirement of section  
 25                       408B(b)(6) or (c)(6) shall be treated as the amount

1       *necessary to satisfy the minimum funding require-*  
 2       *ment of section 412.”.*

3               (2) *COORDINATION WITH DEDUCTION UNDER*  
 4       *SECTION 219.—*

5               (A) *Section 219(b) (relating to maximum*  
 6               *amount of deduction), as amended by section*  
 7               *301, is amended by adding at the end the fol-*  
 8               *lowing new paragraph:*

9               “(6) *SPECIAL RULE FOR SAFE ANNUITIES.—This*  
 10              *section shall not apply with respect to any amount*  
 11              *contributed to a SAFE annuity established under sec-*  
 12              *tion 408B(b).”.*

13              (B) *Section 219(g)(5)(A) (defining active*  
 14              *participant) is amended by striking “or” at the*  
 15              *end of clause (v) and by adding at the end the*  
 16              *following new clause:*

17                       “(vii) *any SAFE annuity (within the*  
 18                       *meaning of section 408B), or”.*

19              (c) *CONTRIBUTIONS AND DISTRIBUTIONS.—*

20              (1) *Section 402 (relating to taxability of bene-*  
 21              *ficiary of employees’ trust) is amended by adding at*  
 22              *the end the following new subsection:*

23              “(l) *TREATMENT OF SAFE ANNUITIES.—Rules simi-*  
 24              *lar to the rules of paragraphs (1) and (3) of subsection (h)*

1 *shall apply to contributions and distributions with respect*  
 2 *to a SAFE annuities under section 408B.”.*

3 (2) *Section 408(d)(3) is amended by adding at*  
 4 *the end the following new subparagraph:*

5 “(H) *SAFE ANNUITIES.—This paragraph*  
 6 *shall not apply to any amount paid or distrib-*  
 7 *uted out of a SAFE annuity (as defined in sec-*  
 8 *tion 408B) unless it is paid in a trustee-to-trust-*  
 9 *ee transfer into another SAFE annuity.”.*

10 (d) *INCREASED PENALTY ON EARLY WITHDRAWALS.—*  
 11 *Section 72(t) (relating to additional tax on early distribu-*  
 12 *tions) is amended by adding at the end the following new*  
 13 *paragraph:*

14 “(7) *SPECIAL RULES FOR SAFE ANNUITIES AND*  
 15 *TRUSTS.—In the case of any amount received from a*  
 16 *SAFE annuity or a SAFE trust (within the meaning*  
 17 *of section 408B), paragraph (1) shall be applied by*  
 18 *substituting ‘20 percent’ for ‘10 percent’.”.*

19 (e) *SIMPLIFIED EMPLOYER REPORTS.—*

20 (1) *SAFE ANNUITIES.—Section 408(l) (relating*  
 21 *to simplified employer reports) is amended by adding*  
 22 *at the end the following new paragraph:*

23 “(3) *SAFE ANNUITIES.—*

24 “(A) *SIMPLIFIED REPORT.—The employer*  
 25 *maintaining any SAFE annuity (within the*

1        *meaning of section 408B) shall file a simplified*  
2        *annual return with the Secretary containing*  
3        *only the information described in subparagraph*  
4        *(B).*

5                *“(B) CONTENTS.—The return required by*  
6        *subparagraph (A) shall set forth—*

7                    *“(i) the name and address of the em-*  
8        *ployer,*

9                    *“(ii) the date the plan was adopted,*

10                  *“(iii) the number of employees of the*  
11        *employer,*

12                  *“(iv) the number of such employees*  
13        *who are eligible to participate in the plan,*

14                  *“(v) the total amount contributed by*  
15        *the employer to each such annuity for such*  
16        *year and the minimum amount required*  
17        *under section 408B to be so contributed,*

18                  *“(vi) the percentage elected under sec-*  
19        *tion 408B(b)(5)(B), and*

20                  *“(vii) the number of employees with re-*  
21        *spect to whom contributions are required to*  
22        *be made for such year under section*  
23        *408B(b)(5)(D).*

24                *“(C) REPORTING BY ISSUER OF SAFE ANNU-*  
25        *ITY.—*

1           “(i) *IN GENERAL.*—*The issuer of each*  
2           *SAFE annuity shall provide to the owner of*  
3           *the annuity for each year a statement set-*  
4           *ting forth as of the close of such year—*

5                     “(I) *the benefits guaranteed at age*  
6                     *65 under the annuity, and*

7                     “(II) *the cash surrender value of*  
8                     *the annuity.*

9           “(ii) *SUMMARY DESCRIPTION.*—*The*  
10           *issuer of any SAFE annuity shall provide*  
11           *to the employer maintaining the annuity*  
12           *for each year a description containing the*  
13           *following information:*

14                     “(I) *The name and address of the*  
15                     *employer and the issuer.*

16                     “(II) *The requirements for eligi-*  
17                     *bility for participation.*

18                     “(III) *The benefits provided with*  
19                     *respect to the annuity.*

20                     “(IV) *The procedures for, and ef-*  
21                     *fects of, withdrawals (including roll-*  
22                     *overs) from the annuity.*

23           “(D) *TIME AND MANNER OF REPORTING.*—  
24           *Any return, report, or statement required under*

1           *this paragraph shall be made in such form and*  
 2           *at such time as the Secretary shall prescribe.”.*

3           (2) *SAFE TRUSTS.*—Section 6059 (relating to  
 4           *actuarial reports*) is amended by redesignating sub-  
 5           *sections (c) and (d) as subsections (d) and (e), respec-*  
 6           *tively, and by inserting after subsection (b) the fol-*  
 7           *lowing new subsection:*

8           “(c) *SAFE TRUSTS.*—*In the case of a SAFE trust*  
 9           *(within the meaning of section 408B), the Secretary shall*  
 10          *require a simplified actuarial report which contains infor-*  
 11          *mation similar to the information required in section*  
 12          *408(l)(3)(B).”.*

13          (f) *CONFORMING AMENDMENTS.*—

14           (1) Section 280G(b)(6) is amended by striking  
 15           “or” at the end of subparagraph (C), by striking the  
 16           period at the end of subparagraph (D) and inserting  
 17           “; or” and by adding after subparagraph (D) the fol-  
 18           lowing new subparagraph:

19                   “(E) a *SAFE annuity* described in section  
 20           408B.”.

21           (2) Clause (ii) of section 408(p)(2)(D) is amend-  
 22           ed by inserting before the period “(other than clause  
 23           (vii) of such subparagraph (A))”.



1           (3) Subsections (b), (c), (m)(4)(B), and (n)(3)(B)  
 2           of section 414 are each amended by inserting “408B,”  
 3           after “408(p),”.

4           (4) Section 4972(d)(1)(A) is amended by striking  
 5           “and” at the end of clause (iii), by striking the period  
 6           at the end of clause (iv) and inserting “, and”, and  
 7           by adding after clause (iv) the following new clause:

8                       “(v) any *SAFE* annuity (within the  
 9                       meaning of section 408B).”.

10          (5) The table of sections for subpart A of part I  
 11          of subchapter D of chapter 1 is amended by inserting  
 12          after the item relating to section 408A the following  
 13          new item:

                      “Sec. 408B. *SAFE* annuities and trusts.”.

14          (g) *MODIFICATIONS OF ERISA.*—

15               (1) *EXEMPTION FROM INSURANCE COVERAGE.*—  
 16          Subsection (b) of section 4021 of the *Employee Retirement*  
 17          *Income Security Act of 1974* (29 U.S.C. 1321)  
 18          is amended by striking “or” at the end of paragraph  
 19          (12), by striking the period at the end of paragraph  
 20          (13) and inserting “; or”, and by adding at the end  
 21          the following new paragraph:

22                       “(14) which is established and maintained as  
 23                       part of a *SAFE* trust (as defined in section 408B of  
 24                       the *Internal Revenue Code of 1986*).”.

1           (2) *REPORTING REQUIREMENTS.*—Section 101 of  
 2       such Act (29 U.S.C. 1021) is amended by redesignig-  
 3       nating the second subsection (h) as subsection (j) and  
 4       by inserting after the first subsection (h) the following  
 5       new subsection:

6       “(i) *SAFE ANNUITIES.*—

7           “(1) *NO EMPLOYER REPORTS.*—Except as pro-  
 8       vided in this subsection, no report shall be required  
 9       under this section by an employer maintaining a  
 10      *SAFE* annuity under section 408B(b) of the Internal  
 11      Revenue Code of 1986.

12          “(2) *SUMMARY DESCRIPTION.*—The issuer of any  
 13      *SAFE* annuity shall provide to the employer main-  
 14      taining the annuity for each year a description con-  
 15      taining the following information:

16           “(A) *The name and address of the employer*  
 17          *and the issuer.*

18           “(B) *The requirements for eligibility for*  
 19          *participation.*

20           “(C) *The benefits provided with respect to*  
 21          *the annuity.*

22           “(D) *The procedures for, and effects of,*  
 23          *withdrawals (including rollovers) from the annu-*  
 24          *ity.*

1           “(3) *EMPLOYEE NOTIFICATION.*—*The employer*  
 2           *shall provide each employee eligible to participate in*  
 3           *the SAFE annuity with the description described in*  
 4           *paragraph (2) at the same time as the notification re-*  
 5           *quired under section 408B(b)(5)(B) of the Internal*  
 6           *Revenue Code of 1986.”.*

7           (3) *WAIVER OF FUNDING STANDARDS.*—*Section*  
 8           *301(a) of such Act (29 U.S.C. 1081) is amended by*  
 9           *striking “or” at the end of paragraph (9), by striking*  
 10          *the period at the end of paragraph (10) and inserting*  
 11          *“; or”, and by adding at the end the following new*  
 12          *paragraph:*

13           “(11) *any plan providing for the purchase of*  
 14           *any SAFE annuity or any SAFE trust (as such*  
 15           *terms are defined in section 408B of such Code).”.*

16          (h) *EFFECTIVE DATE.*—*The amendments made by this*  
 17          *section shall apply to years beginning after December 31,*  
 18          *2000.*

19   **SEC. 319. MODIFICATION OF TOP-HEAVY RULES.**

20          (a) *MATCHING CONTRIBUTIONS TAKEN INTO ACCOUNT*  
 21          *FOR MINIMUM CONTRIBUTION REQUIREMENTS.*—*Section*  
 22          *416(c)(2)(A) (relating to defined contribution plans) is*  
 23          *amended by adding at the end the following: “Employer*  
 24          *matching contributions (as defined in section*

1 401(m)(4)(A)) shall be taken into account for purposes of  
 2 this subparagraph.”.

3 (b) *ELIMINATION OF FAMILY ATTRIBUTION.*—Section  
 4 416(i)(1)(B) (defining 5-percent owner) is amended by add-  
 5 ing at the end the following new clause:

6 “(iv) *FAMILY ATTRIBUTION DIS-*  
 7 *REGARDED.*—Solely for purposes of apply-  
 8 ing this paragraph (and not for purposes of  
 9 any provision of this title which incor-  
 10 porates by reference the definition of a key  
 11 employee or 5-percent owner under this  
 12 paragraph), section 318 shall be applied  
 13 without regard to subsection (a)(1) thereof  
 14 in determining whether any person is a 5-  
 15 percent owner.”.

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

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

1                   “(i) a cash or deferred arrangement  
 2                   which meets the requirements of section  
 3                   401(k)(12), and

4                   “(ii) matching contributions with re-  
 5                   spect to which the requirements of section  
 6                   401(m)(11) are met.

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

14               (d) *EFFECTIVE DATE.*—The amendments made by this  
 15               section shall apply to plan years beginning after December  
 16               31, 2000.

17               ***Subtitle C—Enhancing Fairness for***  
 18                                               ***Women***

19               ***SEC. 321. CATCHUP CONTRIBUTIONS FOR INDIVIDUALS AGE***  
 20                                               ***50 OR OVER.***

21               (a) *ELECTIVE DEFERRALS.*—Section 414 (relating to  
 22               definitions and special rules) is amended by adding at the  
 23               end the following new subsection:

24               “(v) *CATCHUP CONTRIBUTIONS FOR INDIVIDUALS AGE*  
 25               *50 OR OVER.*—

1           “(1) *IN GENERAL.*—An applicable employer plan  
 2           shall not be treated as failing to meet any require-  
 3           ment of this title solely because the plan permits an  
 4           eligible participant to make additional elective defer-  
 5           rals in any plan year.

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

8                   “(A) *IN GENERAL.*—A plan shall not permit  
 9                   additional elective deferrals under paragraph (1)  
 10                  for any year in an amount greater than the less-  
 11                  er of—

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

15                           “(ii) the excess (if any) of—

16                                   “(I) the participant’s compensa-  
 17                                   tion for the year, over

18                                   “(II) any other elective deferrals  
 19                                   of the participant for such year which  
 20                                   are made without regard to this sub-  
 21                                   section.

22                   “(B) *APPLICABLE PERCENTAGE.*—For pur-  
 23                   poses of this paragraph, the applicable percent-  
 24                   age shall be determined in accordance with the  
 25                   following table:

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

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

4                     “(A) *such contribution shall not, with re-*  
5                     *spect to the year in which the contribution is*  
6                     *made—*

7                             “(i) *be subject to any otherwise appli-*  
8                             *cable limitation contained in section 402(g),*  
9                             *402(h), 403(b), 404(a), 404(h), 408, 415, or*  
10                            *457, or*

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

15                           “(B) *such plan shall not be treated as fail-*  
16                           *ing to meet the requirements of section 401(a)(4),*  
17                           *401(a)(26), 401(k)(3), 401(k)(11), 401(k)(12),*  
18                           *401(m), 403(b)(12), 408(k), 408(p), 408B,*  
19                           *410(b), or 416 by reason of the making of (or the*  
20                           *right to make) such contribution.*

21                           “(4) *ELIGIBLE PARTICIPANT.*—*For purposes of*  
22                           *this subsection, the term ‘eligible participant’ means,*

1       *with respect to any plan year, a participant in a*  
 2       *plan—*

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

5               “(B) *with respect to whom no other elective*  
 6       *deferrals may (without regard to this subsection)*  
 7       *be made to the plan for the plan year by reason*  
 8       *of the application of any limitation or other re-*  
 9       *striction described in paragraph (3) or contained*  
 10       *in the terms of the plan.*

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

13              “(A) *APPLICABLE DOLLAR AMOUNT.—The*  
 14       *term ‘applicable dollar amount’ means, with re-*  
 15       *spect to any year, the amount in effect under*  
 16       *section 402(g)(1)(B), 408(p)(2)(E)(i), or*  
 17       *457(e)(15)(A), whichever is applicable to an ap-*  
 18       *plicable employer plan, for such year.*

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

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

24                      “(ii) *a plan under which amounts are*  
 25                      *contributed by an individual’s employer for*



1           *an annuity contract described in section*  
 2           *403(b),*

3           “(iii) *an eligible deferred compensation*  
 4           *plan under section 457 of an eligible em-*  
 5           *ployer as defined in section 457(e)(1)(A),*  
 6           *and*

7           “(iv) *an arrangement meeting the re-*  
 8           *quirements of section 408 (k) or (p).*

9           “(C) *ELECTIVE DEFERRAL.*—*The term ‘elec-*  
 10          *tive deferral’ has the meaning given such term*  
 11          *by subsection (u)(2)(C).*

12          “(D) *EXCEPTION FOR SECTION 457 PLANS.*—  
 13          *This subsection shall not apply to an applicable*  
 14          *employer plan described in paragraph*  
 15          *(5)(B)(iii) for any year to which section*  
 16          *457(b)(3) applies.”.*

17          “(b) *INDIVIDUAL RETIREMENT PLANS.*—*Section 219(b),*  
 18          *as amended by sections 301 and 318, is amended by adding*  
 19          *at the end the following new paragraph:*

20               “(7) *CATCHUP CONTRIBUTIONS.*—

21               “(A) *IN GENERAL.*—*In the case of an indi-*  
 22               *vidual who has attained the age of 50 before the*  
 23               *close of the taxable year, the dollar amount in ef-*  
 24               *fect under paragraph (1)(A) for such taxable*  
 25               *year shall be equal to the applicable percentage*

1           of such amount determined without regard to  
2           this paragraph.

3           “(B) *APPLICABLE PERCENTAGE*.—For pur-  
4           poses of this paragraph, the applicable percent-  
5           age shall be determined in accordance with the  
6           following table:

<b>“For taxable years beginning in:</b>	<b>The applicable percentage is:</b>
2001 .....	110 percent
2002 .....	120 percent
2003 .....	130 percent
2004 .....	140 percent
2005 and thereafter .....	150 percent.”.

7           (c) *EFFECTIVE DATE*.—The amendment made by this  
8           section shall apply to contributions in taxable years begin-  
9           ning after December 31, 2000.

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

13           (a) *EQUITABLE TREATMENT*.—

14           (1) *IN GENERAL*.—Subparagraph (B) of section  
15           415(c)(1) (relating to limitation for defined contribu-  
16           tion plans) is amended by striking “25 percent” and  
17           inserting “100 percent”.

18           (2) *APPLICATION TO SECTION 403(b)*.—Section  
19           403(b) is amended—

20                   (A) by striking “the exclusion allowance for  
21                   such taxable year” in paragraph (1) and insert-  
22                   ing “the applicable limit under section 415”,

1                   (B) by striking paragraph (2), and

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

7                   (3) CONFORMING AMENDMENTS.—

8                   (A) Subsection (f) of section 72 is amended  
9 by striking “section 403(b)(2)(D)(iii))” and in-  
10 serting “section 403(b)(2)(D)(iii), as in effect be-  
11 fore the enactment of the Taxpayer Refund Act  
12 of 1999)”.

13                   (B) Section 404(a)(10)(B) is amended by  
14 striking “, the exclusion allowance under section  
15 403(b)(2),”.

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

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

22                   “(E) ANNUITY CONTRACTS.—In the case of  
23 an annuity contract described in section 403(b),  
24 the term ‘participant’s compensation’ means the

1        *participant's includible compensation deter-*  
 2        *mined under section 403(b)(3).”.*

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

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

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

9                *“(A) IN GENERAL.—Notwithstanding any*  
 10        *other provision of this subsection, at the election*  
 11        *of a participant who is an employee of a church*  
 12        *or a convention or association of churches, in-*  
 13        *cluding an organization described in section*  
 14        *414(e)(3)(B)(ii), contributions and other addi-*  
 15        *tions for an annuity contract or retirement in-*  
 16        *come account described in section 403(b) with re-*  
 17        *spect to such participant, when expressed as an*  
 18        *annual addition to such participant's account,*  
 19        *shall be treated as not exceeding the limitation*  
 20        *of paragraph (1) if such annual addition is not*  
 21        *in excess of \$10,000.*

22                *“(B) \$40,000 AGGREGATE LIMITATION.—*  
 23        *The total amount of additions with respect to*  
 24        *any participant which may be taken into ac-*

1           *count for purposes of this subparagraph for all*  
 2           *years may not exceed \$40,000.*

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

6           (G) *Subparagraph (B) of section 402(g)(7)*  
 7           *(as redesignated by section 312(a)) is amended*  
 8           *by inserting before the period at the end the fol-*  
 9           *lowing: “(as in effect before the enactment of the*  
 10           *Taxpayer Refund Act of 1999)”.*

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

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

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

18           “(4) *SPECIAL RULES FOR SECTIONS 403(b) AND*  
 19           *408.*—*For purposes of this section, any annuity con-*  
 20           *tract described in section 403(b) for the benefit of a*  
 21           *participant shall be treated as a defined contribution*  
 22           *plan maintained by each employer with respect to*  
 23           *which the participant has the control required under*  
 24           *subsection (b) or (c) of section 414 (as modified by*  
 25           *subsection (h)). For purposes of this section, any con-*

1        *tribution by an employer to a simplified employee*  
 2        *pension plan for an individual for a taxable year*  
 3        *shall be treated as an employer contribution to a de-*  
 4        *finied contribution plan for such individual for such*  
 5        *year.”.*

6            (2) *EFFECTIVE DATE.*—*The amendments made*  
 7        *by paragraph (1) shall apply to limitation years be-*  
 8        *ginning after December 31, 2000.*

9            (c) *DEFERRED COMPENSATION PLANS OF STATE AND*  
 10        *LOCAL GOVERNMENTS AND TAX-EXEMPT ORGANIZA-*  
 11        *TIONS.*—

12            (1) *IN GENERAL.*—*Subparagraph (B) of section*  
 13        *457(b)(2) (relating to salary limitation on eligible de-*  
 14        *ferred compensation plans) is amended by striking*  
 15        *“33<sup>1</sup>/<sub>3</sub> percent” and inserting “100 percent”.*

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

19        **SEC. 323. CLARIFICATION OF TAX TREATMENT OF DIVISION**  
 20                                **OF SECTION 457 PLAN BENEFITS UPON DI-**  
 21                                **VORCE.**

22            (a) *IN GENERAL.*—*Section 414(p)(11) (relating to ap-*  
 23        *plication of rules to governmental and church plans) is*  
 24        *amended—*

1           (1) by inserting “or an eligible deferred com-  
 2           pensation plan (within the meaning of section  
 3           457(b))” after “subsection (e))”, and

4           (2) in the heading, by striking “GOVERNMENTAL  
 5           AND CHURCH PLANS” and inserting “CERTAIN OTHER  
 6           PLANS”.

7           (b) *WAIVER OF CERTAIN DISTRIBUTION REQUIRE-*  
 8           *MENTS.*—Paragraph (10) of section 414(p) is amended by  
 9           striking “and section 409(d)” and inserting “section  
 10          409(d), and section 457(d)”.

11          (c) *TAX TREATMENT OF PAYMENTS FROM A SECTION*  
 12          *457 PLAN.*—Subsection (p) of section 414 is amended by  
 13          redesignating paragraph (12) as paragraph (13) and in-  
 14          serting after paragraph (11) the following new paragraph:

15               “(12) *TAX TREATMENT OF PAYMENTS FROM A*  
 16               *SECTION 457 PLAN.*—If a distribution or payment  
 17               from an eligible deferred compensation plan described  
 18               in section 457(b) is made pursuant to a qualified do-  
 19               mestic relations order, rules similar to the rules of  
 20               section 402(e)(1)(A) shall apply to such distribution  
 21               or payment.”.

22          (d) *EFFECTIVE DATE.*—The amendments made by this  
 23          section shall apply to transfers, distributions, and pay-  
 24          ments made after December 31, 2000.

1 **SEC. 324. MODIFICATION OF SAFE HARBOR RELIEF FOR**  
 2 **HARDSHIP WITHDRAWALS FROM CASH OR DE-**  
 3 **FERRED ARRANGEMENTS.**

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

11 (b) *EFFECTIVE DATE.*—The revised regulations under  
 12 subsection (a) shall apply to years beginning after Decem-  
 13 ber 31, 2000.

14 **SEC. 325. FASTER VESTING OF CERTAIN EMPLOYER MATCH-**  
 15 **ING CONTRIBUTIONS.**

16 (a) *AMENDMENTS TO 1986 CODE.*—Section 411(a) (re-  
 17 lating to minimum vesting standards) is amended—

18 (1) in paragraph (2), by striking “A plan” and  
 19 inserting “Except as provided in paragraph (12), a  
 20 plan”, and

21 (2) by adding at the end the following:

22 “(12) *FASTER VESTING FOR MATCHING CON-*  
 23 *TRIBUTIONS.*—In the case of matching contributions  
 24 (as defined in section 401(m)(4)(A)), paragraph (2)  
 25 shall be applied—



1                   “(A) by substituting ‘3 years’ for ‘5 years’  
 2                   in subparagraph (A), and  
 3                   “(B) by substituting the following table for  
 4                   the table contained in subparagraph (B):

<b>“Years of service:</b>	<b>The nonforfeitable percentage is:</b>
2 .....	20
3 .....	40
4 .....	60
5 .....	80
6 .....	100.”.

5           (b) *AMENDMENTS TO ERISA*.—Section 203(a) of the  
 6 *Employee Retirement Income Security Act of 1974* (29  
 7 *U.S.C. 1053(a)*) is amended—

8                   (1) in paragraph (2), by striking “A plan” and  
 9                   inserting “Except as provided in paragraph (4), a  
 10                  plan”, and

11                  (2) by adding at the end the following:

12                   “(4) *FASTER VESTING FOR MATCHING CONTRIBU-*  
 13                  *TIONS*.—In the case of matching contributions (as de-  
 14                  fined in section 401(m)(4)(A) of the Internal Revenue  
 15                  Code of 1986), paragraph (2) shall be applied—

16                   “(A) by substituting ‘3 years’ for ‘5 years’  
 17                   in subparagraph (A), and  
 18                   “(B) by substituting the following table for  
 19                   the table contained in subparagraph (B):

<b>“Years of service:</b>	<b>The nonforfeitable percentage is:</b>
2 .....	20
3 .....	40
4 .....	60

<b>“Years of service:</b>	<b><i>The nonforfeitable percentage is:</i></b>
5 .....	80
6 .....	100.”.

1       (c) *EFFECTIVE DATES.*—

2               (1) *IN GENERAL.*—*Except as provided in para-*  
3 *graph (2), the amendments made by this section shall*  
4 *apply to contributions for plan years beginning after*  
5 *December 31, 2000.*

6               (2) *COLLECTIVE BARGAINING AGREEMENTS.*—*In*  
7 *the case of a plan maintained pursuant to 1 or more*  
8 *collective bargaining agreements between employee*  
9 *representatives and 1 or more employers ratified by*  
10 *the date of enactment of this Act, the amendments*  
11 *made by this section shall not apply to contributions*  
12 *on behalf of employees covered by any such agreement*  
13 *for plan years beginning before the earlier of—*

14                       (A) *the later of—*

15                               (i) *the date on which the last of such*  
16 *collective bargaining agreements terminates*  
17 *(determined without regard to any exten-*  
18 *sion thereof on or after such date of enact-*  
19 *ment), or*

20                               (ii) *January 1, 2001, or*

21                       (B) *January 1, 2005.*

22               (3) *SERVICE REQUIRED.*—*With respect to any*  
23 *plan, the amendments made by this section shall not*

1        *apply to any employee before the date that such em-*  
 2        *ployee has 1 hour of service under such plan in any*  
 3        *plan year to which the amendments made by this sec-*  
 4        *tion apply.*

5        ***Subtitle D—Increasing Portability***  
 6                ***for Participants***

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

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

10                *(1) ROLLOVERS FROM SECTION 457 PLANS.—*

11                        *(A) IN GENERAL.—Section 457(e) (relating*  
 12                        *to other definitions and special rules) is amend-*  
 13                        *ed by adding at the end the following:*

14                        *“(16) ROLLOVER AMOUNTS.—*

15                                *“(A) GENERAL RULE.—In the case of an el-*  
 16                                *igible deferred compensation plan established*  
 17                                *and maintained by an employer described in*  
 18                                *subsection (e)(1)(A), if—*

19                                        *“(i) any portion of the balance to the*  
 20                                        *credit of an employee in such plan is paid*  
 21                                        *to such employee in an eligible rollover dis-*  
 22                                        *tribution (within the meaning of section*  
 23                                        *402(c)(4) without regard to subparagraph*  
 24                                        *(C) thereof),*

1           “(ii) the employee transfers any por-  
 2           tion of the property such employee receives  
 3           in such distribution to an eligible retire-  
 4           ment plan described in section 402(c)(8)(B),  
 5           and

6           “(iii) in the case of a distribution of  
 7           property other than money, the amount so  
 8           transferred consists of the property distrib-  
 9           uted,  
 10          then such distribution (to the extent so trans-  
 11          ferred) shall not be includible in gross income for  
 12          the taxable year in which paid.

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

18           “(C) REPORTING.—Rollovers under this  
 19          paragraph shall be reported to the Secretary in  
 20          the same manner as rollovers from qualified re-  
 21          tirement plans (as defined in section 4974(c)).”.

22           “(B) DEFERRAL LIMIT DETERMINED WITH-  
 23          OUT REGARD TO ROLLOVER AMOUNTS.—Section  
 24          457(b)(2) (defining eligible deferred compensa-

tion plan) is amended by inserting “(other than rollover amounts)” after “taxable year”.

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

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

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

(D) *WITHHOLDING*.—

(i) Paragraph (12) of section 3401(a) is amended by adding at the end the following:

“(E) under or to an eligible deferred compensation plan which, at the time of such payment, is a plan described in section 457(b) maintained by an employer described in section 457(e)(1)(A); or”.

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

3                   “(3) *ELIGIBLE ROLLOVER DISTRIBUTION.*—For  
4                   purposes of this subsection, the term ‘eligible rollover  
5                   distribution’ has the meaning given such term by sec-  
6                   tion 402(f)(2)(A).”.

7                   (iii) *LIABILITY FOR WITHHOLDING.*—  
8                   Subparagraph (B) of section 3405(d)(2) is  
9                   amended by striking “or” at the end of  
10                  clause (ii), by striking the period at the end  
11                  of clause (iii) and inserting “, or”, and by  
12                  adding at the end the following:

13                  “(iv) section 457(b).”.

14                  (2) *ROLLOVERS TO SECTION 457 PLANS.*—

15                  (A) *IN GENERAL.*—Section 402(c)(8)(B)  
16                  (defining eligible retirement plan) is amended by  
17                  striking “and” at the end of clause (iii), by  
18                  striking the period at the end of clause (iv) and  
19                  inserting “, and”, and by inserting after clause  
20                  (iv) the following new clause:

21                  “(v) an eligible deferred compensation  
22                  plan described in section 457(b) of an em-  
23                  ployer described in section 457(e)(1)(A).”.

1                   (B)     *SEPARATE ACCOUNTING.*—Section  
 2                   402(c) is amended by adding at the end the fol-  
 3                   lowing new paragraph:

4                   “(11) *SEPARATE ACCOUNTING.*—Unless a plan  
 5                   described in clause (v) of paragraph (8)(B) agrees to  
 6                   separately account for amounts rolled into such plan  
 7                   from eligible retirement plans not described in such  
 8                   clause, the plan described in such clause may not ac-  
 9                   cept transfers or rollovers from such retirement  
 10                  plans.”.

11                  (C) *10 PERCENT ADDITIONAL TAX.*—Sub-  
 12                  section (t) of section 72 (relating to 10-percent  
 13                  additional tax on early distributions from quali-  
 14                  fied retirement plans) is amended by adding at  
 15                  the end the following new paragraph:

16                  “(9) *SPECIAL RULE FOR ROLLOVERS TO SECTION*  
 17                  457 *PLANS.*—For purposes of this subsection, a dis-  
 18                  tribution from an eligible deferred compensation plan  
 19                  (as defined in section 457(b)) of an employer de-  
 20                  scribed in section 457(e)(1)(A) shall be treated as a  
 21                  distribution from a qualified retirement plan de-  
 22                  scribed in 4974(c)(1) to the extent that such distribu-  
 23                  tion is attributable to an amount transferred to an el-  
 24                  igible deferred compensation plan from a qualified re-  
 25                  tirement plan (as defined in section 4974(c)).”.

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

3            *(1) ROLLOVERS FROM SECTION 403(b) PLANS.—*

4        *Section 403(b)(8)(A)(ii) (relating to rollover*  
 5 *amounts) is amended by striking “such distribution”*  
 6 *and all that follows and inserting “such distribution*  
 7 *to an eligible retirement plan described in section*  
 8 *402(c)(8)(B), and”.*

9            *(2) ROLLOVERS TO SECTION 403(b) PLANS.—Sec-*  
 10 *tion 402(c)(8)(B) (defining eligible retirement plan),*  
 11 *as amended by subsection (a), is amended by striking*  
 12 *“and” at the end of clause (iv), by striking the period*  
 13 *at the end of clause (v) and inserting*  
 14 *“, and”, and by inserting after clause (v) the fol-*  
 15 *lowing new clause:*

16                    *“(vi) an annuity contract described in*  
 17                    *section 403(b).”.*

18        *(c) EXPANDED EXPLANATION TO RECIPIENTS OF*  
 19 *ROLLOVER DISTRIBUTIONS.—Paragraph (1) of section*  
 20 *402(f) (relating to written explanation to recipients of dis-*  
 21 *tributions eligible for rollover treatment) is amended by*  
 22 *striking “and” at the end of subparagraph (C), by striking*  
 23 *the period at the end of subparagraph (D) and inserting*  
 24 *“, and”, and by adding at the end the following new sub-*  
 25 *paragraph:*



1           “(E) of the provisions under which distribu-  
 2           tions from the eligible retirement plan receiving  
 3           the distribution may be subject to restrictions  
 4           and tax consequences which are different from  
 5           those applicable to distributions from the plan  
 6           making such distribution.”.

7           (d) *SPOUSAL ROLLOVERS*.—Section 402(c)(9) (relat-  
 8           ing to rollover where spouse receives distribution after death  
 9           of employee) is amended by striking “; except that” and  
 10          all that follows up to the end period.

11          (e) *CONFORMING AMENDMENTS*.—

12           (1) Section 72(o)(4) is amended by striking “and  
 13           408(d)(3)” and inserting “403(b)(8), 408(d)(3), and  
 14           457(e)(16)”.

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

17           (3) Section 401(a)(31)(B) is amended by strik-  
 18           ing “and 403(a)(4)” and inserting “, 403(a)(4),  
 19           403(b)(8), and 457(e)(16)”.

20           (4) Subparagraph (A) of section 402(f)(2) is  
 21           amended by striking “or paragraph (4) of section  
 22           403(a)” and inserting “, paragraph (4) of section  
 23           403(a), subparagraph (A) of section 403(b)(8), or sub-  
 24           paragraph (A) of section 457(e)(16)”.

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

3           (6) Subparagraphs (A) and (B) of section  
4       402(f)(1) are amended by striking “another eligible  
5       retirement plan” and inserting “an eligible retire-  
6       ment plan”.

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

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

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

17           (9) Subparagraphs (A) and (B) of section  
18       415(b)(2) are each amended by striking “and  
19       408(d)(3)” and inserting “403(b)(8), 408(d)(3), and  
20       457(e)(16)”.

21           (10) Section 415(c)(2) is amended by striking  
22       “and 408(d)(3)” and inserting “408(d)(3), and  
23       457(e)(16)”.

1           (11) *Section 4973(b)(1)(A) is amended by strik-*  
 2           *ing “or 408(d)(3)” and inserting “408(d)(3), or*  
 3           *457(e)(16)”.*

4           (f) *EFFECTIVE DATE; SPECIAL RULE.—*

5           (1) *EFFECTIVE DATE.—The amendments made*  
 6           *by this section shall apply to distributions after De-*  
 7           *cember 31, 2000.*

8           (2) *SPECIAL RULE.—Notwithstanding any other*  
 9           *provision of law, subsections (h)(3) and (h)(5) of sec-*  
 10          *tion 1122 of the Tax Reform Act of 1986 shall not*  
 11          *apply to any distribution from an eligible retirement*  
 12          *plan (as defined in clause (iii) or (iv) of section*  
 13          *402(c)(8)(B) of the Internal Revenue Code of 1986) on*  
 14          *behalf of an individual if there was a rollover to such*  
 15          *plan on behalf of such individual which is permitted*  
 16          *solely by reason of any amendment made by this sec-*  
 17          *tion.*

18   **SEC. 332. ROLLOVERS OF IRAS INTO WORKPLACE RETIRE-**  
 19           **MENT PLANS.**

20          (a) *IN GENERAL.—Subparagraph (A) of section*  
 21          *408(d)(3) (relating to rollover amounts) is amended by add-*  
 22          *ing “or” at the end of clause (i), by striking clauses (ii)*  
 23          *and (iii), and by adding at the end the following:*

24                           *“(ii) the entire amount received (in-*  
 25                           *cluding money and any other property) is*

1           *paid into an eligible retirement plan for the*  
 2           *benefit of such individual not later than the*  
 3           *60th day after the date on which the pay-*  
 4           *ment or distribution is received, except that*  
 5           *the maximum amount which may be paid*  
 6           *into such plan may not exceed the portion*  
 7           *of the amount received which is includible*  
 8           *in gross income (determined without regard*  
 9           *to this paragraph).*

10           *For purposes of clause (ii), the term ‘eligible re-*  
 11           *tirement plan’ means an eligible retirement plan*  
 12           *described in clause (iii), (iv), (v), or (vi) of sec-*  
 13           *tion 402(c)(8)(B).’.*

14           **(b) CONFORMING AMENDMENTS.—**

15           *(1) Paragraph (1) of section 403(b) is amended*  
 16           *by striking “section 408(d)(3)(A)(iii)” and inserting*  
 17           *“section 408(d)(3)(A)(ii)”.*

18           *(2) Clause (i) of section 408(d)(3)(D) is amended*  
 19           *by striking “(i), (ii), or (iii)” and inserting “(i) or*  
 20           *(ii)”.*

21           *(3) Subparagraph (G) of section 408(d)(3) is*  
 22           *amended to read as follows:*

23           **“(G) SIMPLE RETIREMENT ACCOUNTS.—***In*  
 24           *the case of any payment or distribution out of*  
 25           *a simple retirement account (as defined in sub-*

1           section (p)) to which section 72(t)(6) applies,  
 2           this paragraph shall not apply unless such pay-  
 3           ment or distribution is paid into another simple  
 4           retirement account.”.

5           (c) *EFFECTIVE DATE; SPECIAL RULE.*—

6           (1) *EFFECTIVE DATE.*—The amendments made  
 7           by this section shall apply to distributions after De-  
 8           cember 31, 2000.

9           (2) *SPECIAL RULE.*—Notwithstanding any other  
 10          provision of law, subsections (h)(3) and (h)(5) of sec-  
 11          tion 1122 of the Tax Reform Act of 1986 shall not  
 12          apply to any distribution from an eligible retirement  
 13          plan (as defined in clause (iii) or (iv) of section  
 14          402(c)(8)(B) of the Internal Revenue Code of 1986) on  
 15          behalf of an individual if there was a rollover to such  
 16          plan on behalf of such individual which is permitted  
 17          solely by reason of the amendments made by this sec-  
 18          tion.

19   **SEC. 333. ROLLOVERS OF AFTER-TAX CONTRIBUTIONS.**

20          (a) *ROLLOVERS FROM EXEMPT TRUSTS.*—Paragraph  
 21          (2) of section 402(c) (relating to maximum amount which  
 22          may be rolled over) is amended by adding at the end the  
 23          following: “The preceding sentence shall not apply to such  
 24          distribution to the extent—

1           “(A) such portion is transferred in a direct  
 2           trustee-to-trustee transfer to a qualified trust  
 3           which is part of a plan which is a defined con-  
 4           tribution plan and which agrees to separately  
 5           account for amounts so transferred, including  
 6           separately accounting for the portion of such dis-  
 7           tribution which is includible in gross income  
 8           and the portion of such distribution which is not  
 9           so includible, or

10           “(B) such portion is transferred to an eligi-  
 11           ble retirement plan described in clause (i) or (ii)  
 12           of paragraph (8)(B).”.

13           (b) *OPTIONAL DIRECT TRANSFER OF ELIGIBLE ROLL-*  
 14           *OVER DISTRIBUTIONS.*—Subparagraph (B) of section  
 15           401(a)(31) (relating to limitation) is amended by adding  
 16           at the end the following: “The preceding sentence shall not  
 17           apply to such distribution if the plan to which such dis-  
 18           tribution is transferred—

19                   “(i) agrees to separately account for  
 20                   amounts so transferred, including sepa-  
 21                   rately accounting for the portion of such  
 22                   distribution which is includible in gross in-  
 23                   come and the portion of such distribution  
 24                   which is not so includible, or

1                   “(ii) is an eligible retirement plan de-  
 2                   scribed in clause (i) or (ii) of section  
 3                   402(c)(8)(B).”.

4           (c) *RULES FOR APPLYING SECTION 72 TO IRAS.—*  
 5   *Paragraph (3) of section 408(d) (relating to special rules*  
 6   *for applying section 72) is amended by inserting at the end*  
 7   *the following:*

8                   “(H) *APPLICATION OF SECTION 72.—*

9                   “(i) *IN GENERAL.—If—*

10                   “(I) *a distribution is made from*  
 11                   *an individual retirement plan, and*

12                   “(II) *a rollover contribution is*  
 13                   *made to an eligible retirement plan de-*  
 14                   *scribed in section 402(c)(8)(B)(iii),*  
 15                   *(iv), (v), or (vi) with respect to all or*  
 16                   *part of such distribution,*

17                   *then, notwithstanding paragraph (2), the*  
 18                   *rules of clause (ii) shall apply for purposes*  
 19                   *of applying section 72.*

20                   “(ii) *APPLICABLE RULES.—In the case*  
 21                   *of a distribution described in clause (i)—*

22                   “(I) *section 72 shall be applied*  
 23                   *separately to such distribution,*

24                   “(II) *notwithstanding the pro*  
 25                   *rata allocation of income on, and in-*

1           vestment in the contract, to distribu-  
 2           tions under section 72, the portion of  
 3           such distribution rolled over to an eli-  
 4           gible retirement plan described in  
 5           clause (i) shall be treated as from in-  
 6           come on the contract (to the extent of  
 7           the aggregate income on the contract  
 8           from all individual retirement plans of  
 9           the distributee), and

10                   “(III) appropriate adjustments  
 11                   shall be made in applying section 72 to  
 12                   other distributions in such taxable year  
 13                   and subsequent taxable years.”.

14           (d) *EFFECTIVE DATE.*—The amendments made by this  
 15           section shall apply to distributions made after December 31,  
 16           2000.

17   **SEC. 334. HARDSHIP EXCEPTION TO 60-DAY RULE.**

18           (a) *EXEMPT TRUSTS.*—Paragraph (3) of section  
 19           402(c) (relating to transfer must be made within 60 days  
 20           of receipt) is amended to read as follows:

21                   “(3) *TRANSFER MUST BE MADE WITHIN 60 DAYS*  
 22                   *OF RECEIPT.*—

23                           “(A) *IN GENERAL.*—Except as provided in  
 24                           subparagraph (B), paragraph (1) shall not  
 25                           apply to any transfer of a distribution made



1           *after the 60th day following the day on which the*  
 2           *distributee received the property distributed.*

3           “(B) *HARDSHIP EXCEPTION.—The Sec-*  
 4           *retary may waive the 60-day requirement under*  
 5           *subparagraph (A) where the failure to waive*  
 6           *such requirement would be against equity or*  
 7           *good conscience, including casualty, disaster, or*  
 8           *other events beyond the reasonable control of the*  
 9           *individual subject to such requirement.”.*

10          *(b) IRAS.—Paragraph (3) of section 408(d) (relating*  
 11          *to rollover contributions), as amended by section 333, is*  
 12          *amended by adding after subparagraph (H) the following*  
 13          *new subparagraph:*

14               “(I) *WAIVER OF 60-DAY REQUIREMENT.—*  
 15               *The Secretary may waive the 60-day require-*  
 16               *ment under subparagraphs (A) and (D) where*  
 17               *the failure to waive such requirement would be*  
 18               *against equity or good conscience, including cas-*  
 19               *ualty, disaster, or other events beyond the rea-*  
 20               *sonable control of the individual subject to such*  
 21               *requirement.”.*

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

24          **SEC. 335. TREATMENT OF FORMS OF DISTRIBUTION.**

25          *(a) PLAN TRANSFERS.—*

1           (1) *AMENDMENT TO INTERNAL REVENUE CODE*  
2           *OF 1986.—Paragraph (6) of section 411(d) (relating to*  
3           *accrued benefit not to be decreased by amendment) is*  
4           *amended by adding at the end the following:*

5                     “(D) *PLAN TRANSFERS.—*

6                     “(i) *A defined contribution plan (in*  
7                     *this subparagraph referred to as the ‘trans-*  
8                     *feree plan’) shall not be treated as failing to*  
9                     *meet the requirements of this subsection*  
10                    *merely because the transferee plan does not*  
11                    *provide some or all of the forms of distribu-*  
12                    *tion previously available under another de-*  
13                    *finied contribution plan (in this subpara-*  
14                    *graph referred to as the ‘transferor plan’) to*  
15                    *the extent that—*

16                    “(I) *the forms of distribution pre-*  
17                    *viously available under the transferor*  
18                    *plan applied to the account of a par-*  
19                    *ticipant or beneficiary under the*  
20                    *transferor plan that was transferred*  
21                    *from the transferor plan to the trans-*  
22                    *feree plan pursuant to a direct transfer*  
23                    *rather than pursuant to a distribution*  
24                    *from the transferor plan,*

1           “(II) the terms of both the trans-  
2           feror plan and the transferee plan au-  
3           thorize the transfer described in sub-  
4           clause (I),

5           “(III) the transfer described in  
6           subclause (I) was made pursuant to a  
7           voluntary election by the participant  
8           or beneficiary whose account was  
9           transferred to the transferee plan,

10          “(IV) the election described in  
11          subclause (III) was made after the par-  
12          ticipant or beneficiary received a no-  
13          tice describing the consequences of  
14          making the election,

15          “(V) if the transferor plan pro-  
16          vides for an annuity as the normal  
17          form of distribution under the plan in  
18          accordance with section 417, the trans-  
19          fer is made with the consent of the par-  
20          ticipant’s spouse (if any), and such  
21          consent meets requirements similar to  
22          the requirements imposed by section  
23          417(a)(2), and

24          “(VI) the transferee plan allows  
25          the participant or beneficiary described

1                   *in subclause (III) to receive any dis-*  
2                   *tribution to which the participant or*  
3                   *beneficiary is entitled under the trans-*  
4                   *feree plan in the form of a single sum*  
5                   *distribution.*

6                   “(ii) Clause (i) shall apply to plan  
7                   mergers and other transactions having the  
8                   effect of a direct transfer, including consoli-  
9                   dations of benefits attributable to different  
10                  employers within a multiple employer plan.

11                  “(E) *ELIMINATION OF FORM OF DISTRIBUTION.*—*Except to the extent provided in regula-*  
12                  *tions, a defined contribution plan shall not be*  
13                  *treated as failing to meet the requirements of this*  
14                  *section merely because of the elimination of a*  
15                  *form of distribution previously available there-*  
16                  *under. This subparagraph shall not apply to the*  
17                  *elimination of a form of distribution with re-*  
18                  *spect to any participant unless—*

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

23                                   “(ii) *such single sum payment is based*  
24                                   *on the same or greater portion of the par-*  
25

1                    *ticipant’s account as the form of distribu-*  
2                    *tion being eliminated.”.*

3                    (2) *AMENDMENT TO ERISA.—Section 204(g) of*  
4                    *the Employee Retirement Income Security Act of*  
5                    *1974 (29 U.S.C. 1054(g)) is amended by adding at*  
6                    *the end the following:*

7                    *“(4)(A) A defined contribution plan (in this subpara-*  
8                    *graph referred to as the ‘transferee plan’) shall not be treat-*  
9                    *ed as failing to meet the requirements of this subsection*  
10                    *merely because the transferee plan does not provide some*  
11                    *or all of the forms of distribution previously available under*  
12                    *another defined contribution plan (in this paragraph re-*  
13                    *ferred to as the ‘transferor plan’) to the extent that—*

14                    *“(i) the forms of distribution previously avail-*  
15                    *able under the transferor plan applied to the account*  
16                    *of a participant or beneficiary under the transferor*  
17                    *plan that was transferred from the transferor plan to*  
18                    *the transferee plan pursuant to a direct transfer rath-*  
19                    *er than pursuant to a distribution from the transferor*  
20                    *plan;*

21                    *“(ii) the terms of both the transferor plan and*  
22                    *the transferee plan authorize the transfer described in*  
23                    *clause (i);*

24                    *“(iii) the transfer described in clause (i) was*  
25                    *made pursuant to a voluntary election by the partici-*

1        *pant or beneficiary whose account was transferred to*  
2        *the transferee plan;*

3            *“(iv) the election described in clause (iii) was*  
4        *made after the participant or beneficiary received a*  
5        *notice describing the consequences of making the elec-*  
6        *tion;*

7            *“(v) if the transferor plan provides for an annu-*  
8        *ity as the normal form of distribution under the plan*  
9        *in accordance with section 417, the transfer is made*  
10       *with the consent of the participant’s spouse (if any),*  
11       *and such consent meets requirements similar to the*  
12       *requirements imposed by section 417(a)(2); and*

13           *“(vi) the transferee plan allows the participant*  
14       *or beneficiary described in subclause (III) to receive*  
15       *any distribution to which the participant or bene-*  
16       *ficiary is entitled under the transferee plan in the*  
17       *form of a single sum distribution.*

18        *“(B) Subparagraph (A) shall apply to plan mergers*  
19       *and other transactions having the effect of a direct transfer,*  
20       *including consolidations of benefits attributable to different*  
21       *employers within a multiple employer plan.*

22        *“(5) ELIMINATION OF FORM OF DISTRIBUTION.—Ex-*  
23       *cept to the extent provided in regulations, a defined con-*  
24       *tribution plan shall not be treated as failing to meet the*  
25       *requirements of this section merely because of the elimi-*

1 *nation of a form of distribution previously available there-*  
 2 *under. This paragraph shall not apply to the elimination*  
 3 *of a form of distribution with respect to any participant*  
 4 *unless—*

5           “(A) *a single sum payment is available to such*  
 6 *participant at the same time or times as the form of*  
 7 *distribution being eliminated; and*

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

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

14           (b) *REGULATIONS.—*

15           (1) *AMENDMENT TO INTERNAL REVENUE CODE*  
 16 *OF 1986.—The last sentence of paragraph (6)(B) of*  
 17 *section 411(d) (relating to accrued benefit not to be*  
 18 *decreased by amendment) is amended to read as fol-*  
 19 *lows: “The Secretary may by regulations provide that*  
 20 *this subparagraph shall not apply to any plan*  
 21 *amendment that does not adversely affect the rights of*  
 22 *participants in a material manner.”.*

23           (2) *AMENDMENT TO ERISA.—The last sentence of*  
 24 *section 204(g)(2) of the Employee Retirement Income*  
 25 *Security Act of 1974 (29 U.S.C. 1054(g)(2)) is*

1        *amended to read as follows: “The Secretary of the*  
 2        *Treasury may by regulations provide that this para-*  
 3        *graph shall not apply to any plan amendment that*  
 4        *does not adversely affect the rights of participants in*  
 5        *a material manner.”.*

6            (3) *SECRETARY DIRECTED.—Not later than De-*  
 7        *cember 31, 2001, the Secretary of the Treasury is di-*  
 8        *rected to issue final regulations under section*  
 9        *411(d)(6) of the Internal Revenue Code of 1986 and*  
 10       *section 204(g)(2) of the Employee Retirement Income*  
 11       *Security Act of 1974. Such regulations shall apply to*  
 12       *plan years beginning after December 31, 2001, or*  
 13       *such earlier date as is specified by the Secretary of*  
 14       *the Treasury.*

15    **SEC. 336. RATIONALIZATION OF RESTRICTIONS ON DIS-**  
 16        **TRIBUTIONS.**

17        (a) *MODIFICATION OF SAME DESK EXCEPTION.—*

18            (1) *SECTION 401(k).—*

19            (A) *Section 401(k)(2)(B)(i)(I) (relating to*  
 20        *qualified cash or deferred arrangements) is*  
 21        *amended by striking “separation from service”*  
 22        *and inserting “severance from employment”.*

23            (B) *Subparagraph (A) of section 401(k)(10)*  
 24        *(relating to distributions upon termination of*



1        *plan or disposition of assets or subsidiary) is*  
 2        *amended to read as follows:*

3                *“(A) IN GENERAL.—An event described in*  
 4        *this subparagraph is the termination of the plan*  
 5        *without establishment or maintenance of another*  
 6        *defined contribution plan (other than an em-*  
 7        *ployee stock ownership plan as defined in section*  
 8        *4975(e)(7)).”.*

9                *(C) Section 401(k)(10) is amended—*

10              *(i) in subparagraph (B)—*

11                      *(I) by striking “An event” in*  
 12                      *clause (i) and inserting “A termi-*  
 13                      *nation”, and*

14                      *(II) by striking “the event” in*  
 15                      *clause (i) and inserting “the termi-*  
 16                      *nation”,*

17                      *(ii) by striking subparagraph (C), and*

18                      *(iii) by striking “OR DISPOSITION OF*  
 19                      *ASSETS OR SUBSIDIARY” in the heading.*

20              *(2) SECTION 403(b).—*

21                      *(A) Paragraphs (7)(A)(ii) and (11)(A) of*  
 22                      *section 403(b) are each amended by striking*  
 23                      *“separates from service” and inserting “has a*  
 24                      *severance from employment”.*

1           (B) *The heading for paragraph (11) of sec-*  
 2           *tion 403(b) is amended by striking “SEPARATION*  
 3           *FROM SERVICE” and inserting “SEVERANCE*  
 4           *FROM EMPLOYMENT”.*

5           (3) *SECTION 457.—Clause (ii) of section*  
 6           *457(d)(1)(A) is amended by striking “is separated*  
 7           *from service” and inserting “has a severance from*  
 8           *employment”.*

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

11          **SEC. 337. PURCHASE OF SERVICE CREDIT IN GOVERN-**  
 12                                   **MENTAL DEFINED BENEFIT PLANS.**

13          (a) *403(b) PLANS.—Subsection (b) of section 403 is*  
 14          *amended by adding at the end the following new paragraph:*

15                 “(13) *TRUSTEE-TO-TRUSTEE TRANSFERS TO*  
 16                 *PURCHASE PERMISSIVE SERVICE CREDIT.—No*  
 17                 *amount shall be includible in gross income by reason*  
 18                 *of a direct trustee-to-trustee transfer to a defined ben-*  
 19                 *efit governmental plan (as defined in section 414(d))*  
 20                 *if such transfer is—*

21                         “(A) *for the purchase of permissive service*  
 22                         *credit (as defined in section 415(n)(3)(A)) under*  
 23                         *such plan, or*

1                   “(B) a repayment to which section 415 does  
2                   not apply by reason of subsection (k)(3) there-  
3                   of.”.

4           (b) 457 PLANS.—

5                   (1) Subsection (e) of section 457 is amended by  
6                   adding after paragraph (17) the following new para-  
7                   graph:

8                   “(18) *TRUSTEE-TO-TRUSTEE TRANSFERS TO*  
9                   *PURCHASE PERMISSIVE SERVICE CREDIT.*—No  
10                  amount shall be includible in gross income by reason  
11                  of a direct trustee-to-trustee transfer to a defined ben-  
12                  efit governmental plan (as defined in section 414(d))  
13                  if such transfer is—

14                         “(A) for the purchase of permissive service  
15                         credit (as defined in section 415(n)(3)(A)) under  
16                         such plan, or

17                         “(B) a repayment to which section 415 does  
18                         not apply by reason of subsection (k)(3) there-  
19                         of.”.

20                   (2) Section 457(b)(2) is amended by striking  
21                   “(other than rollover amounts)” and inserting “(other  
22                   than rollover amounts and amounts received in a  
23                   transfer referred to in subsection (e)(16))”.

1       (c) *EFFECTIVE DATE.*—*The amendments made by this*  
 2 *section shall apply to trustee-to-trustee transfers after De-*  
 3 *cember 31, 2000.*

4       **SEC. 338. EMPLOYERS MAY DISREGARD ROLLOVERS FOR**  
 5               **PURPOSES OF CASH-OUT AMOUNTS.**

6       (a) *QUALIFIED PLANS.*—

7               (1) *AMENDMENT TO INTERNAL REVENUE CODE*  
 8 *OF 1986.*—*Section 411(a)(11) (relating to restrictions*  
 9 *on certain mandatory distributions) is amended by*  
 10 *adding at the end the following:*

11               “(D) *SPECIAL RULE FOR ROLLOVER CON-*  
 12 *TRIBUTIONS.*—*A plan shall not fail to meet the*  
 13 *requirements of this paragraph if, under the*  
 14 *terms of the plan, the present value of the non-*  
 15 *forfeitable accrued benefit is determined without*  
 16 *regard to that portion of such benefit which is*  
 17 *attributable to rollover contributions (and earn-*  
 18 *ings allocable thereto). For purposes of this sub-*  
 19 *paragraph, the term ‘rollover contributions’*  
 20 *means any rollover contribution under sections*  
 21 *402(c), 403(a)(4), 403(b)(8), 408(d)(3)(A)(ii),*  
 22 *and 457(e)(16).”.*

23               (2) *AMENDMENT TO ERISA.*—*Section 203(e) of*  
 24 *the Employee Retirement Income Security Act of*

(b) *ELIGIBLE DEFERRED COMPENSATION PLANS.*—  
 Clause (i) of section 457(e)(9)(A) is amended by striking  
 “such amount” and inserting “the portion of such amount  
 which is not attributable to rollover contributions (as de-  
 fined in section 411(a)(11)(D))”.

19 *SEC. 339. INCLUSION REQUIREMENTS FOR SECTION 457*  
20 *PLANS.*

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

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

7                       “(A) is paid to the participant or other ben-  
 8                       eficiary, in the case of a plan of an eligible em-  
 9                       ployer described in subsection (e)(1)(A), and

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

14           “(2) *SPECIAL RULE FOR ROLLOVER AMOUNTS.*—  
 15           To the extent provided in section 72(t)(9), section  
 16           72(t) shall apply to any amount includible in gross  
 17           income under this subsection.”.

18           (b) *CONFORMING AMENDMENT.*—So much of para-  
 19           graph (9) of section 457(e) as precedes subparagraph (A)  
 20           is amended to read as follows:

21                      “(9) *BENEFITS OF TAX EXEMPT ORGANIZATION*  
 22                      *PLANS NOT TREATED AS MADE AVAILABLE BY REASON*  
 23                      *OF CERTAIN ELECTIONS, ETC.*—In the case of an eligi-  
 24                      ble deferred compensation plan of an employer de-  
 25                      scribed in paragraph (1)(B)—”.

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

3       ***Subtitle E—Strengthening Pension***  
 4       ***Security and Enforcement***

5       ***SEC. 341. REPEAL OF 150 PERCENT OF CURRENT LIABILITY***  
 6       ***FUNDING LIMIT.***

7       (a) *AMENDMENT TO INTERNAL REVENUE CODE OF*  
 8 *1986.—Section 412(c)(7) (relating to full-funding limita-*  
 9 *tion) is amended—*

10               (1) *by striking “the applicable percentage” in*  
 11 *subparagraph (A)(i)(I) and inserting “in the case of*  
 12 *plan years beginning before January 1, 2004, the ap-*  
 13 *plicable percentage”, and*

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

16                       “(F) *APPLICABLE PERCENTAGE.*—*For pur-*  
 17 *poses of subparagraph (A)(i)(I), the applicable*  
 18 *percentage shall be determined in accordance*  
 19 *with the following table:*

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

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

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

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

7                       “(F) *APPLICABLE PERCENTAGE.*—For pur-  
 8                       poses of subparagraph (A)(i)(I), the applicable  
 9                       percentage shall be determined in accordance  
 10                      with the following table:

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

11           (c) *EFFECTIVE DATE.*—The amendments made by this  
 12           section shall apply to plan years beginning after December  
 13           31, 2000.

14           **SEC. 342. EXTENSION OF MISSING PARTICIPANTS PROGRAM**  
 15                       **TO MULTIEMPLOYER PLANS.**

16           (a) *IN GENERAL.*—Section 4050 of the Employee Re-  
 17           tirement Income Security Act of 1974 (29 U.S.C. 1350) is  
 18           amended by redesignating subsection (c) as subsection (d)  
 19           and by inserting after subsection (b) the following:

20                       “(c) *MULTIEMPLOYER PLANS.*—The corporation shall  
 21                       prescribe rules similar to the rules in subsection (a) for mul-  
 22                       tiemployer plans covered by this title that terminate under  
 23                       section 4041A.”.



1       (b) *CONFORMING AMENDMENT.*—Section 206(f) of the  
 2   *Employee Retirement Income Security Act of 1974* (29  
 3   *U.S.C. 1056(f))* is amended by striking “the plan shall pro-  
 4   *vide that,*”.

5       (c) *EFFECTIVE DATE.*—The amendments made by this  
 6   section shall apply to distributions made after final regula-  
 7   tions implementing subsection (c) of section 4050 of the  
 8   *Employee Retirement Income Security Act of 1974* (as  
 9   added by subsection (a)) are prescribed.

10   **SEC. 343. EXCISE TAX RELIEF FOR SOUND PENSION FUND-**  
 11                                   **ING.**

12       (a) *IN GENERAL.*—Subsection (c) of section 4972 (re-  
 13   lating to nondeductible contributions) is amended by add-  
 14   ing at the end the following new paragraph:

15               “(7) *DEFINED BENEFIT PLAN EXCEPTION.*—In  
 16   determining the amount of nondeductible contribu-  
 17   tions for any taxable year, an employer may elect for  
 18   such year not to take into account any contributions  
 19   to a defined benefit plan except to the extent that such  
 20   contributions exceed the full-funding limitation (as  
 21   defined in section 412(c)(7), determined without re-  
 22   gard to subparagraph (A)(i)(I) thereof). For purposes  
 23   of this paragraph, the deductible limits under section  
 24   404(a)(7) shall first be applied to amounts contrib-  
 25   uted to defined contribution plans and then to

1        *amounts described in this paragraph. If an employer*  
 2        *makes an election under this paragraph for a taxable*  
 3        *year, paragraph (6) shall not apply to such employer*  
 4        *for such taxable year.”.*

5        *(b) EFFECTIVE DATE.—The amendments made by this*  
 6        *section shall apply to years beginning after December 31,*  
 7        *2000.*

8        **SEC. 344. FAILURE TO PROVIDE NOTICE BY DEFINED BEN-**  
 9                                **EFIT PLANS SIGNIFICANTLY REDUCING FU-**  
 10                              **TURE BENEFIT ACCRUALS.**

11        *(a) EXCISE TAX.—*

12                    *(1) IN GENERAL.—Chapter 43 of subtitle D (re-*  
 13        *lating to qualified pension, etc., plans) is amended by*  
 14        *adding at the end the following new section:*

15        **“SEC. 4980F. FAILURE OF DEFINED BENEFIT PLANS REDUC-**  
 16                              **ING BENEFIT ACCRUALS TO SATISFY NOTICE**  
 17                              **REQUIREMENTS.**

18        *“(a) IMPOSITION OF TAX.—There is hereby imposed a*  
 19        *tax on the failure of an applicable pension plan to meet*  
 20        *the requirements of subsection (e) with respect to any appli-*  
 21        *cable individual.*

22        *“(b) AMOUNT OF TAX.—*

23                    *“(1) IN GENERAL.—The amount of the tax im-*  
 24        *posed by subsection (a) on any failure with respect to*  
 25        *any applicable individual shall be \$100 for each day*

1       *in the noncompliance period with respect to such fail-*  
 2       *ure.*

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

8               “(3) *MINIMUM TAX FOR NONCOMPLIANCE PERIOD*  
 9       *WHERE FAILURE DISCOVERED AFTER NOTICE OF EX-*  
 10       *AMINATION.*—*Notwithstanding paragraphs (1) and*  
 11       *(2) of subsection (c)—*

12               “(A) *IN GENERAL.*—*In the case of 1 or more*  
 13       *failures with respect to an applicable*  
 14       *individual—*

15               “(i) *which are not corrected before the*  
 16       *date a notice of examination of income tax*  
 17       *liability is sent to the employer, and*

18               “(ii) *which occurred or continued dur-*  
 19       *ing the period under examination,*  
 20       *the amount of tax imposed by subsection (a) by*  
 21       *reason of such failures with respect to such bene-*  
 22       *ficiary shall not be less than the lesser of \$2,500*  
 23       *or the amount of tax which would be imposed by*  
 24       *subsection (a) without regard to such para-*  
 25       *graphs.*

1                   “(B) *HIGHER MINIMUM TAX WHERE VIOLA-*  
 2                   *TIONS ARE MORE THAN DE MINIMIS.—To the ex-*  
 3                   *tent violations by the employer (or the plan in*  
 4                   *the case of a multiemployer plan) for any year*  
 5                   *are more than de minimis, subparagraph (A)*  
 6                   *shall be applied by substituting ‘\$15,000’ for*  
 7                   *‘\$2,500’ with respect to the employer (or such*  
 8                   *plan).*

9                   “(c) *LIMITATIONS ON AMOUNT OF TAX.—*

10                   “(1) *TAX NOT TO APPLY WHERE FAILURE NOT*  
 11                   *DISCOVERED EXERCISING REASONABLE DILIGENCE.—*  
 12                   *No tax shall be imposed by subsection (a) on any fail-*  
 13                   *ure during any period for which it is established to*  
 14                   *the satisfaction of the Secretary that none of the per-*  
 15                   *sons referred to in subsection (d) knew, or exercising*  
 16                   *reasonable diligence would have known, that the fail-*  
 17                   *ure existed.*

18                   “(2) *TAX NOT TO APPLY TO FAILURES COR-*  
 19                   *RECTED WITHIN 30 DAYS.—No tax shall be imposed*  
 20                   *by subsection (a) on any failure if—*

21                   “(A) *such failure was due to reasonable*  
 22                   *cause and not to willful neglect, and*

23                   “(B) *such failure is corrected during the 30-*  
 24                   *day period beginning on the first date any of the*  
 25                   *persons referred to in subsection (d) knew, or ex-*

1           *ercising reasonable diligence would have known,*  
 2           *that such failure existed.*

3           “(3) *OVERALL LIMITATION FOR UNINTENTIONAL*  
 4           *FAILURES.—*

5                   “(A) *IN GENERAL.—In the case of failures*  
 6           *that are due to reasonable cause and not to will-*  
 7           *ful neglect, the tax imposed by subsection (a) for*  
 8           *failures during the taxable year of the employer*  
 9           *(or, in the case of a multiemployer plan, the tax-*  
 10           *able year of the trust forming part of the plan)*  
 11           *shall not exceed \$500,000. For purposes of the*  
 12           *preceding sentence, all multiemployer plans of*  
 13           *which the same trust forms a part shall be treat-*  
 14           *ed as 1 plan.*

15                   “(B) *TAXABLE YEARS IN THE CASE OF CER-*  
 16           *TAIN CONTROLLED GROUPS.—For purposes of*  
 17           *this paragraph, if all persons who are treated as*  
 18           *a single employer for purposes of this section do*  
 19           *not have the same taxable year, the taxable years*  
 20           *taken into account shall be determined under*  
 21           *principles similar to the principles of section*  
 22           *1561.*

23                   “(4) *WAIVER BY SECRETARY.—In the case of a*  
 24           *failure which is due to reasonable cause and not to*  
 25           *willful neglect, the Secretary may waive part or all*

1       of the tax imposed by subsection (a) to the extent that  
 2       the payment of such tax would be excessive relative to  
 3       the failure involved.

4       “(d) *LIABILITY FOR TAX.*—The following shall be lia-  
 5       ble for the tax imposed by subsection (a):

6               “(1) *In the case of a plan other than a multiem-*  
 7       *ployer plan, the employer.*

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

10       “(e) *NOTICE REQUIREMENTS FOR PLANS SIGNIFI-*  
 11       *CANTLY REDUCING BENEFIT ACCRUALS.*—

12               “(1) *IN GENERAL.*—If a defined benefit plan  
 13       adopts an amendment which has the effect of signifi-  
 14       cantly reducing the rate of future benefit accrual of  
 15       1 or more participants (including any elimination or  
 16       reduction of an early retirement benefit or retirement-  
 17       type subsidy), the plan administrator shall, not later  
 18       than the 30th day before the effective date of the  
 19       amendment, provide written notice to each applicable  
 20       individual (and to each employee organization rep-  
 21       resenting applicable individuals) which—

22                       “(A) sets forth the plan amendment and its  
 23       effective date, and

24                       “(B) includes sufficient information (as de-  
 25       termined in accordance with regulations pre-

scribed by the Secretary) to allow such participants and beneficiaries to understand how the amendment generally affects different classes of employees.

“(2) *ADDITIONAL NOTICE REQUIRED IN CERTAIN CASES.*—

“(A) *IN GENERAL.*—If a plan amendment to which paragraph (1) applies—

“(i) either—

“(I) provides for a significant change in the manner in which the accrued benefit of an applicable individual is determined under the plan, or

“(II) requires an applicable individual to choose between 2 or more benefit formulas, and

“(ii) may reasonably be expected to affect such applicable individual, the plan shall, not later than the date which is 6 months after the effective date of the amendment, provide written notice to such applicable individual which includes the information described in subparagraph (B).

1           “(B) *ADDITIONAL INFORMATION.*—*The no-*  
2           *tice under subparagraph (A) shall include the*  
3           *following information:*

4                   “(i) *The accrued benefit (and if the*  
5                   *amendment adds the option of an imme-*  
6                   *diate lump sum distribution, the present*  
7                   *value of the accrued benefit) as of the effec-*  
8                   *tive date, determined under the terms of the*  
9                   *plan in effect immediately before the effec-*  
10                  *tive date.*

11                  “(ii) *The accrued benefit as of the effec-*  
12                  *tive date, determined under the terms of the*  
13                  *plan in effect on the effective date and with-*  
14                  *out regard to any minimum accrued benefit*  
15                  *required by reason of section 411(d)(6).*

16                  “(iii) *Sufficient information (as deter-*  
17                  *mined in accordance with regulations pre-*  
18                  *scribed by the Secretary) for an applicable*  
19                  *individual to compute their projected ac-*  
20                  *crued benefit under the terms of the plan in*  
21                  *effect on the effective date or to acquire in-*  
22                  *formation necessary to compute such pro-*  
23                  *jected accrued benefit.*

24           “(C) *OPTION TO PROVIDE PROJECTED AC-*  
25           *CRUED BENEFIT.*—*A plan may, in lieu of the in-*



1        *formation described in subparagraph (B)(iii),*  
 2        *include a determination of an applicable indi-*  
 3        *vidual's projected accrued benefit under the*  
 4        *terms of the plan in effect on the effective date.*  
 5        *Such determination shall include a disclosure of*  
 6        *the assumptions used by the plan in determining*  
 7        *such benefit and such assumptions must be rea-*  
 8        *sonable in the aggregate.*

9                *“(D) RULES FOR COMPUTING BENEFITS.—*  
 10        *For purposes of this paragraph, an applicable*  
 11        *individual's accrued benefit and projected ac-*  
 12        *crued benefit shall be computed—*

13                *“(i) as if the accrued benefit were in*  
 14                *the form of a single life annuity com-*  
 15                *mencing at normal retirement age (and by*  
 16                *taking into account any early retirement*  
 17                *subsidy), and*

18                *“(ii) by using the applicable mortality*  
 19                *table and the applicable interest rate under*  
 20                *section 417(e)(3)(A).*

21                *“(3) SECRETARY MAY CHANGE NOTICE AND TIME*  
 22        *FOR NOTICE.—If a plan amendment to which para-*  
 23        *graph (1) applies requires an applicable individual to*  
 24        *choose between 2 or more benefit formulas, the Sec-*

1       retary may, after consultation with the Secretary of  
2       Labor—

3               “(A) require additional information to be  
4               provided in either of the notices described in  
5               paragraph (1) or (2), and

6               “(B) require either of such notices to be pro-  
7               vided at a time other than the time required  
8               under either such paragraph.

9               “(4) NOTICE BEFORE ADOPTION OF AMEND-  
10              MENT.—A plan shall not be treated as failing to meet  
11              the requirements of paragraph (1) or (2) merely be-  
12              cause notice is provided before the adoption of the  
13              plan amendment if no material modification of the  
14              amendment occurs before the amendment is adopted.

15              “(5) NOTICE TO DESIGNEE.—Any notice under  
16              paragraph (1) or (2) may be provided to a person  
17              designated, in writing, by the person to which it  
18              would otherwise be provided.

19              “(f) APPLICABLE INDIVIDUAL.—For purposes of this  
20              section—

21              “(1) IN GENERAL.—The term ‘applicable indi-  
22              vidual’ means, with respect to any plan  
23              amendment—

24              “(A) any participant in the plan, and

1           “(B) any beneficiary who is an alternate  
 2           payee (within the meaning of section 414(p)(8))  
 3           under an applicable qualified domestic relations  
 4           order (within the meaning of section  
 5           414(p)(1)(A)).

6           “(2) *EXCEPTION FOR PARTICIPANTS WITH LESS*  
 7           *THAN 1 YEAR OF PARTICIPATION.*—Such term shall  
 8           not include a participant who has less than 1 year  
 9           of participation (within the meaning of section  
 10          411(b)(4)) under the plan as of the effective date of  
 11          the plan amendment.

12          “(3) *PARTICIPANTS GETTING HIGHER OF BENE-*  
 13          *FITS.*—Such term shall not include a participant or  
 14          beneficiary who, under the terms of the plan as of the  
 15          effective date of the plan amendment, is entitled to the  
 16          greater of the accrued benefit under such terms or the  
 17          accrued benefit under the terms of the plan in effect  
 18          immediately before the effective date.

19          “(g) *APPLICABLE PENSION PLAN.*—For purposes of  
 20          this section, the term ‘applicable pension plan’ means—

21                 “(1) a defined benefit plan, or

22                 “(2) an individual account plan which is subject  
 23          to the funding standards of section 412.

24          Such term shall not include a governmental plan (within  
 25          the meaning of section 414(d)) or a church plan (within

1 *the meaning of section 414(e)) with respect to which an elec-*  
 2 *tion under section 410(d) has not been made.”.*

3 (2) *CONFORMING AMENDMENT.—The table of sec-*  
 4 *tions for chapter 43 of subtitle D is amended by add-*  
 5 *ing at the end the following new item:*

*“Sec. 4980F. Failure of defined benefit plans reducing benefit ac-*  
*cruals to satisfy notice requirements.”.*

6 (b) *AMENDMENT TO ERISA.—Section 204(h) of the*  
 7 *Employee Retirement Income Security Act of 1974 (29*  
 8 *U.S.C. 1054(h)) is amended to read as follows:*

9 “(h)(1) *An applicable pension plan may not adopt an*  
 10 *amendment which has the effect of significantly reducing*  
 11 *the rate of future benefit accrual of 1 or more participants*  
 12 *(including any elimination or reduction of an early retire-*  
 13 *ment benefit or retirement-type subsidy) unless the plan ad-*  
 14 *ministrator provides, not later than the 30th day before the*  
 15 *effective date of the amendment, written notice to each ap-*  
 16 *plicable individual (and to each employee organization rep-*  
 17 *resenting applicable individuals) which—*

18 “(A) *sets forth the plan amendment and its effec-*  
 19 *tive date, and*

20 “(B) *includes sufficient information (as deter-*  
 21 *mined in accordance with regulations prescribed by*  
 22 *the Secretary of the Treasury) to allow applicable in-*  
 23 *dividuals to understand how the amendment gen-*  
 24 *erally affects different classes of employees.*

1       “(2)(A) If a plan amendment to which paragraph (1)  
2 applies—

3               “(i) either—

4                       “(I) provides for a significant change in the  
5 manner in which the accrued benefit is deter-  
6 mined under the plan, or

7                       “(II) requires an applicable individual to  
8 choose between 2 or more benefit formulas, and

9               “(ii) may reasonably be expected to affect such  
10 applicable individual,

11 the plan shall, not later than the date which is 6 months  
12 after the effective date of the amendment, provide written  
13 notice to such applicable individual which includes the in-  
14 formation described in subparagraph (B).

15       “(B) The notice under subparagraph (A) shall include  
16 the following information:

17               “(i) The accrued benefit (and if the amendment  
18 adds the option of an immediate lump sum distribu-  
19 tion, the present value of the accrued benefit) as of the  
20 effective date, determined under the terms of the plan  
21 in effect immediately before the effective date.

22               “(ii) The accrued benefit as of the effective date,  
23 determined under the terms of the plan in effect on  
24 the effective date and without regard to any min-

1        *imum accrued benefit required by reason of section*  
2        *204(g).*

3            *“(iii) Sufficient information (as determined in*  
4        *accordance with regulations prescribed by the Sec-*  
5        *retary of the Treasury) for an applicable individual*  
6        *to compute their projected accrued benefit under the*  
7        *terms of the plan in effect on the effective date or to*  
8        *acquire information necessary to compute such pro-*  
9        *jected accrued benefit.*

10          *“(C) A plan may, in lieu of the information described*  
11        *in subparagraph (B)(iii), include a determination of an*  
12        *applicable individual’s projected accrued benefit under the*  
13        *terms of the plan in effect on the effective date. Such deter-*  
14        *mination shall include a disclosure of the assumptions used*  
15        *by the plan in determining such benefit and such assump-*  
16        *tions must be reasonable in the aggregate.*

17          *“(D) For purposes of this paragraph, an applicable*  
18        *individual’s accrued benefit and projected accrued benefit*  
19        *shall be computed—*

20            *“(i) as if the accrued benefit were in the form of*  
21        *a single life annuity commencing at normal retire-*  
22        *ment age (and by taking into account any early re-*  
23        *tirement subsidy), and*

1           “(ii) by using the applicable mortality table and  
2       the applicable interest rate under section  
3       205(g)(3)(A).

4           “(3) If a plan amendment to which paragraph (1) ap-  
5       plies requires an applicable individual to choose between  
6       2 or more benefit formulas, the Secretary of the Treasury  
7       may, after consultation with the Secretary—

8           “(A) require additional information to be pro-  
9       vided in either of the notices described in paragraph  
10       (1) or (2), and

11          “(B) require either of such notices to be provided  
12       at a time other than the time required under either  
13       such paragraph.

14          “(4) A plan shall not be treated as failing to meet the  
15       requirements of paragraph (1) or (2) merely because notice  
16       is provided before the adoption of the plan amendment if  
17       no material modification of the amendment occurs before  
18       the amendment is adopted.

19          “(5) Any notice under paragraph (1) or (2) may be  
20       provided to a person designated, in writing, by the person  
21       to which it would otherwise be provided.

22          “(6)(A) For purposes of this subsection, the term ‘ap-  
23       plicable individual’ means, with respect to any plan  
24       amendment—

25          “(i) any participant in the plan, and

1           “(ii) any beneficiary who is an alternate payee  
 2           (within the meaning of section 206(d)(3)(K)) under  
 3           an applicable qualified domestic relations order  
 4           (within the meaning of section 206(d)(3)(B)).

5           “(B) Such term shall not include a participant who  
 6           has less than 1 year of participation (within the meaning  
 7           of section 204(b)(4)) under the plan as of the effective date  
 8           of the plan amendment.

9           “(C) Such term shall not include a participant or ben-  
 10          eficiary who, under the terms of the plan as of the effective  
 11          date of the plan amendment, is entitled to the greater of  
 12          the accrued benefit under such terms or the accrued benefit  
 13          under the terms of the plan in effect immediately before the  
 14          effective date.

15          “(7) For purposes of this subsection, the term ‘applica-  
 16          ble pension plan’ means—

17                 “(A) a defined benefit plan, or

18                 “(B) an individual account plan which is subject  
 19          to the funding standards of section 302.

20          Such term shall not include a governmental plan (within  
 21          the meaning of section 3(32)) or a church plan (within the  
 22          meaning of section 3(33)) with respect to which an election  
 23          under section 410(d) of the Internal Revenue Code of 1986  
 24          has not been made.”.

25          (c) *EFFECTIVE DATES.*—



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

4           (2) *SPECIAL RULE FOR COLLECTIVELY BAR-*  
5           *GAINED PLANS.*—*In the case of a plan maintained*  
6           *pursuant to 1 or more collective bargaining agree-*  
7           *ments between employee representatives and 1 or*  
8           *more employers ratified by the date of the enactment*  
9           *of this Act, the amendments made by this section shall*  
10          *not apply to plan amendments taking effect before the*  
11          *earlier of—*

12                   (A) *the later of—*

13                           (i) *the date on which the last of such*  
14                           *collective bargaining agreements terminates*  
15                           *(determined without regard to any exten-*  
16                           *sion thereof on or after such date of enact-*  
17                           *ment), or*

18                           (ii) *January 1, 2000, or*

19                   (B) *January 1, 2002.*

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

1 **SEC. 345. PROTECTION OF INVESTMENT OF EMPLOYEE**  
 2 **CONTRIBUTIONS TO 401(K) PLANS.**

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

5 “(b) *EFFECTIVE DATE.*—

6 “(1) *IN GENERAL.*—Except as provided in para-  
 7 graph (2), the amendments made by this section shall  
 8 apply to elective deferrals for plan years beginning  
 9 after December 31, 1998.

10 “(2) *NONAPPLICATION TO PREVIOUSLY ACQUIRED*  
 11 *PROPERTY.*—The amendments made by this section  
 12 shall not apply to any elective deferral used to ac-  
 13 quire an interest in the income or gain from employer  
 14 securities or employer real property acquired—

15 “(A) before January 1, 1999, or

16 “(B) after such date pursuant to a written  
 17 contract which was binding on such date and at  
 18 all times thereafter on such plan.”.

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

22 **SEC. 346. TREATMENT OF MULTIEMPLOYER PLANS UNDER**  
 23 **SECTION 415.**

24 (a) *COMPENSATION LIMIT.*—Paragraph (11) of section  
 25 415(b) (relating to limitation for defined benefit plans) is  
 26 amended to read as follows:

1           “(11) *SPECIAL LIMITATION RULE FOR GOVERN-*  
 2           *MENTAL AND MULTIEMPLOYER PLANS.*—*In the case of*  
 3           *a governmental plan (as defined in section 414(d)) or*  
 4           *a multiemployer plan (as defined in section 414(f)),*  
 5           *subparagraph (B) of paragraph (1) shall not apply.”.*

6           *(b) COMBINING AND AGGREGATION OF PLANS.*—

7                 *(1) COMBINING OF PLANS.*—*Subsection (f) of sec-*  
 8                 *tion 415 (relating to combining of plans) is amended*  
 9                 *by adding at the end the following:*

10                “(3) *EXCEPTION FOR MULTIEMPLOYER PLANS.*—  
 11                *Notwithstanding paragraph (1) and subsection (g), a*  
 12                *multiemployer plan (as defined in section 414(f))*  
 13                *shall not be combined or aggregated with any other*  
 14                *plan maintained by an employer for purposes of ap-*  
 15                *plying the limitations established in this section. The*  
 16                *preceding sentence shall not apply for purposes of ap-*  
 17                *plying subsection (b)(1)(A) to a plan which is not a*  
 18                *multiemployer plan.”.*

19                *(2) CONFORMING AMENDMENT FOR AGGREGATION*  
 20                *OF PLANS.*—*Subsection (g) of section 415 (relating to*  
 21                *aggregation of plans) is amended by striking “The*  
 22                *Secretary” and inserting “Except as provided in sub-*  
 23                *section (f)(3), the Secretary”.*

24                *(c) APPLICATION OF SPECIAL EARLY RETIREMENT*  
 25                *RULES.*—*Section 415(b)(2)(F) (relating to plans main-*

1 *tained by governments and tax-exempt organizations) is*  
 2 *amended—*

3 *(1) by inserting “a multiemployer plan (within*  
 4 *the meaning of section 414(f)),” after “section*  
 5 *414(d)),”, and*

6 *(2) by striking the heading and inserting:*

7 *“(F) SPECIAL EARLY RETIREMENT RULES*  
 8 *FOR CERTAIN PLANS.—”*.

9 *(d) EFFECTIVE DATE.—The amendments made by this*  
 10 *section shall apply to years beginning after December 31,*  
 11 *1999.*

12 **SEC. 347. MAXIMUM CONTRIBUTION DEDUCTION RULES**  
 13 **MODIFIED AND APPLIED TO ALL DEFINED**  
 14 **BENEFIT PLANS.**

15 *(a) IN GENERAL.—Subparagraph (D) of section*  
 16 *404(a)(1) (relating to special rule in case of certain plans)*  
 17 *is amended to read as follows:*

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

20 *“(i) IN GENERAL.—In the case of any*  
 21 *defined benefit plan, except as provided in*  
 22 *regulations, the maximum amount deduct-*  
 23 *ible under the limitations of this paragraph*  
 24 *shall not be less than the unfunded termi-*  
 25 *nation liability (determined as if the pro-*

1        *posed termination date referred to in section*  
2        *4041(b)(2)(A)(i)(II) of the Employee Retirement*  
3        *Income Security Act of 1974 were the*  
4        *last day of the plan year).*

5                *“(ii) PLANS WITH LESS THAN 100 PAR-*  
6        *TICIPANTS.—For purposes of this subpara-*  
7        *graph, in the case of a plan which has less*  
8        *than 100 participants for the plan year,*  
9        *termination liability shall not include the*  
10       *liability attributable to benefit increases for*  
11       *highly compensated employees (as defined*  
12       *in section 414(q)) resulting from a plan*  
13       *amendment which is made or becomes effec-*  
14       *tive, whichever is later, within the last 2*  
15       *years before the termination date.*

16                *“(iii) RULE FOR DETERMINING NUM-*  
17       *BER OF PARTICIPANTS.—For purposes of de-*  
18       *termining whether a plan has more than*  
19       *100 participants, all defined benefit plans*  
20       *maintained by the same employer (or any*  
21       *member of such employer’s controlled group*  
22       *(within the meaning of section*  
23       *412(l)(8)(C))) shall be treated as 1 plan, but*  
24       *only employees of such member or employer*  
25       *shall be taken into account.*

1                   “(iv) *PLANS ESTABLISHED AND MAIN-*  
 2                   *TAIN BY PROFESSIONAL SERVICE EMPLOY-*  
 3                   *ERS.—Clause (i) shall not apply to a plan*  
 4                   *described in section 4021(b)(13) of the Em-*  
 5                   *ployee Retirement Income Security Act of*  
 6                   *1974.”.*

7           (b) *CONFORMING AMENDMENT.—Paragraph (6) of sec-*  
 8   *tion 4972(c) is amended to read as follows:*

9                   “(6) *EXCEPTIONS.—In determining the amount*  
 10           *of nondeductible contributions for any taxable year,*  
 11           *there shall not be taken into account so much of the*  
 12           *contributions to 1 or more defined contribution plans*  
 13           *which are not deductible when contributed solely be-*  
 14           *cause of section 404(a)(7) as does not exceed the great-*  
 15           *er of—*

16                   “(A) *the amount of contributions not in ex-*  
 17           *cess of 6 percent of compensation (within the*  
 18           *meaning of section 404(a)) paid or accrued (dur-*  
 19           *ing the taxable year for which the contributions*  
 20           *were made) to beneficiaries under the plans, or*

21                   “(B) *the sum of—*

22                   “(i) *the amount of contributions de-*  
 23           *scribed in section 401(m)(4)(A), plus*

24                   “(ii) *the amount of contributions de-*  
 25           *scribed in section 402(g)(3)(A).*

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

5       (c) *EFFECTIVE DATE.*—*The amendments made by this*  
 6       *section shall apply to plan years beginning after December*  
 7       *31, 2000.*

8       **SEC. 348. INCREASE IN SECTION 415 EARLY RETIREMENT**  
 9                       **LIMIT FOR GOVERNMENTAL AND OTHER**  
 10                      **PLANS.**

11       (a) *IN GENERAL.*—*Subclause (II) of section*  
 12       *415(b)(2)(F)(i), as amended by section 346(c), is*  
 13       *amended—*

14               (1) *by striking “\$75,000” and inserting “80 per-*  
 15       *cent of the dollar amount in effect under paragraph*  
 16       *(1)(A)”*, and

17               (2) *by striking “the \$75,000 limitation” and in-*  
 18       *serting “80 percent of such dollar amount”.*

19       (b) *EFFECTIVE DATE.*—*The amendments made by this*  
 20       *section shall apply to years beginning after December 31,*  
 21       *1999.*

***Subtitle F—Encouraging  
Retirement Education***

**SEC. 351. PERIODIC PENSION BENEFITS STATEMENTS.**

(a) *IN GENERAL.*—Section 105(a) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1025 (a)) is amended to read as follows:

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

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

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

“(ii) *to a plan beneficiary upon written request, and*

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

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

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

“(2) *Notwithstanding paragraph (1), the administrator of a plan to which more than 1 unaffiliated employer is required to contribute shall only be required to furnish*



1 *a pension benefit statement under paragraph (1) upon the*  
2 *written request of a participant or beneficiary of the plan.*

3 “(3) *A pension benefit statement under paragraph*  
4 *(1)—*

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

7 “(i) *the total benefits accrued, and*

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

11 “(B) *shall be written in a manner calculated to*  
12 *be understood by the average plan participant, and*

13 “(C) *may be provided in written, electronic, tele-*  
14 *phonic, or other appropriate form.*

15 “(4) *In the case of a defined benefit plan, the require-*  
16 *ments of paragraph (1)(B)(i) shall be treated as met with*  
17 *respect to a participant if the administrator provides the*  
18 *participant at least once each year with notice of the avail-*  
19 *ability of the pension benefit statement and the ways in*  
20 *which the participant may obtain such statement. Such no-*  
21 *tice shall be provided in written, electronic, telephonic, or*  
22 *other appropriate form, and may be included with other*  
23 *communications to the participant if done in a manner*  
24 *reasonably designed to attract the attention of the partici-*  
25 *pant.”.*

1       (b) *CONFORMING AMENDMENTS.*—

2               (1) *Section 105 of the Employee Retirement In-*  
 3       *come Security Act of 1974 (29 U.S.C. 1025) is*  
 4       *amended by striking subsection (d).*

5               (2) *Section 105(b) of such Act (29 U.S.C.*  
 6       *1025(b)) is amended to read as follows:*

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

11              (c) *EFFECTIVE DATE.*—*The amendments made by this*  
 12       *section shall apply to plan years beginning after December*  
 13       *31, 2000.*

14       **SEC. 352. CLARIFICATION OF TREATMENT OF EMPLOYER-**  
 15                               **PROVIDED RETIREMENT ADVICE.**

16              (a) *IN GENERAL.*—*Subsection (a) of section 132 (relat-*  
 17       *ing to exclusion from gross income) is amended by striking*  
 18       *“or” at the end of paragraph (5), by striking the period*  
 19       *at the end of paragraph (6) and inserting “, or”, and by*  
 20       *adding at the end the following new paragraph:*

21                       “(7) *qualified retirement planning services.*”.

22              (b) *QUALIFIED RETIREMENT PLANNING SERVICES DE-*  
 23       *FINED.*—*Section 132 is amended by redesignating sub-*  
 24       *section (m) as subsection (n) and by inserting after sub-*  
 25       *section (l) the following:*

1       “(m) *QUALIFIED RETIREMENT PLANNING SERV-*  
2 *ICES.*—

3               “(1) *IN GENERAL.*—*For purposes of this section,*  
4 *the term ‘qualified retirement planning services’*  
5 *means any retirement planning service provided to*  
6 *an employee and his spouse by an employer main-*  
7 *taining a qualified employer plan.*

8               “(2) *NONDISCRIMINATION RULE.*—*Subsection*  
9 *(a)(7) shall apply in the case of highly compensated*  
10 *employees only if such services are available on sub-*  
11 *stantially the same terms to each member of the group*  
12 *of employees normally provided education and infor-*  
13 *mation regarding the employer’s qualified employer*  
14 *plan.*

15               “(3) *QUALIFIED EMPLOYER PLAN.*—*For purposes*  
16 *of this subsection, the term ‘qualified employer plan’*  
17 *means a plan, contract, pension, or account described*  
18 *in section 219(g)(5).”.*

19       “(c) *EFFECTIVE DATE.*—*The amendments made by this*  
20 *section shall apply to years beginning after December 31,*  
21 *2000.*

1     ***Subtitle G—Reducing Regulatory***  
2                     ***Burdens***

3     ***SEC. 361. FLEXIBILITY IN NONDISCRIMINATION AND COV-***  
4                     ***ERAGE RULES.***

5             *(a) NONDISCRIMINATION.—*

6                 *(1) IN GENERAL.—The Secretary of the Treasury*  
7             *shall, by regulation, provide that a plan shall be*  
8             *deemed to satisfy the requirements of section*  
9             *401(a)(4) of the Internal Revenue Code of 1986 if*  
10            *such plan satisfies the facts and circumstances test*  
11            *under section 401(a)(4) of such Code, as in effect be-*  
12            *fore January 1, 1994, but only if—*

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

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

19             *Subparagraph (B) shall only apply to the extent pro-*  
20             *vided by the Secretary.*

21             *(2) EFFECTIVE DATES.—*

22                 *(A) REGULATIONS.—The regulation re-*  
23             *quired by subsection (a) shall apply to years be-*  
24             *ginning after December 31, 2000.*

1           (B) *CONDITIONS OF AVAILABILITY.*—Any  
 2           condition of availability prescribed by the Sec-  
 3           retary under paragraph (1)(A) shall not apply  
 4           before the first year beginning not less than 120  
 5           days after the date on which such condition is  
 6           prescribed.

7           (b) *COVERAGE TEST.*—

8           (1) *IN GENERAL.*—Section 410(b)(1) (relating to  
 9           minimum coverage requirements) is amended by add-  
 10          ing at the end the following:

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

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

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

20           “(iii) satisfies conditions prescribed by  
 21           the Secretary by regulation that appro-  
 22           priately limit the availability of this sub-  
 23           paragraph.

24           Clause (ii) shall apply only to the extent pro-  
 25           vided by the Secretary.”.

1           (2) *EFFECTIVE DATES.*—

2                   (A) *IN GENERAL.*—*The amendment made*  
3                   *by subsection (a) shall apply to years beginning*  
4                   *after December 31, 2000.*

5                   (B) *CONDITIONS OF AVAILABILITY.*—*Any*  
6                   *condition of availability prescribed by the Sec-*  
7                   *retary under regulations prescribed by the Sec-*  
8                   *retary under section 410(b)(1)(D) of the Internal*  
9                   *Revenue Code of 1986 shall not apply before the*  
10                  *first year beginning not less than 120 days after*  
11                  *the date on which such condition is prescribed.*

12 **SEC. 362. MODIFICATION OF TIMING OF PLAN VALUATIONS.**

13           (a) *IN GENERAL.*—*Section 412(c)(9) (relating to an-*  
14           *nual valuation) is amended—*

15                   (1) *by striking “For purposes” and inserting the*  
16                   *following:*

17                           “(A) *IN GENERAL.*—*For purposes”, and*

18                   (2) *by adding at the end the following:*

19                           “(B) *ELECTION TO USE PRIOR YEAR VALU-*  
20                   *ATION.*—

21                           “(i) *IN GENERAL.*—*Except as provided*  
22                   *in clause (ii), if, for any plan year—*

23                                   “(I) *an election is in effect under*  
24                                   *this subparagraph with respect to a*  
25                                   *plan, and*

1                   “(II) *the assets of the plan are not*  
2                   *less than 125 percent of the plan’s cur-*  
3                   *rent liability (as defined in paragraph*  
4                   *(7)(B)), determined as of the valuation*  
5                   *date for the preceding plan year,*  
6                   *then this section shall be applied using the*  
7                   *information available as of such valuation*  
8                   *date.*

9                   “(ii) *EXCEPTIONS.—*

10                   “(I) *ACTUAL VALUATION EVERY 3*  
11                   *YEARS.—Clause (i) shall not apply for*  
12                   *more than 2 consecutive plan years*  
13                   *and valuation shall be under subpara-*  
14                   *graph (A) with respect to any plan*  
15                   *year to which clause (i) does not apply*  
16                   *by reason of this subclause.*

17                   “(II) *REGULATIONS.—Clause (i)*  
18                   *shall not apply to the extent that more*  
19                   *frequent valuations are required under*  
20                   *the regulations under subparagraph*  
21                   *(A).*

22                   “(iii) *ADJUSTMENTS.—Information*  
23                   *under clause (i) shall, in accordance with*  
24                   *regulations, be actuarially adjusted to re-*  
25                   *flect significant differences in participants.*

1                   “(iv) *ELECTION*.—An election under  
 2                   this subparagraph, once made, shall be ir-  
 3                   revocable without the consent of the Sec-  
 4                   retary.”.

5           (b) *AMENDMENTS TO ERISA*.—Paragraph (9) of sec-  
 6           tion 302(c) of the *Employee Retirement Income Security*  
 7           *Act of 1974* (29 U.S.C. 1053(c)) is amended—

8                   (1) by inserting “(A)” after “(9)”, and

9                   (2) by adding at the end the following:

10           “(B)(i) *Except as provided in clause (ii), if, for any*  
 11           *plan year—*

12                   “(I) *an election is in effect under this subpara-*  
 13           *graph with respect to a plan, and*

14                   “(II) *the assets of the plan are not less than 125*  
 15           *percent of the plan’s current liability (as defined in*  
 16           *paragraph (7)(B)), determined as of the valuation*  
 17           *date for the preceding plan year,*

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

20           “(ii)(I) *Clause (i) shall not apply for more than 2 con-*  
 21           *secutive plan years and valuation shall be under subpara-*  
 22           *graph (A) with respect to any plan year to which clause*  
 23           *(i) does not apply by reason of this subclause.*



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

4       “(iii) Information under clause (i) shall, in accord-  
5 ance with regulations, be actuarially adjusted to reflect sig-  
6 nificant differences in participants.

7       “(iv) An election under this subparagraph, once made,  
8 shall be irrevocable without the consent of the Secretary of  
9 the Treasury.”.

10       (c) *EFFECTIVE DATE.*—The amendments made by this  
11 section shall apply to plan years beginning after December  
12 31, 2000.

13       **SEC. 363. SUBSTANTIAL OWNER BENEFITS IN TERMINATED**  
14                                   **PLANS.**

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

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

23               “(i) owns the entire interest in an unincor-  
24 porated trade or business,

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

5           “(iii) in the case of a corporation, owns, directly  
 6           or indirectly, 50 percent or more in value of either the  
 7           voting stock of that corporation or all the stock of that  
 8           corporation.

9           For purposes of clause (iii), the constructive ownership  
 10          rules of section 1563(e) of the Internal Revenue Code of  
 11          1986 shall apply (determined without regard to section  
 12          1563(e)(3)(C)).

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

16               “(i) a fraction (not to exceed 1) the numerator  
 17               of which is the number of years from the later of the  
 18               effective date or the adoption date of the plan to the  
 19               termination date, and the denominator of which is  
 20               10, and

21               “(ii) the amount of benefits that would be guar-  
 22               anteed under this section if the participant were not  
 23               a majority owner.”.

24          (b) MODIFICATION OF ALLOCATION OF ASSETS.—

1           (1) *Section 4044(a)(4)(B) of the Employee Re-*  
 2           *irement Income Security Act of 1974 (29 U.S.C.*  
 3           *1344(a)(4)(B)) is amended by striking “section*  
 4           *4022(b)(5)” and inserting “section 4022(b)(5)(B)”.*

5           (2) *Section 4044(b) of such Act (29 U.S.C.*  
 6           *1344(b)) is amended—*

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

9                     (B) *by redesignating paragraphs (3)*  
 10                    *through (6) as paragraphs (4) through (7), re-*  
 11                    *spectively, and by inserting after paragraph (2)*  
 12                    *the following:*

13                   “(3) *If assets available for allocation under*  
 14                    *paragraph (4) of subsection (a) are insufficient to sat-*  
 15                    *isfy in full the benefits of all individuals who are de-*  
 16                    *scribed in that paragraph, the assets shall be allocated*  
 17                    *first to benefits described in subparagraph (A) of that*  
 18                    *paragraph. Any remaining assets shall then be allo-*  
 19                    *cated to benefits described in subparagraph (B) of*  
 20                    *that paragraph. If assets allocated to such subpara-*  
 21                    *graph (B) are insufficient to satisfy in full the bene-*  
 22                    *fits described in that subparagraph, the assets shall be*  
 23                    *allocated pro rata among individuals on the basis of*  
 24                    *the present value (as of the termination date) of their*  
 25                    *respective benefits described in that subparagraph.”.*

1       (c) *CONFORMING AMENDMENTS.*—

2               (1) *Section 4021 of the Employee Retirement In-*  
3       *come Security Act of 1974 (29 U.S.C. 1321) is*  
4       *amended—*

5               (A) *in subsection (b)(9), by striking “as de-*  
6       *finied in section 4022(b)(6)”*, and

7               (B) *by adding at the end the following:*

8       “*(d) For purposes of subsection (b)(9), the term ‘sub-*  
9       *stantial owner’ means an individual who, at any time dur-*  
10      *ing the 60-month period ending on the date the determina-*  
11      *tion is being made—*

12              “*(1) owns the entire interest in an unincor-*  
13      *porated trade or business,*

14              “*(2) in the case of a partnership, is a partner*  
15      *who owns, directly or indirectly, more than 10 per-*  
16      *cent of either the capital interest or the profits inter-*  
17      *est in such partnership, or*

18              “*(3) in the case of a corporation, owns, directly*  
19      *or indirectly, more than 10 percent in value of either*  
20      *the voting stock of that corporation or all the stock of*  
21      *that corporation.*

22      *For purposes of paragraph (3), the constructive ownership*  
23      *rules of section 1563(e) of the Internal Revenue Code of*  
24      *1986 shall apply (determined without regard to section*  
25      *1563(e)(3)(C)).”.*

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

4       (d) *EFFECTIVE DATES.*—

5           (1) *IN GENERAL.*—*Except as provided in para-*  
 6 *graph (2), the amendments made by this section shall*  
 7 *apply to plan terminations—*

8               (A) *under section 4041(c) of the Employee*  
 9 *Retirement Income Security Act of 1974 (29*  
 10 *U.S.C. 1341(c)) with respect to which notices of*  
 11 *intent to terminate are provided under section*  
 12 *4041(a)(2) of such Act (29 U.S.C. 1341(a)(2))*  
 13 *after December 31, 2000, and*

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

17       (2) *CONFORMING AMENDMENTS.*—*The amend-*  
 18 *ments made by subsection (c) shall take effect on the*  
 19 *date of enactment of this Act.*

20 **SEC. 364. ESOP DIVIDENDS MAY BE REINVESTED WITHOUT**  
 21 **LOSS OF DIVIDEND DEDUCTION.**

22       (a) *IN GENERAL.*—*Section 404(k)(2)(A) (defining ap-*  
 23 *plicable dividends) is amended by striking “or” at the end*  
 24 *of clause (ii), by redesignating clause (iii) as clause (iv),*  
 25 *and by inserting after clause (ii) the following new clause:*

1                   “(iii) is, at the election of such partici-  
2                   pants or their beneficiaries—

3                   “(I) payable as provided in clause  
4                   (i) or (ii), or

5                   “(II) paid to the plan and rein-  
6                   vested in qualifying employer securi-  
7                   ties, or”.

8           (b) *EFFECTIVE DATE.*—The amendments made by this  
9   section shall apply to taxable years beginning after Decem-  
10 ber 31, 2000.

11 **SEC. 365. NOTICE AND CONSENT PERIOD REGARDING DIS-**  
12 **TRIBUTIONS.**

13       (a) *EXPANSION OF PERIOD.*—

14           (1) *IN GENERAL.*—

15                   (A) *AMENDMENT OF INTERNAL REVENUE*  
16                   *CODE OF 1986.*—Subparagraph (A) of section  
17                   417(a)(6) is amended by striking “90-day” and  
18                   inserting “1-year”.

19                   (B) *AMENDMENT TO ERISA.*—Subparagraph  
20                   (A) of section 205(c)(7) of the *Employee Retire-*  
21                   *ment Income Security Act of 1974* (29 U.S.C.  
22                   1055(c)(7)) is amended by striking “90-day”  
23                   and inserting “1-year”.

24           (2) *MODIFICATION OF REGULATIONS.*—The *Sec-*  
25   retary of the Treasury shall modify the regulations

1       under sections 402(f), 411(a)(11), and 417 of the In-  
 2       ternal Revenue Code of 1986 to substitute “1-year”  
 3       for “90 days” each place it appears in Treasury Reg-  
 4       ulations sections 1.402(f)–1, 1.411(a)–11(c), and  
 5       1.417(e)–1(b).

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

10       (b) *CONSENT REGULATION INAPPLICABLE TO CERTAIN*  
 11       *DISTRIBUTIONS.*—

12               (1) *IN GENERAL.*—The Secretary of the Treasury  
 13       shall modify the regulations under section 411(a)(11)  
 14       of the Internal Revenue Code of 1986 to provide that  
 15       the description of a participant’s right, if any, to  
 16       defer receipt of a distribution shall also describe the  
 17       consequences of failing to defer such receipt.

18               (2) *EFFECTIVE DATE.*—The modifications re-  
 19       quired by paragraph (1) shall apply to years begin-  
 20       ning after December 31, 2000.

21       **SEC. 366. REPEAL OF TRANSITION RULE RELATING TO CER-**  
 22       **TAIN HIGHLY COMPENSATED EMPLOYEES.**

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

1       (b) *EFFECTIVE DATE.*—*The repeal made by subsection*  
 2   (a) *shall apply to plan years beginning after December 31,*  
 3   1999.

4   **SEC. 367. EMPLOYEES OF TAX-EXEMPT ENTITIES.**

5       (a) *IN GENERAL.*—*The Secretary of the Treasury shall*  
 6   *modify Treasury Regulations section 1.410(b)–6(g) to pro-*  
 7   *vide that employees of an organization described in section*  
 8   403(b)(1)(A)(i) *of the Internal Revenue Code of 1986 who*  
 9   *are eligible to make contributions under section 403(b) of*  
 10   *such Code pursuant to a salary reduction agreement may*  
 11   *be treated as excludable with respect to a plan under section*  
 12   401 (k) *or (m) of such Code that is provided under the same*  
 13   *general arrangement as a plan under such section 401(k),*  
 14   *if—*

15       (1) *no employee of an organization described in*  
 16   *section 403(b)(1)(A)(i) of such Code is eligible to par-*  
 17   *ticipate in such section 401(k) plan or section 401(m)*  
 18   *plan, and*

19       (2) *95 percent of the employees who are not em-*  
 20   *ployees of an organization described in section*  
 21   403(b)(1)(A)(i) *of such Code are eligible to partici-*  
 22   *pate in such plan under such section 401 (k) or (m).*

23       (b) *EFFECTIVE DATE.*—*The modification required by*  
 24   *subsection (a) shall apply as of the same date set forth in*



1 *section 1426(b) of the Small Business Job Protection Act*  
 2 *of 1996.*

3 **SEC. 368. EXTENSION TO INTERNATIONAL ORGANIZATIONS**  
 4 **OF MORATORIUM ON APPLICATION OF CER-**  
 5 **TAIN NONDISCRIMINATION RULES APPLICA-**  
 6 **BLE TO STATE AND LOCAL PLANS.**

7 (a) *IN GENERAL.*—Subparagraph (G) of section  
 8 401(a)(5), subparagraph (H) of section 401(a)(26), sub-  
 9 paragraph (G) of section 401(k)(3), and paragraph (2) of  
 10 section 1505(d) of the Taxpayer Relief Act of 1997 are each  
 11 amended by inserting “or by an international organization  
 12 which is described in section 414(d)” after “or instrumen-  
 13 tality thereof”.

14 (b) *CONFORMING AMENDMENTS.*—

15 (1) *The headings for subparagraph (G) of section*  
 16 *401(a)(5) and subparagraph (H) of section*  
 17 *401(a)(26) are each amended by inserting “AND*  
 18 *INTERNATIONAL ORGANIZATION” after “GOVERN-*  
 19 *MENTAL”.*

20 (2) *Subparagraph (G) of section 401(k)(3) is*  
 21 *amended by inserting “STATE AND LOCAL GOVERN-*  
 22 *MENTAL AND INTERNATIONAL ORGANIZATION*  
 23 *PLANS.—” after “(G)”.*

1       (c) *EFFECTIVE DATE.*—*The amendments made by this*  
 2 *section shall apply to years beginning after December 31,*  
 3 *2000.*

4 **SEC. 369. ANNUAL REPORT DISSEMINATION.**

5       (a) *IN GENERAL.*—*Section 104(b)(3) of the Employee*  
 6 *Retirement Income Security Act of 1974 (29 U.S.C.*  
 7 *1024(b)(3)) is amended by striking “shall furnish” and in-*  
 8 *serting “shall make available for examination (and, upon*  
 9 *request, shall furnish)”.*

10       (b) *EFFECTIVE DATE.*—*The amendment made by this*  
 11 *section shall apply to reports for years beginning after De-*  
 12 *cember 31, 1998.*

13 **SEC. 370. MODIFICATION OF EXCLUSION FOR EMPLOYER**  
 14 **PROVIDED TRANSIT PASSES AND PAS-**  
 15 **SENGERS PERMITTED TO UTILIZE OTHER-**  
 16 **WISE EMPTY SEATS ON AIRCRAFT.**

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

19       (b) *Subsection (h) of section 132 of the Internal Rev-*  
 20 *enue Code of 1986 (relating to certain fringe benefits) is*  
 21 *amended by adding at the end thereof the following new*  
 22 *paragraph:*

23               “(4) *SPECIAL RULE FOR PASSENGERS TRAV-*  
 24 *ELING ON NONCOMMERCIAL AIRCRAFT.*—*Any use of*  
 25 *noncommercial air transportation by an individual*

1       *shall be treated as use by an employee if no regularly*  
2       *scheduled commercial flight is available that day from*  
3       *the air facility at the individual's location.”.*

4       *(c) Subsection (j) of section 132 of the Internal Rev-*  
5       *enue Code of 1986 (relating to certain fringe benefits) is*  
6       *amended by adding at the end thereof the following new*  
7       *paragraph:*

8               *“(9) SPECIAL RULE FOR CERTAIN NONCOMMER-*  
9       *CIAL AIR TRANSPORTATION.—For the purposes of sub-*  
10       *section (b) the term ‘no-additional-cost service’ in-*  
11       *cludes the value of transportation provided by an em-*  
12       *ployer to an employee on a noncommercially operated*  
13       *aircraft if—*

14               *“(A) such transportation is provided on a*  
15       *flight made in the ordinary course of the trade*  
16       *or business of the employer owning or leasing*  
17       *such aircraft for use in such trade or business,*

18               *“(B) the flight on which the transportation*  
19       *is provided by the employer would have been*  
20       *made whether or not such employee was trans-*  
21       *ported on the flight, and*

22               *“(C) the employer incurs no substantial ad-*  
23       *ditional cost in providing such transportation to*  
24       *such employee.*

1        *For purposes of this paragraph, an aircraft is non-*  
 2        *commercially operated if transportation provided by*  
 3        *the employer is not provided or made available to the*  
 4        *general public by purchase of a ticket or other fare.”.*

5        *(d) EFFECTIVE DATE.—The amendment made by this*  
 6        *section shall apply to taxable years beginning after Decem-*  
 7        *ber 31, 1999.*

8        **SEC. 371. REPORTING SIMPLIFICATION.**

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

11                *(1) IN GENERAL.—The Secretary of the Treasury*  
 12        *shall modify the requirements for filing annual re-*  
 13        *turns with respect to one-participant retirement plans*  
 14        *to ensure that such plans with assets of \$500,000 or*  
 15        *less as of the close of the plan year need not file a*  
 16        *return for that year.*

17                *(2) ONE-PARTICIPANT RETIREMENT PLAN DE-*  
 18        *FINED.—For purposes of this subsection, the term*  
 19        *“one-participant retirement plan” means a retire-*  
 20        *ment plan that—*

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

22                                *(i) covered only the employer (and the*  
 23                                *employer’s spouse) and the employer owned*  
 24                                *the entire business (whether or not incor-*  
 25                                *porated), or*

1                   (ii) covered only one or more partners  
2                   (and their spouses) in a business partner-  
3                   ship (including partners in an S or C cor-  
4                   poration),

5                   (B) meets the minimum coverage require-  
6                   ments of section 410(b) of the Internal Revenue  
7                   Code of 1986 without being combined with any  
8                   other plan of the business that covers the employ-  
9                   ees of the business,

10                  (C) does not provide benefits to anyone ex-  
11                  cept the employer (and the employer's spouse) or  
12                  the partners (and their spouses),

13                  (D) does not cover a business that is a  
14                  member of an affiliated service group, a con-  
15                  trolled group of corporations, or a group of busi-  
16                  nesses under common control, and

17                  (E) does not cover a business that leases em-  
18                  ployees.

19                  (3) *OTHER DEFINITIONS.*—Terms used in para-  
20                  graph (2) which are also used in section 414 of the  
21                  Internal Revenue Code of 1986 shall have the respec-  
22                  tive meanings given such terms by such section.

23                  (b) *SIMPLIFIED ANNUAL FILING REQUIREMENT FOR*  
24                  *PLANS WITH FEWER THAN 25 EMPLOYEES.*—In the case  
25                  of a retirement plan which covers less than 25 employees

1 on the 1st day of the plan year and meets the requirements  
 2 described in subparagraphs (B), (D), and (E) of subsection  
 3 (a)(2), the Secretary of the Treasury shall provide for the  
 4 filing of a simplified annual return that is substantially  
 5 similar to the annual return required to be filed by a one-  
 6 participant retirement plan.

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

## 9 ***Subtitle H—Plan Amendments***

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

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

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

17 (2) such plan shall not fail to meet the require-  
 18 ments of section 411(d)(6) of the Internal Revenue  
 19 Code of 1986 by reason of such amendment.

20 (b) *AMENDMENTS TO WHICH SECTION APPLIES.*—

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

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

4           (B) on or before the last day of the first  
5           plan year beginning on or after January 1,  
6           2003.

7           In the case of a government plan (as defined in sec-  
8           tion 414(d) of the Internal Revenue Code of 1986),  
9           this paragraph shall be applied by substituting  
10          “2005” for “2003”.

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

13               (A) during the period—

14                   (i) beginning on the date the legislative  
15                   or regulatory amendment described in para-  
16                   graph (1)(A) takes effect (or in the case of  
17                   a plan or contract amendment not required  
18                   by such legislative or regulatory amend-  
19                   ment, the effective date specified by the  
20                   plan), and

21                   (ii) ending on the date described in  
22                   paragraph (1)(B) (or, if earlier, the date the  
23                   plan or contract amendment is adopted),  
24           the plan or contract is operated as if such plan  
25           or contract amendment were in effect, and

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

## **TITLE IV—EDUCATION TAX RELIEF PROVISIONS**

### **SEC. 401. ELIMINATION OF 60-MONTH LIMIT AND INCREASE IN INCOME LIMITATION ON STUDENT LOAN INTEREST DEDUCTION.**

(a) *ELIMINATION OF 60-MONTH LIMIT.*—

(1) *IN GENERAL.*—Section 221 (relating to interest on education loans) is amended by striking subsection (d) and by redesignating subsections (e), (f), and (g) as subsections (d), (e), and (f), respectively.

(2) *CONFORMING AMENDMENT.*—Section 6050S(e) is amended by striking “section 221(e)(1)” and inserting “section 221(d)(1)”.

(3) *EFFECTIVE DATE.*—The amendments made by this subsection shall apply with respect to any loan interest paid after December 31, 1999, in taxable years ending after such date.

(b) *INCREASE IN INCOME LIMITATION.*—

(1) *IN GENERAL.*—Section 221(b)(2)(B) (relating to amount of reduction) is amended by striking clauses (i) and (ii) and inserting the following:

“(i) the excess of—



1                   “(I) the taxpayer’s modified ad-  
 2                   justed gross income for such taxable  
 3                   year, over

4                   “(II) \$50,000 (twice such dollar  
 5                   amount in the case of a joint return),  
 6                   bears to

7                   “(ii) \$15,000.”.

8                   (2) CONFORMING AMENDMENT.—Section  
 9                   221(g)(1) is amended by striking “\$40,000 and  
 10                  \$60,000 amounts” and inserting “\$50,000 amount”.

11                  (3) EFFECTIVE DATE.—The amendments made  
 12                  by this subsection shall apply to taxable years ending  
 13                  after December 31, 1999.

14 **SEC. 402. MODIFICATIONS TO QUALIFIED TUITION PRO-**  
 15 **GRAMS.**

16                  (a) SHORT TITLE.—This section may be cited as the  
 17                  “Collegiate Learning and Student Savings (CLASS) Act”.

18                  (b) ELIGIBLE EDUCATIONAL INSTITUTIONS PER-  
 19                  MITTED TO MAINTAIN QUALIFIED TUITION PROGRAMS.—

20                  (1) IN GENERAL.—Section 529(b)(1) (defining  
 21                  qualified State tuition program) is amended by in-  
 22                  serting “or by 1 or more eligible educational institu-  
 23                  tions” after “maintained by a State or agency or in-  
 24                  strumentality thereof”.

1           (2) *PRIVATE QUALIFIED TUITION PROGRAMS LIM-*  
 2           *ITED TO BENEFIT PLANS.*—Clause (ii) of section  
 3           529(b)(1)(A) is amended by inserting “in the case of  
 4           a program established and maintained by a State or  
 5           agency or instrumentality thereof,” before “may  
 6           make”.

7           (3) *CONFORMING AMENDMENTS.*—

8                   (A) Sections 72(e)(9), 135(c)(2)(C),  
 9                   135(d)(1)(D), 529, 530(b)(2)(B), 4973(e), and  
 10                   6693(a)(2)(C) are each amended by striking  
 11                   “qualified State tuition” each place it appears  
 12                   and inserting “qualified tuition”.

13                   (B) The headings for sections 72(e)(9) and  
 14                   135(c)(2)(C) are each amended by striking  
 15                   “QUALIFIED STATE TUITION” and inserting  
 16                   “QUALIFIED TUITION”.

17                   (C) The headings for sections 529(b) and  
 18                   530(b)(2)(B) are each amended by striking  
 19                   “QUALIFIED STATE TUITION” and inserting  
 20                   “QUALIFIED TUITION”.

21                   (D) The heading for section 529 is amended  
 22                   by striking “**STATE**”.

23                   (E) The item relating to section 529 in the  
 24                   table of sections for part VIII of subchapter F of  
 25                   chapter 1 is amended by striking “State”.

1       (c) *EXCLUSION FROM GROSS INCOME OF EDUCATION*  
2 *DISTRIBUTIONS FROM QUALIFIED TUITION PROGRAMS.*—

3           (1) *IN GENERAL.*—Section 529(c)(3)(B) (relating  
4 to distributions) is amended to read as follows:

5                   “(B) *DISTRIBUTIONS FOR QUALIFIED HIGH-*  
6 *ER EDUCATION EXPENSES.*—For purposes of this  
7 paragraph—

8                           “(i) *IN-KIND DISTRIBUTIONS.*—No  
9 amount shall be includible in gross income  
10 under subparagraph (A) by reason of a dis-  
11 tribution which consists of providing a ben-  
12 efit to the distributee which, if paid for by  
13 the distributee, would constitute payment of  
14 a qualified higher education expense.

15                           “(ii) *CASH DISTRIBUTIONS.*—In the  
16 case of distributions not described in clause  
17 (i), if—

18                                   “(I) such distributions do not ex-  
19 ceed the qualified higher education ex-  
20 penses (reduced by expenses described  
21 in clause (i)), no amount shall be in-  
22 cludible in gross income, and

23                                   “(II) in any other case, the  
24 amount otherwise includible in gross  
25 income shall be reduced by an amount

1           *which bears the same ratio to such*  
2           *amount as such expenses bear to such*  
3           *distributions.*

4           “(iii) *EXCEPTION FOR INSTITUTIONAL*  
5           *PROGRAMS.—In the case of any taxable*  
6           *year beginning before January 1, 2004,*  
7           *clauses (i) and (ii) shall not apply with re-*  
8           *spect to any distribution during such tax-*  
9           *able year under a qualified tuition program*  
10           *established and maintained by 1 or more el-*  
11           *igible educational institutions.*

12           “(iv) *TREATMENT AS DISTRIBUTI-*  
13           *ONS.—Any benefit furnished to a des-*  
14           *ignated beneficiary under a qualified tui-*  
15           *tion program shall be treated as a distribu-*  
16           *tion to the beneficiary for purposes of this*  
17           *paragraph.*

18           “(v) *COORDINATION WITH HOPE AND*  
19           *LIFETIME LEARNING CREDITS.—The total*  
20           *amount of qualified higher education ex-*  
21           *penses with respect to an individual for the*  
22           *taxable year shall be reduced—*

23                   *“(I) as provided in section*  
24                   *25A(g)(2), and*

1                   “(II) by the amount of such ex-  
 2                   penses which were taken into account  
 3                   in determining the credit allowed to  
 4                   the taxpayer or any other person under  
 5                   section 25A.

6                   “(vi) COORDINATION WITH EDUCATION  
 7                   INDIVIDUAL RETIREMENT ACCOUNTS.—If,  
 8                   with respect to an individual for any tax-  
 9                   able year—

10                   “(I) the aggregate distributions to  
 11                   which clauses (i) and (ii) and section  
 12                   530(d)(2)(A) apply, exceed

13                   “(II) the total amount of qualified  
 14                   higher education expenses otherwise  
 15                   taken into account under clauses (i)  
 16                   and (ii) (after the application of clause  
 17                   (v)) for such year,

18                   the taxpayer shall allocate such expenses  
 19                   among such distributions for purposes of de-  
 20                   termining the amount of the exclusion  
 21                   under clauses (i) and (ii) and section  
 22                   530(d)(2)(A).”.

23                   (2) CONFORMING AMENDMENTS.—

24                   (A) Section 135(d)(2)(B) is amended by  
 25                   striking “the exclusion under section 530(d)(2)”

1           *and inserting “the exclusions under sections*  
 2           *529(c)(3)(B)(i) and 530(d)(2)”.*

3           *(B) Section 221(e)(2)(A) is amended by in-*  
 4           *serting “529,” after “135,”.*

5           *(d) COORDINATION WITH HOPE AND LIFETIME*  
 6           *LEARNING CREDITS AND QUALIFIED TUITION PRO-*  
 7           *GRAMS.—*

8           *(1) IN GENERAL.—Section 530(d)(2)(C) is*  
 9           *amended to read as follows:*

10           *“(C) COORDINATION WITH HOPE AND LIFE-*  
 11           *TIME LEARNING CREDITS AND QUALIFIED TUI-*  
 12           *TION PROGRAMS.—For purposes of subparagraph*  
 13           *(A)—*

14           *“(i) CREDIT COORDINATION.—The*  
 15           *total amount of qualified higher education*  
 16           *expenses with respect to an individual for*  
 17           *the taxable year shall be reduced—*

18           *“(I) as provided in section*  
 19           *25A(g)(2), and*

20           *“(II) by the amount of such ex-*  
 21           *penses which were taken into account*  
 22           *in determining the credit allowed to*  
 23           *the taxpayer or any other person under*  
 24           *section 25A.*

“(ii) *COORDINATION WITH QUALIFIED TUITION PROGRAMS.*—If, with respect to an individual for any taxable year—

“(I) the aggregate distributions during such year to which subparagraph (A) and section 529(c)(3)(B) apply, exceed

“(II) the total amount of qualified higher education expenses otherwise taken into account under subparagraph (A) (after the application of clause (i)) for such year,

the taxpayer shall allocate such expenses among such distributions for purposes of determining the amount of the exclusion under subparagraph (A) and section 529(c)(3)(B).”.

(2) *CONFORMING AMENDMENTS.*—

(A) Subsection (e) of section 25A is amended to read as follows:

“(e) *ELECTION TO HAVE SECTION APPLY.*—No credit shall be allowed under subsection (a) for a taxable year with respect to the qualified tuition and related expenses of an individual unless the taxpayer elects to have this section apply with respect to such individual for such year.”.

1                   (B) Section 135(d)(2)(A) is amended by  
2                   striking “allowable” and inserting “allowed”.

3                   (C) Section 530(d)(2)(D) is amended—  
4                   (i) by striking “or credit”, and  
5                   (ii) by striking “CREDIT OR” in the  
6                   heading.

7           (e) *ROLLOVER TO DIFFERENT PROGRAM FOR BENEFIT*  
8 *OF SAME DESIGNATED BENEFICIARY.*—Section  
9 529(c)(3)(C) (relating to change in beneficiaries) is  
10 amended—

11           (1) by striking “transferred to the credit” in  
12           clause (i) and inserting “transferred—

13                               “(I) to another qualified tuition  
14                               program for the benefit of the des-  
15                               ignated beneficiary, or

16                               “(II) to the credit”,

17           (2) by adding at the end the following new  
18           clause:

19                               “(iii) *LIMITATION ON CERTAIN ROLL-*  
20                               *OVERS.*—Clause (i)(I) shall not apply to  
21                               any amount transferred with respect to a  
22                               designated beneficiary if, at any time dur-  
23                               ing the 1-year period ending on the day of  
24                               such transfer, any other amount was trans-  
25                               ferred with respect to such beneficiary



1                   *which was not includible in gross income by*  
 2                   *reason of clause (i)(I).”, and*

3                   (3) *by inserting “OR PROGRAMS” after “BENE-*  
 4                   *FICIARIES” in the heading.*

5                   (f) *MEMBER OF FAMILY INCLUDES FIRST COUSIN.—*  
 6                   *Section 529(e)(2) (defining member of family) is amended*  
 7                   *by striking “and” at the end of subparagraph (B), by strik-*  
 8                   *ing the period at the end of subparagraph (C) and by in-*  
 9                   *serting “; and”, and by adding at the end the following*  
 10                   *new subparagraph:*

11                   “(D) *any first cousin of such beneficiary.*”.

12                   (g) *DEFINITION OF QUALIFIED HIGHER EDUCATION*  
 13                   *EXPENSES.—*

14                   (1) *IN GENERAL.—Subparagraph (A) of section*  
 15                   *529(e)(3) (relating to definition of qualified higher*  
 16                   *education expenses) is amended to read as follows:*

17                   “(A) *IN GENERAL.—The term ‘qualified*  
 18                   *higher education expenses’ means—*

19                   “(i) *tuition and fees required for the*  
 20                   *enrollment or attendance of a designated*  
 21                   *beneficiary at an eligible educational insti-*  
 22                   *tution for courses of instruction of such ben-*  
 23                   *eficiary at such institution, and*

24                   “(ii) *expenses for books, supplies, and*  
 25                   *equipment which are incurred in connection*

1           *with such enrollment or attendance, but not*  
 2           *to exceed the allowance for books and sup-*  
 3           *plies included in the cost of attendance (as*  
 4           *defined in section 472 of the Higher Edu-*  
 5           *cation Act of 1965 (20 U.S.C. 1087ll), as in*  
 6           *effect on the date of enactment of the Tax-*  
 7           *payer Refund Act of 1999) as determined by*  
 8           *the eligible educational institution.”.*

9           (2) *EXCEPTION FOR EDUCATION INVOLVING*  
 10          *SPORTS, ETC.—Paragraph (3) of section 529(e) (relat-*  
 11          *ing to qualified higher education expenses) is amend-*  
 12          *ed by adding at the end the following new subpara-*  
 13          *graph:*

14                 “(C) *EXCEPTION FOR EDUCATION INVOLV-*  
 15                 *ING SPORTS, ETC.—The term ‘qualified higher*  
 16                 *education expenses’ shall not include expenses*  
 17                 *with respect to any course or other education in-*  
 18                 *volving sports, games, or hobbies unless such*  
 19                 *course or other education is part of the bene-*  
 20                 *ficiary’s degree program or is taken to acquire or*  
 21                 *improve job skills of the beneficiary.”.*

22          (h) *EFFECTIVE DATES.—*

23                 (1) *IN GENERAL.—The amendments made by*  
 24                 *this section shall apply to taxable years beginning*  
 25                 *after December 31, 1999.*

1           (2) *QUALIFIED HIGHER EDUCATION EX-*  
 2           *PENSES.*—*The amendments made by subsection (g)*  
 3           *shall apply to amounts paid for courses beginning*  
 4           *after December 31, 1999.*

5 **SEC. 403. EXCLUSION OF CERTAIN AMOUNTS RECEIVED**  
 6                       **UNDER THE NATIONAL HEALTH SERVICE**  
 7                       **CORPS SCHOLARSHIP PROGRAM AND THE F.**  
 8                       **EDWARD HEBERT ARMED FORCES HEALTH**  
 9                       **PROFESSIONS SCHOLARSHIP AND FINANCIAL**  
 10                      **ASSISTANCE PROGRAM.**

11           (a) *IN GENERAL.*—*Section 117(c) (relating to the ex-*  
 12           *clusion from gross income amounts received as a qualified*  
 13           *scholarship) is amended—*

14                   (1) *by striking “Subsections (a)” and inserting*  
 15           *the following:*

16                       “(1) *IN GENERAL.*—*Except as provided in para-*  
 17                      *graph (2), subsections (a)”*, and

18                      (2) *by adding at the end the following new para-*  
 19           *graph:*

20                       “(2) *EXCEPTIONS.*—*Paragraph (1) shall not*  
 21                      *apply to any amount received by an individual*  
 22                      *under—*

23                               “(A) *the National Health Service Corps*  
 24                      *Scholarship program under section*

1           338A(g)(1)(A) of the Public Health Service Act,  
 2           or  
 3           “(B) the Armed Forces Health Professions  
 4           Scholarship and Financial Assistance program  
 5           under subchapter I of chapter 105 of title 10,  
 6           United States Code.”.

7           (b) *EFFECTIVE DATE.*—The amendments made by sub-  
 8           section (a) shall apply to amounts received in taxable years  
 9           beginning after December 31, 1993.

10   **SEC. 404. EXTENSION OF EXCLUSION FOR EMPLOYER-PRO-**  
 11           **VIDED EDUCATIONAL ASSISTANCE.**

12           (a) *IN GENERAL.*—Section 127(d) (relating to termi-  
 13           nation of exclusion for educational assistance programs) is  
 14           amended by striking “May 31, 2000” and inserting “De-  
 15           cember 31, 2003”.

16           (b) *REPEAL OF LIMITATION ON GRADUATE EDU-*  
 17           *CATION.*—

18           (1) *IN GENERAL.*—The last sentence of section  
 19           127(c)(1) is amended by striking “, and such term  
 20           also does not include any payment for, or the provi-  
 21           sion of any benefits with respect to, any graduate  
 22           level course of a kind normally taken by an indi-  
 23           vidual pursuing a program leading to a law, busi-  
 24           ness, medical, or other advanced academic or profes-  
 25           sional degree”.

1           (2) *EFFECTIVE DATE.*—*The amendment made by*  
 2           *paragraph (1) shall apply with respect to expenses re-*  
 3           *lating to courses beginning after December 31, 1999.*

4 **SEC. 405. ADDITIONAL INCREASE IN ARBITRAGE REBATE**  
 5                           **EXCEPTION FOR GOVERNMENTAL BONDS**  
 6                           **USED TO FINANCE EDUCATIONAL FACILITIES.**

7           (a) *IN GENERAL.*—*Section 148(f)(4)(D)(vii) (relating*  
 8           *to increase in exception for bonds financing public school*  
 9           *capital expenditures) is amended by striking “\$5,000,000”*  
 10          *the second place it appears and inserting “\$10,000,000”.*

11          (b) *EFFECTIVE DATE.*—*The amendment made by sub-*  
 12          *section (a) shall apply to obligations issued in calendar*  
 13          *years beginning after December 31, 1999.*

14 **SEC. 406. TREATMENT OF QUALIFIED PUBLIC EDU-**  
 15                           **CATIONAL FACILITY BONDS AS EXEMPT FA-**  
 16                           **CILITY BONDS.**

17          (a) *TREATMENT AS EXEMPT FACILITY BOND.*—*Sub-*  
 18          *section (a) of section 142 (relating to exempt facility bond)*  
 19          *is amended by striking “or” at the end of paragraph (11),*  
 20          *by striking the period at the end of paragraph (12) and*  
 21          *inserting “, or”, and by adding at the end the following*  
 22          *new paragraph:*

23                       “(13) *qualified public educational facilities.*”.

1       (b) *QUALIFIED PUBLIC EDUCATIONAL FACILITIES.*—  
 2       Section 142 (relating to exempt facility bond) is amended  
 3       by adding at the end the following new subsection:

4       “(k) *QUALIFIED PUBLIC EDUCATIONAL FACILITIES.*—

5               “(1) *IN GENERAL.*—For purposes of subsection  
 6       (a)(13), the term ‘qualified public educational facil-  
 7       ity’ means any school facility which is—

8                       “(A) part of a public elementary school or  
 9                       a public secondary school, and

10                      “(B) owned by a private, for-profit corpora-  
 11                      tion pursuant to a public-private partnership  
 12                      agreement with a State or local educational  
 13                      agency described in paragraph (2).

14               “(2) *PUBLIC-PRIVATE PARTNERSHIP AGREEMENT*  
 15       *DESCRIBED.*—A public-private partnership agreement  
 16       is described in this paragraph if it is an agreement—

17                      “(A) under which the corporation agrees—

18                               “(i) to do 1 or more of the following:  
 19                               construct, rehabilitate, refurbish, or equip a  
 20                               school facility, and

21                               “(ii) at the end of the term of the  
 22                               agreement, to transfer the school facility to  
 23                               such agency for no additional consideration,  
 24                               and

1           “(B) the term of which does not exceed the  
 2           last maturity date of any bond which is a part  
 3           of the issue to be used to finance the activities  
 4           described in subparagraph (A)(i).

5           “(3) SCHOOL FACILITY.—For purposes of this  
 6           subsection, the term ‘school facility’ means—

7           “(A) school buildings,

8           “(B) functionally related and subordinate  
 9           facilities and land with respect to such buildings,  
 10          including any stadium or other facility pri-  
 11          marily used for school events, and

12          “(C) any property, to which section 168 ap-  
 13          plies (or would apply but for section 179), for  
 14          use in the facility.

15          “(4) PUBLIC SCHOOLS.—For purposes of this  
 16          subsection, the terms ‘elementary school’ and ‘sec-  
 17          ondary school’ have the meanings given such terms by  
 18          section 14101 of the Elementary and Secondary Edu-  
 19          cation Act of 1965 (20 U.S.C. 8801), as in effect on  
 20          the date of the enactment of this subsection.

21          “(5) ANNUAL AGGREGATE FACE AMOUNT OF TAX-  
 22          EXEMPT FINANCING.—

23          “(A) IN GENERAL.—An issue shall not be  
 24          treated as an issue described in subsection  
 25          (a)(13) if the aggregate face amount of bonds

1        *issued by the State pursuant thereto (when*  
2        *added to the aggregate face amount of bonds pre-*  
3        *viously so issued during the calendar year) ex-*  
4        *ceeds an amount equal to the greater of—*

5                *“(i) \$10 multiplied by the State popu-*  
6                *lation, or*

7                *“(ii) \$5,000,000.*

8                *“(B) ALLOCATION RULES.—*

9                *“(i) IN GENERAL.—Except as otherwise*  
10              *provided in this subparagraph, the State*  
11              *may allocate the amount described in sub-*  
12              *paragraph (A) for any calendar year in*  
13              *such manner as the State determines appro-*  
14              *priate.*

15              *“(ii) RULES FOR CARRYFORWARD OF*  
16              *UNUSED LIMITATION.—A State may elect to*  
17              *carry forward an unused limitation for any*  
18              *calendar year for 3 calendar years following*  
19              *the calendar year in which the unused limi-*  
20              *tation arose under rules similar to the rules*  
21              *of section 146(f), except that the only pur-*  
22              *pose for which the carryforward may be*  
23              *elected is the issuance of exempt facility*  
24              *bonds described in subsection (a)(13).”.*



1       (c) *EXEMPTION FROM GENERAL STATE VOLUME*  
 2 *CAPS.—Paragraph (3) of section 146(g) (relating to excep-*  
 3 *tion for certain bonds) is amended—*

4               (1) *by striking “or (12)” and inserting “(12), or*  
 5 *(13)”, and*

6               (2) *by striking “and environmental enhance-*  
 7 *ments of hydroelectric generating facilities” and in-*  
 8 *serting “environmental enhancements of hydroelectric*  
 9 *generating facilities, and qualified public educational*  
 10 *facilities”.*

11       (d) *EXEMPTION FROM LIMITATION ON USE FOR LAND*  
 12 *ACQUISITION.—Section 147(h) (relating to certain rules not*  
 13 *to apply to mortgage revenue bonds, qualified student loan*  
 14 *bonds, and qualified 501(c)(3) bonds) is amended by adding*  
 15 *at the end the following new paragraph:*

16               “(3) *EXEMPT FACILITY BONDS FOR QUALIFIED*  
 17 *PUBLIC-PRIVATE SCHOOLS.—Subsection (c) shall not*  
 18 *apply to any exempt facility bond issued as part of*  
 19 *an issue described in section 142(a)(13) (relating to*  
 20 *qualified public educational facilities).”.*

21       (e) *CONFORMING AMENDMENT.—The heading for sec-*  
 22 *tion 147(h) is amended by striking “MORTGAGE REVENUE*  
 23 *BONDS, QUALIFIED STUDENT LOAN BONDS, AND QUALI-*  
 24 *FIED 501(c)(3) BONDS” and inserting “CERTAIN BONDS”.*

1       (f) *EFFECTIVE DATE.*—*The amendments made by this*  
 2 *section shall apply to bonds issued after December 31, 1999.*

3 **SEC. 407. FEDERAL GUARANTEE OF SCHOOL CONSTRUC-**  
 4 **TION BONDS BY FEDERAL HOME LOAN**  
 5 **BANKS.**

6       (a) *IN GENERAL.*—*Section 149(b)(3) (relating to ex-*  
 7 *ceptions) is amended by adding at the end the following*  
 8 *new subparagraph:*

9               “(E) *CERTAIN GUARANTEED SCHOOL CON-*  
 10 *STRUCTION BONDS.*—*Any bond issued as part of*  
 11 *an issue 95 percent or more of the net proceeds*  
 12 *of which are used for public school construction*  
 13 *shall not be treated as federally guaranteed by*  
 14 *reason of any guarantee by any Federal Home*  
 15 *Loan Bank under the Federal Home Loan Bank*  
 16 *Act (12 U.S.C. 1421 et seq.), to the extent the*  
 17 *Federal Housing Finance Board allocates au-*  
 18 *thority to such Bank to so guarantee such bond.*  
 19 *For purposes of the preceding sentence, the ag-*  
 20 *gregate face amount of such bonds which may be*  
 21 *so guaranteed may not exceed \$500,000,000 in*  
 22 *any calendar year.”.*

23       (b) *EFFECTIVE DATE.*—*Subparagraph (E) of section*  
 24 *149(b)(3) of the Internal Revenue Code of 1986, as added*  
 25 *by the amendment made by subsection (a), shall take effect*

1 *upon the enactment, after the date of the enactment of this*  
 2 *Act, of legislation authorizing the Federal Housing Finance*  
 3 *Board to allocate authority to Federal Home Loan Banks*  
 4 *to guarantee any bond described in such subparagraph, but*  
 5 *only if such legislation makes specific reference to such sub-*  
 6 *paragraph.*

7 **SEC. 408. CERTAIN EDUCATIONAL BENEFITS PROVIDED BY**  
 8 **AN EMPLOYER TO CHILDREN OF EMPLOYEES**  
 9 **EXCLUDABLE FROM GROSS INCOME AS A**  
 10 **SCHOLARSHIP.**

11 *(a) IN GENERAL.—Section 117 (relating to qualified*  
 12 *scholarships) is amended by adding at the end the following:*

13 *“(e) EMPLOYER-PROVIDED EDUCATIONAL BENEFITS*  
 14 *PROVIDED TO CHILDREN OF EMPLOYEES.—*

15 *“(1) IN GENERAL.—In determining whether any*  
 16 *amount is a qualified scholarship for purposes of sub-*  
 17 *section (a), the fact that such amount is provided in*  
 18 *connection with an employment relationship shall be*  
 19 *disregarded if—*

20 *“(A) such amount is provided by the em-*  
 21 *ployer to a child (as defined in section 161(c)(3))*  
 22 *of an employee of such employer,*

23 *“(B) such amount is provided pursuant to*  
 24 *a plan which meets the nondiscrimination re-*  
 25 *quirements of subsection (d)(3), and*

1           “(C) amounts provided under such plan are  
2           in addition to any other compensation payable  
3           to employees and such plan does not provide em-  
4           ployees with a choice between such amounts and  
5           any other benefit.

6           For purposes of subparagraph (C), the business prac-  
7           tices of the employer (as well as such plan) shall be  
8           taken into account.

9           “(2) DOLLAR LIMITATIONS.—

10           “(A) PER CHILD.—The amount excluded  
11           from the gross income of the employee by reason  
12           of paragraph (1) for a taxable year with respect  
13           to amounts provided to each child of such em-  
14           ployee shall not exceed \$2,000.

15           “(B) AGGREGATE LIMIT.—The amount ex-  
16           cluded from the gross income of the employee by  
17           reason of paragraph (1) for a taxable year (after  
18           the application of subparagraph (A)) shall not  
19           exceed the excess of the dollar amount contained  
20           in section 127(a)(2) over the amount excluded  
21           from the employee’s gross income under section  
22           127 for such year.

23           “(3) PRINCIPAL SHAREHOLDERS AND OWNERS.—  
24           Paragraph (1) shall not apply to any amount pro-  
25           vided to any child of any individual if such indi-

vidual (or such individual's spouse) owns (on any day of the year) more than 5 percent of the stock or of the capital or profits interest in the employer.

“(4) *DEGREE REQUIREMENT NOT TO APPLY.*—In the case of an amount which is treated as a qualified scholarship by reason of this subsection, subsection (a) shall be applied without regard to the requirement that the recipient be a candidate for a degree.

“(5) *CERTAIN OTHER RULES TO APPLY.*—Rules similar to the rules of paragraphs (4), (5), and (7) of section 127(c) shall apply for purposes of this subsection.”.

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

## ***TITLE V—HEALTH CARE TAX RELIEF PROVISIONS***

### ***SEC. 501. DEDUCTION FOR HEALTH AND LONG-TERM CARE INSURANCE COSTS OF INDIVIDUALS NOT PARTICIPATING IN EMPLOYER-SUBSIDIZED HEALTH PLANS.***

(a) *IN GENERAL.*—Part VII of subchapter B of chapter 1 is amended by redesignating section 222 as section 223 and by inserting after section 221 the following new section:

1 **“SEC. 222. HEALTH AND LONG-TERM CARE INSURANCE**  
 2 **COSTS.**

3 “(a) *IN GENERAL.*—*In the case of an individual, there*  
 4 *shall be allowed as a deduction an amount equal to the ap-*  
 5 *plicable percentage of the amount paid during the taxable*  
 6 *year for insurance which constitutes medical care for the*  
 7 *taxpayer and the taxpayer’s spouse and dependents.*

8 “(b) *APPLICABLE PERCENTAGE.*—*For purposes of sub-*  
 9 *section (a), the applicable percentage shall be determined*  
 10 *in accordance with the following table:*

<b><i>“For taxable years beginning in calendar year—</i></b>	<b><i>The applicable percentage is—</i></b>
<i>2001, 2002, 2003 .....</i>	<i>25</i>
<i>2004 and 2005 .....</i>	<i>50</i>
<i>2006 and thereafter .....</i>	<i>100.</i>

11 “(c) *LIMITATION BASED ON OTHER COVERAGE.*—

12 “(1) *COVERAGE UNDER CERTAIN SUBSIDIZED*  
 13 *EMPLOYER PLANS.*—

14 “(A) *IN GENERAL.*—*Subsection (a) shall not*  
 15 *apply to any taxpayer for any calendar month*  
 16 *for which the taxpayer participates in any*  
 17 *health plan maintained by any employer of the*  
 18 *taxpayer or of the spouse of the taxpayer if 50*  
 19 *percent or more of the cost of coverage under*  
 20 *such plan (determined under section 4980B and*  
 21 *without regard to payments made with respect to*  
 22 *any coverage described in subsection (e)) is paid*  
 23 *or incurred by the employer.*

1           “(B) *EMPLOYER CONTRIBUTIONS TO CAFETERIA PLANS, FLEXIBLE SPENDING ARRANGEMENTS, AND MEDICAL SAVINGS ACCOUNTS.*—Employer contributions to a cafeteria plan, a flexible spending or similar arrangement, or a medical savings account which are excluded from gross income under section 106 shall be treated for purposes of subparagraph (A) as paid by the employer.

10           “(C) *AGGREGATION OF PLANS OF EMPLOYER.*—A health plan which is not otherwise described in subparagraph (A) shall be treated as described in such subparagraph if such plan would be so described if all health plans of persons treated as a single employer under subsections (b), (c), (m), or (o) of section 414 were treated as one health plan.

18           “(D) *SEPARATE APPLICATION TO HEALTH INSURANCE AND LONG-TERM CARE INSURANCE.*—Subparagraphs (A) and (C) shall be applied separately with respect to—

22                   “(i) plans which include primarily coverage for qualified long-term care services or are qualified long-term care insurance contracts, and

1                   “(ii) *plans which do not include such*  
2                   *coverage and are not such contracts.*

3                   “(2) *COVERAGE UNDER CERTAIN FEDERAL PRO-*  
4                   *GRAMS.—*

5                   “(A) *IN GENERAL.—Subsection (a) shall not*  
6                   *apply to any amount paid for any coverage for*  
7                   *an individual for any calendar month if, as of*  
8                   *the first day of such month, the individual is*  
9                   *covered under any medical care program de-*  
10                  *scribed in—*

11                  “(i) *title XVIII, XIX, or XXI of the So-*  
12                  *cial Security Act,*

13                  “(ii) *chapter 55 of title 10, United*  
14                  *States Code,*

15                  “(iii) *chapter 17 of title 38, United*  
16                  *States Code,*

17                  “(iv) *chapter 89 of title 5, United*  
18                  *States Code, or*

19                  “(v) *the Indian Health Care Improve-*  
20                  *ment Act.*

21                  “(B) *EXCEPTIONS.—*

22                  “(i) *QUALIFIED LONG-TERM CARE.—*  
23                  *Subparagraph (A) shall not apply to*  
24                  *amounts paid for coverage under a qualified*  
25                  *long-term care insurance contract.*



1                   “(ii) CONTINUATION COVERAGE OF  
 2                   FEHBP.—Subparagraph (A)(iv) shall not  
 3                   apply to coverage which is comparable to  
 4                   continuation coverage under section 4980B.

5           “(d) LONG-TERM CARE DEDUCTION LIMITED TO  
 6 QUALIFIED LONG-TERM CARE INSURANCE CONTRACTS.—  
 7 In the case of a qualified long-term care insurance contract,  
 8 only eligible long-term care premiums (as defined in section  
 9 213(d)(10)) may be taken into account under subsection (a).

10          “(e) DEDUCTION NOT AVAILABLE FOR PAYMENT OF  
 11 ANCILLARY COVERAGE PREMIUMS.—Any amount paid as  
 12 a premium for insurance which provides for—

13                   “(1) coverage for accidents, disability, dental  
 14                   care, vision care, or a specified illness, or

15                   “(2) making payments of a fixed amount per  
 16                   day (or other period) by reason of being hospitalized.  
 17 shall not be taken into account under subsection (a).

18          “(f) SPECIAL RULES.—

19                   “(1) COORDINATION WITH DEDUCTION FOR  
 20 HEALTH INSURANCE COSTS OF SELF-EMPLOYED INDIVIDUALS.—The amount taken into account by the tax-  
 21 payer in computing the deduction under section  
 22 162(l) shall not be taken into account under this sec-  
 23 tion.  
 24

1           “(2) *COORDINATION WITH MEDICAL EXPENSE*  
 2           *DEDUCTION.*—*The amount taken into account by the*  
 3           *taxpayer in computing the deduction under this sec-*  
 4           *tion shall not be taken into account under section*  
 5           *213.*

6           “(g) *REGULATIONS.*—*The Secretary shall prescribe*  
 7           *such regulations as may be appropriate to carry out this*  
 8           *section, including regulations requiring employers to report*  
 9           *to their employees and the Secretary such information as*  
 10          *the Secretary determines to be appropriate.”.*

11          (b) *DEDUCTION ALLOWED WHETHER OR NOT TAX-*  
 12          *PAYER ITEMIZES OTHER DEDUCTIONS.*—*Subsection (a) of*  
 13          *section 62 is amended by inserting after paragraph (17)*  
 14          *the following new item:*

15                 “(18) *HEALTH AND LONG-TERM CARE INSUR-*  
 16                 *ANCE COSTS.*—*The deduction allowed by section*  
 17                 *222.”.*

18          (c) *CLERICAL AMENDMENT.*—*The table of sections for*  
 19          *part VII of subchapter B of chapter 1 is amended by strik-*  
 20          *ing the last item and inserting the following new items:*

“Sec. 222. *Health and long-term care insurance costs.*  
 “Sec. 223. *Cross reference.”.*

21          (c) *EFFECTIVE DATE.*—*The amendments made by this*  
 22          *section shall apply to taxable years beginning after Decem-*  
 23          *ber 31, 2000.*

1 **SEC. 502. LONG-TERM CARE INSURANCE PERMITTED TO BE**  
 2 **OFFERED UNDER CAFETERIA PLANS AND**  
 3 **FLEXIBLE SPENDING ARRANGEMENTS.**

4 (a) *CAFETERIA PLANS.*—

5 (1) *IN GENERAL.*—Subsection (f) of section 125  
 6 (defining qualified benefits) is amended by inserting  
 7 before the period at the end “; except that such term  
 8 shall include the payment of premiums for any quali-  
 9 fied long-term care insurance contract (as defined in  
 10 section 7702B) to the extent the amount of such pay-  
 11 ment does not exceed the eligible long-term care pre-  
 12 miums (as defined in section 213(d)(10)) for such  
 13 contract.”.

14 (b) *FLEXIBLE SPENDING ARRANGEMENTS.*—Section  
 15 106 (relating to contributions by employer to accident and  
 16 health plans) is amended by striking subsection (c).

17 (c) *EFFECTIVE DATE.*—The amendments made by this  
 18 section shall apply to taxable years beginning after Decem-  
 19 ber 31, 2000.

20 **SEC. 503. ADDITIONAL PERSONAL EXEMPTION FOR TAX-**  
 21 **PAYER CARING FOR ELDERLY FAMILY MEM-**  
 22 **BER IN TAXPAYER’S HOME.**

23 (a) *IN GENERAL.*—Section 151 (relating to allowance  
 24 of deductions for personal exemptions) is amended by add-  
 25 ing at the end redesignating subsection (e) as subsection (f)

1 *and by inserting after subsection (d) the following new sub-*  
 2 *section:*

3       “(e) *ADDITIONAL EXEMPTION FOR CERTAIN ELDERLY*  
 4 *FAMILY MEMBERS RESIDING WITH TAXPAYER.*—

5               “(1) *IN GENERAL.*—*An exemption of the exemp-*  
 6 *tion amount for each qualified family member of the*  
 7 *taxpayer.*

8               “(2) *QUALIFIED FAMILY MEMBER.*—*For purposes*  
 9 *of this subsection, the term ‘qualified family member’*  
 10 *means, with respect to any taxable year, any*  
 11 *individual—*

12                       “(A) *who is—*

13                               “(i) *the father or mother, or an ances-*  
 14 *tor of either, or*

15                               “(ii) *a stepfather or stepmother,*  
 16 *of the taxpayer or of the taxpayer’s spouse or*  
 17 *former spouse,*

18                       “(B) *who is a member for the entire taxable*  
 19 *year of a household maintained by the taxpayer,*  
 20 *and*

21                       “(C) *who has been certified, before the due*  
 22 *date for filing the return of tax for the taxable*  
 23 *year (without extensions), by a physician (as de-*  
 24 *finied in section 1861(r)(1) of the Social Security*

1       *Act) as being an individual with long-term care*  
2       *needs described in paragraph (3) for a period—*

3               *“(i) which is at least 180 consecutive*  
4               *days, and*

5               *“(ii) a portion of which occurs within*  
6               *the taxable year.*

7       *Such term shall not include any individual oth-*  
8       *erwise meeting the requirements of the preceding*  
9       *sentence unless within the 39½ month period*  
10       *ending on such due date (or such other period as*  
11       *the Secretary prescribes) a physician (as so de-*  
12       *finied) has certified that such individual meets*  
13       *such requirements.*

14       *“(3) INDIVIDUALS WITH LONG-TERM CARE*  
15       *NEEDS.—An individual is described in this para-*  
16       *graph if the individual—*

17               *“(A) is unable to perform (without substan-*  
18               *tial assistance from another individual) at least*  
19               *2 activities of daily living (as defined in section*  
20               *7702B(c)(2)(B)) due to a loss of functional ca-*  
21               *capacity, or*

22               *“(B) requires substantial supervision to*  
23               *protect such individual from threats to health*  
24               *and safety due to severe cognitive impairment*  
25               *and is unable to perform, without reminding or*

1           cuing assistance, at least 1 activity of at least 1  
 2           activity of daily living (as so defined) or to the  
 3           extent provided in regulations prescribed by the  
 4           Secretary (in consultation with the Secretary of  
 5           Health and Human Services), is unable to en-  
 6           gage in age appropriate activities.

7           “(4) *SPECIAL RULES.*—Rules similar to the rules  
 8           of paragraphs (1), (2), (3), (4), and (5) of section  
 9           21(e) shall apply for purposes of this subsection.”.

10          (b) *EFFECTIVE DATE.*—The amendments made by this  
 11          section shall apply to taxable years beginning after Decem-  
 12          ber 31, 1999.

13       **SEC. 504. INCLUSION OF CERTAIN VACCINES AGAINST**  
 14                       **STREPTOCOCCUS PNEUMONIAE TO LIST OF**  
 15                       **TAXABLE VACCINES; REDUCTION IN PER**  
 16                       **DOSE TAX RATE.**

17          (a) *INCLUSION OF VACCINES.*—

18               (1) *IN GENERAL.*—Section 4132(a)(1) (defining  
 19               taxable vaccine) is amended by adding at the end the  
 20               following new subparagraph:

21                       “(L) Any conjugate vaccine against strepto-  
 22                       coccus pneumoniae.”.

23               (2) *EFFECTIVE DATE.*—

24                       (A) *SALES.*—The amendment made by this  
 25                       subsection shall apply to vaccine sales beginning

1        *on the day after the date on which the Centers*  
 2        *for Disease Control makes a final recommenda-*  
 3        *tion for routine administration to children of*  
 4        *any conjugate vaccine against streptococcus*  
 5        *pneumoniae, but shall not take effect if sub-*  
 6        *section (c) does not take effect.*

7                (B) *DELIVERIES.*—*For purposes of sub-*  
 8        *paragraph (A), in the case of sales on or before*  
 9        *the date described in such subparagraph for*  
 10        *which delivery is made after such date, the deliv-*  
 11        *ery date shall be considered the sale date.*

12        (b) *REDUCTION IN PER DOSE TAX RATE.*—

13                (1) *IN GENERAL.*—*Section 4131(b)(1) (relating*  
 14        *to amount of tax) is amended by striking “75 cents”*  
 15        *and inserting “25 cents”.*

16                (2) *EFFECTIVE DATE.*—

17                (A) *SALES.*—*The amendment made by this*  
 18        *subsection shall apply to vaccine sales after De-*  
 19        *cember 31, 2004, but shall not take effect if sub-*  
 20        *section (c) does not take effect.*

21                (B) *DELIVERIES.*—*For purposes of sub-*  
 22        *paragraph (A), in the case of sales on or before*  
 23        *the date described in such subparagraph for*  
 24        *which delivery is made after such date, the deliv-*  
 25        *ery date shall be considered the sale date.*

1           (3) *LIMITATION ON CERTAIN CREDITS OR RE-*  
2           *FUNDS.*—*For purposes of applying section 4132(b) of*  
3           *the Internal Revenue Code of 1986 with respect to*  
4           *any claim for credit or refund filed after August 31,*  
5           *2004, the amount of tax taken into account shall not*  
6           *exceed the tax computed under the rate in effect on*  
7           *January 1, 2005.*

8           (c) *VACCINE TAX AND TRUST FUND AMENDMENTS.*—

9           (1) *Sections 1503 and 1504 of the Vaccine In-*  
10          *jury Compensation Program Modification Act (and*  
11          *the amendments made by such sections) are hereby re-*  
12          *pealed.*

13          (2) *Subparagraph (A) of section 9510(c)(1) is*  
14          *amended by striking “August 5, 1997” and inserting*  
15          *“October 21, 1998”.*

16          (3) *The amendments made by this subsection*  
17          *shall take effect as if included in the provisions of the*  
18          *Tax and Trade Relief Extension Act of 1998 to which*  
19          *they relate.*

20          (d) *REPORT.*—*Not later than 1 year after the date of*  
21          *the enactment of this Act, the Comptroller General of the*  
22          *United States shall prepare and submit a report to the*  
23          *Committee on Ways and Means of the House of Representa-*  
24          *tives and the Committee on Finance of the Senate on the*  
25          *operation the Vaccine Injury Compensation Trust Fund*



1 *and on the adequacy of such Fund to meet future claims*  
 2 *made under the Vaccine Injury Compensation Program.*

3 ***TITLE VI—SMALL BUSINESS TAX***  
 4 ***RELIEF PROVISIONS***

5 ***SEC. 601. DEDUCTION FOR 100 PERCENT OF HEALTH INSUR-***  
 6 ***ANCE COSTS OF SELF-EMPLOYED INDIVID-***  
 7 ***UALS.***

8 *(a) IN GENERAL.—Paragraph (1) of section 162(l) is*  
 9 *amended to read as follows:*

10 *“(1) ALLOWANCE OF DEDUCTION.—In the case of*  
 11 *an individual who is an employee within the mean-*  
 12 *ing of section 401(c)(1), there shall be allowed as a*  
 13 *deduction under this section an amount equal to 100*  
 14 *percent of the amount paid during the taxable year*  
 15 *for insurance which constitutes medical care for the*  
 16 *taxpayer and the taxpayer’s spouse and dependents.”.*

17 *(b) CLARIFICATION OF LIMITATIONS ON OTHER COV-*  
 18 *ERAGE.—The first sentence of section 162(l)(2)(B) of the In-*  
 19 *ternal Revenue Code of 1986 is amended to read as follows:*  
 20 *“Paragraph (1) shall not apply to any taxpayer for any*  
 21 *calendar month for which the taxpayer participates in any*  
 22 *subsidized health plan maintained by any employer (other*  
 23 *than an employer described in section 401(c)(4)) of the tax-*  
 24 *payer or the spouse of the taxpayer.”.*

1       (c) *EFFECTIVE DATE.*—*The amendments made by this*  
 2 *section shall apply to taxable years beginning after Decem-*  
 3 *ber 31, 1999.*

4   **SEC. 602. INCREASE IN EXPENSE TREATMENT FOR SMALL**  
 5                   **BUSINESSES.**

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

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

11       (b) *EFFECTIVE DATE.*—*The amendment made by this*  
 12 *section shall apply to taxable years beginning after Decem-*  
 13 *ber 31, 1999.*

14   **SEC. 603. REPEAL OF FEDERAL UNEMPLOYMENT SURTAX.**

15       *Section 3301 (relating to rate of Federal unemploy-*  
 16 *ment tax) is amended—*

17               (1) *by striking “2007” and inserting “2004”,*  
 18       *and*

19               (2) *by striking “2008” and inserting “2005”.*

20   **SEC. 604. INCOME AVERAGING FOR FARMERS AND FISHER-**  
 21                   **MEN NOT TO INCREASE ALTERNATIVE MIN-**  
 22                   **IMUM TAX LIABILITY.**

23       (a) *IN GENERAL.*—*Section 55(c) (defining regular tax)*  
 24 *is amended by redesignating paragraph (2) as paragraph*  
 25 *(3) and by inserting after paragraph (1) the following:*

1           “(2) *COORDINATION WITH INCOME AVERAGING*  
 2           *FOR FARMERS AND FISHERMEN.*—Solely for purposes  
 3           of this section, section 1301 (relating to averaging of  
 4           farm and fishing income) shall not apply in com-  
 5           puting the regular tax.”.

6           (b) *ALLOWING INCOME AVERAGING FOR FISHER-*  
 7           *MEN.*—(1) Section 1301(a) of the Internal Revenue Code  
 8           of 1986 is amended by striking “farming business” and in-  
 9           serting “farming business or fishing business,”.

10          (2) Section 1301(b)(1)(A)(i) is amended by striking  
 11          “and” and inserting “or”, and by striking subsection  
 12          (b)(1)(A)(ii) and replacing it with “(b)(1)(A)(ii) a fishing  
 13          business; and” and by redesignating subsection (b)(1)(A)(ii)  
 14          as subsection (b)(1)(A)(iii).

15          (3) Section 1301(b) is amended by inserting the fol-  
 16          lowing paragraph after subsection (b)(3):

17                 “(4) *FISHING BUSINESS.*—The term fishing busi-  
 18                 ness means the conduct of commercial fishing as de-  
 19                 fined in section 3 of the Magnuson-Stevens Fishery  
 20                 Conservation and Management Act (16 U.S.C.  
 21                 1802).”.

22          (c) *EFFECTIVE DATE.*—The amendments made by this  
 23          section shall apply to taxable years beginning after Decem-  
 24          ber 31, 1999.

1 **SEC. 605. FARM, FISHING, AND RANCH RISK MANAGEMENT**  
 2 **ACCOUNTS.**

3 (a) *IN GENERAL.*—Subpart C of part II of subchapter  
 4 E of chapter 1 (relating to taxable year for which deduc-  
 5 tions taken) is amended by inserting after section 468B the  
 6 following:

7 **“SEC. 468C. FARM AND RANCH RISK MANAGEMENT AC-**  
 8 **COUNTS.**

9 “(a) *DEDUCTION ALLOWED.*—In the case of an indi-  
 10 vidual engaged in an eligible farming business or commer-  
 11 cial fishing, there shall be allowed as a deduction for any  
 12 taxable year the amount paid in cash by the taxpayer dur-  
 13 ing the taxable year to a Farm, Fishing, and Ranch Risk  
 14 Management Account (hereinafter referred to as the  
 15 ‘FFARRM Account’).

16 “(b) *LIMITATION.*—(1) The amount which a taxpayer  
 17 may pay into the FFARRM Account for any taxable year  
 18 shall not exceed 20 percent of so much of the taxable income  
 19 of the taxpayer (determined without regard to this section)  
 20 which is attributable (determined in the manner applicable  
 21 under section 1301) to any eligible farming business or  
 22 commercial fishing.

23 “(2) Distributions from a FFARRM Account may not  
 24 be used to purchase, lease, or finance any new fishing vessel,  
 25 add capacity to any fishery, or otherwise contribute to the  
 26 overcapitalization of any fishery. The Secretary of Com-

1 *merce shall implement regulations to enforce this para-*  
 2 *graph.*

3       “(c) *ELIGIBLE FARMING BUSINESS.*—(1) *For purposes*  
 4 *of this section, the term ‘eligible farming business’ means*  
 5 *any farming business (as defined in section 263A(e)(4))*  
 6 *which is not a passive activity (within the meaning of sec-*  
 7 *tion 469(c)) of the taxpayer.*

8       “(2) *COMMERCIAL FISHING.*—*For purposes of this sec-*  
 9 *tion, the term ‘commercial fishing’ is defined under section*  
 10 *(3) of the Magnuson-Stevens Fishery Conservation and*  
 11 *Management Act (16 U.S.C. 1802).*

12       “(d) *FFARM ACCOUNT.*—*For purposes of this*  
 13 *section—*

14               “(1) *IN GENERAL.*—*The term ‘FFARM Ac-*  
 15 *count’ means a trust created or organized in the*  
 16 *United States for the exclusive benefit of the taxpayer,*  
 17 *but only if the written governing instrument creating*  
 18 *the trust meets the following requirements:*

19                       “(A) *No contribution will be accepted for*  
 20 *any taxable year in excess of the amount allowed*  
 21 *as a deduction under subsection (a) for such*  
 22 *year.*

23                       “(B) *The trustee is a bank (as defined in*  
 24 *section 408(n)) or another person who dem-*  
 25 *onstrates to the satisfaction of the Secretary that*

1       *the manner in which such person will admin-*  
2       *ister the trust will be consistent with the require-*  
3       *ments of this section.*

4               “(C) *The assets of the trust consist entirely*  
5       *of cash or of obligations which have adequate*  
6       *stated interest (as defined in section 1274(c)(2))*  
7       *and which pay such interest not less often than*  
8       *annually.*

9               “(D) *All income of the trust is distributed*  
10       *currently to the grantor.*

11               “(E) *The assets of the trust will not be com-*  
12       *mingled with other property except in a common*  
13       *trust fund or common investment fund.*

14               “(2) *ACCOUNT TAXED AS GRANTOR TRUST.—The*  
15       *grantor of a FFARRM Account shall be treated for*  
16       *purposes of this title as the owner of such Account*  
17       *and shall be subject to tax thereon in accordance with*  
18       *subpart E of part I of subchapter J of this chapter*  
19       *(relating to grantors and others treated as substantial*  
20       *owners).*

21               “(e) *INCLUSION OF AMOUNTS DISTRIBUTED.—*

22               “(1) *IN GENERAL.—Except as provided in para-*  
23       *graph (2), there shall be includible in the gross in-*  
24       *come of the taxpayer for any taxable year—*

“(A) any amount distributed from a  
FFARM Account of the taxpayer during such  
taxable year, and

“(B) any deemed distribution under—

“(i) subsection (f)(1) (relating to de-  
posits not distributed within 5 years),

“(ii) subsection (f)(2) (relating to ces-  
sation in eligible farming business), and

“(iii) subparagraph (A) or (B) of sub-  
section (f)(3) (relating to prohibited trans-  
actions and pledging account as security).

“(2) EXCEPTIONS.—Paragraph (1)(A) shall not  
apply to—

“(A) any distribution to the extent attrib-  
utable to income of the Account, and

“(B) the distribution of any contribution  
paid during a taxable year to a FFARM Ac-  
count to the extent that such contribution exceeds  
the limitation applicable under subsection (b) if  
requirements similar to the requirements of sec-  
tion 408(d)(4) are met.

For purposes of subparagraph (A), distributions shall  
be treated as first attributable to income and then to  
other amounts.

“(f) SPECIAL RULES.—

1           “(1) *TAX ON DEPOSITS IN ACCOUNT WHICH ARE*  
2       *NOT DISTRIBUTED WITHIN 5 YEARS.—*

3           “(A) *IN GENERAL.—If, at the close of any*  
4       *taxable year, there is a nonqualified balance in*  
5       *any FFARM Account—*

6           “(i) *there shall be deemed distributed*  
7       *from such Account during such taxable year*  
8       *an amount equal to such balance, and*

9           “(ii) *the taxpayer’s tax imposed by*  
10      *this chapter for such taxable year shall be*  
11      *increased by 10 percent of such deemed dis-*  
12      *tribution.*

13      *The preceding sentence shall not apply if an*  
14      *amount equal to such nonqualified balance is*  
15      *distributed from such Account to the taxpayer*  
16      *before the due date (including extensions) for fil-*  
17      *ing the return of tax imposed by this chapter for*  
18      *such year (or, if earlier, the date the taxpayer*  
19      *files such return for such year).*

20           “(B) *NONQUALIFIED BALANCE.—For pur-*  
21      *poses of subparagraph (A), the term ‘non-*  
22      *qualified balance’ means any balance in the Ac-*  
23      *count on the last day of the taxable year which*  
24      *is attributable to amounts deposited in such Ac-*  
25      *count before the 4th preceding taxable year.*



1           “(C) *ORDERING RULE.*—For purposes of  
2           this paragraph, distributions from a *FFARRM*  
3           Account (other than distributions of current in-  
4           come) shall be treated as made from deposits in  
5           the order in which such deposits were made, be-  
6           ginning with the earliest deposits.

7           “(2) *CESSATION IN ELIGIBLE BUSINESS.*—At the  
8           close of the first disqualification period after a period  
9           for which the taxpayer was engaged in an eligible  
10          farming business or commercial fishing, there shall be  
11          deemed distributed from the *FFARRM* Account of the  
12          taxpayer an amount equal to the balance in such Ac-  
13          count (if any) at the close of such disqualification pe-  
14          riod. For purposes of the preceding sentence, the term  
15          ‘disqualification period’ means any period of 2 con-  
16          secutive taxable years for which the taxpayer is not  
17          engaged in an eligible farming business or commer-  
18          cial fishing.

19          “(3) *CERTAIN RULES TO APPLY.*—Rules similar  
20          to the following rules shall apply for purposes of this  
21          section:

22                 “(A) Section 220(f)(8) (relating to treat-  
23                 ment on death).

1           “(B) Section 408(e)(2) (relating to loss of  
2           exemption of account where individual engages  
3           in prohibited transaction).

4           “(C) Section 408(e)(4) (relating to effect of  
5           pledging account as security).

6           “(D) Section 408(g) (relating to community  
7           property laws).

8           “(E) Section 408(h) (relating to custodial  
9           accounts).

10          “(4) *TIME WHEN PAYMENTS DEEMED MADE.*—  
11          *For purposes of this section, a taxpayer shall be*  
12          *deemed to have made a payment to a FFARRM Ac-*  
13          *count on the last day of a taxable year if such pay-*  
14          *ment is made on account of such taxable year and is*  
15          *made on or before the due date (without regard to ex-*  
16          *tensions) for filing the return of tax for such taxable*  
17          *year.*

18          “(5) *INDIVIDUAL.*—*For purposes of this section,*  
19          *the term ‘individual’ shall not include an estate or*  
20          *trust.*

21          “(6) *DEDUCTION NOT ALLOWED FOR SELF-EM-*  
22          *PLOYMENT TAX.*—*The deduction allowable by reason*  
23          *of subsection (a) shall not be taken into account in*  
24          *determining an individual’s net earnings from self-*

1        *employment (within the meaning of section 1402(a))*  
2        *for purposes of chapter 2.*

3        “(g) *REPORTS.*—*The trustee of a FFARM Account*  
4        *shall make such reports regarding such Account to the Sec-*  
5        *retary and to the person for whose benefit the Account is*  
6        *maintained with respect to contributions, distributions, and*  
7        *such other matters as the Secretary may require under regu-*  
8        *lations. The reports required by this subsection shall be filed*  
9        *at such time and in such manner and furnished to such*  
10       *persons at such time and in such manner as may be re-*  
11       *quired by such regulations.”.*

12       (b) *TAX ON EXCESS CONTRIBUTIONS.*—

13            (1) *Subsection (a) of section 4973 (relating to*  
14        *tax on excess contributions to certain tax-favored ac-*  
15        *counts and annuities), as amended by section*  
16        *304(b)(1), is amended by striking “or” at the end of*  
17        *paragraph (4), by redesignating paragraphs (4) and*  
18        *(5) as paragraphs (5) and (6), respectively, and by*  
19        *inserting after paragraph (3) the following:*

20            “(4) *a FFARM Account (within the meaning*  
21        *of section 468C(d)), or”.*

22            (2) *Section 4973, as amended by section*  
23        *304(b)(2), is amended by adding at the end the fol-*  
24        *lowing:*

1       “(h) *EXCESS CONTRIBUTIONS TO FFARM AC-*  
2 *COUNTS.*—For purposes of this section, in the case of a  
3 *FFARM Account* (within the meaning of section  
4 468C(d)), the term ‘excess contributions’ means the amount  
5 by which the amount contributed for the taxable year to  
6 the Account exceeds the amount which may be contributed  
7 to the Account under section 468C(b) for such taxable year.  
8 For purposes of this subsection, any contribution which is  
9 distributed out of the *FFARM Account* in a distribution  
10 to which section 468C(e)(2)(B) applies shall be treated as  
11 an amount not contributed.”.

12           (3) The section heading for section 4973 is  
13 amended to read as follows:

14 **“SEC. 4973. EXCESS CONTRIBUTIONS TO CERTAIN AC-**  
15 **COUNTS, ANNUITIES, ETC.”.**

16           (4) The table of sections for chapter 43 is amend-  
17 ed by striking the item relating to section 4973 and  
18 inserting the following:

“Sec. 4973. *Excess contributions to certain accounts, annuities,*  
*etc.*”.

19       (c) *TAX ON PROHIBITED TRANSACTIONS.*—

20           (1) Subsection (c) of section 4975 (relating to tax  
21 on prohibited transactions) is amended by adding at  
22 the end the following:

23           “(6) *SPECIAL RULE FOR FFARM ACCOUNTS.*—A  
24 person for whose benefit a *FFARM Account* (within

1     *the meaning of section 468C(d)) is established shall be*  
 2     *exempt from the tax imposed by this section with re-*  
 3     *spect to any transaction concerning such account*  
 4     *(which would otherwise be taxable under this section)*  
 5     *if, with respect to such transaction, the account ceases*  
 6     *to be a FFARM Account by reason of the applica-*  
 7     *tion of section 468C(f)(3)(A) to such account.”.*

8             *(2) Paragraph (1) of section 4975(e) is amended*  
 9     *by redesignating subparagraphs (E) and (F) as sub-*  
 10    *paragraphs (F) and (G), respectively, and by insert-*  
 11    *ing after subparagraph (D) the following:*

12                 *“(E) a FFARM Account described in sec-*  
 13                 *tion 468C(d),”.*

14             *(d) FAILURE TO PROVIDE REPORTS ON FFARM AC-*  
 15    *COUNTS.—Paragraph (2) of section 6693(a) (relating to*  
 16    *failure to provide reports on certain tax-favored accounts*  
 17    *or annuities), as amended by section 304(d), is amended*  
 18    *by redesignating subparagraphs (C), (D), and (E) as sub-*  
 19    *paragraphs (D), (E), and (F), respectively, and by insert-*  
 20    *ing after subparagraph (B) the following:*

21                 *“(C) section 468C(g) (relating to FFARM*  
 22                 *Accounts),”.*

23             *(e) CLERICAL AMENDMENT.—The table of sections for*  
 24    *subpart C of part II of subchapter E of chapter 1 is amend-*

1 *ed by inserting after the item relating to section 468B the*  
 2 *following:*

*“Sec. 468C. Farm, Fishing and Ranch Risk Management Accounts.”.*

3       (f) *EFFECTIVE DATE.*—*The amendments made by this*  
 4 *section shall apply to taxable years beginning after Decem-*  
 5 *ber 31, 2000.*

6 **SEC. 606. EXCLUSION OF INVESTMENT SECURITIES INCOME**  
 7 **FROM PASSIVE INCOME TEST FOR BANK S**  
 8 **CORPORATIONS.**

9       (a) *IN GENERAL.*—*Section 1362(d)(3)(C) (defining*  
 10 *passive investment income) is amended by adding at the*  
 11 *end the following:*

12                       *“(v) EXCEPTION FOR BANKS; ETC.—In*  
 13 *the case of a bank (as defined in section*  
 14 *581), a bank holding company (as defined*  
 15 *in section 246A(c)(3)(B)(ii)), or a qualified*  
 16 *subchapter S subsidiary bank, the term*  
 17 *‘passive investment income’ shall not*  
 18 *include—*

19                       *“(I) interest income earned by*  
 20 *such bank, bank holding company, or*  
 21 *qualified subchapter S subsidiary*  
 22 *bank, or*

23                       *“(II) dividends on assets required*  
 24 *to be held by such bank, bank holding*

1                    *company, or qualified subchapter S*  
 2                    *subsidiary bank to conduct a banking*  
 3                    *business, including stock in the Federal*  
 4                    *Reserve Bank, the Federal Home Loan*  
 5                    *Bank, or the Federal Agricultural*  
 6                    *Mortgage Bank or participation cer-*  
 7                    *tificates issued by a Federal Inter-*  
 8                    *mediate Credit Bank.”.*

9            *(b) EFFECTIVE DATE.—The amendment made by this*  
 10   *section shall apply to taxable years beginning after Decem-*  
 11   *ber 31, 1999.*

12   **SEC. 607. TREATMENT OF QUALIFYING DIRECTOR SHARES.**

13            *(a) IN GENERAL.—Section 1361 is amended by adding*  
 14   *at the end the following:*

15            *“(f) TREATMENT OF QUALIFYING DIRECTOR*  
 16   *SHARES.—*

17                    *“(1) IN GENERAL.—For purposes of this*  
 18   *subchapter—*

19                            *“(A) qualifying director shares shall not be*  
 20   *treated as a second class of stock, and*

21                            *“(B) no person shall be treated as a share-*  
 22   *holder of the corporation by reason of holding*  
 23   *qualifying director shares.*

24                    *“(2) QUALIFYING DIRECTOR SHARES DEFINED.—*  
 25   *For purposes of this subsection, the term ‘qualifying*

1     *director shares’ means any shares of stock in a bank*  
2     *(as defined in section 581) or in a bank holding com-*  
3     *pany registered as such with the Federal Reserve*  
4     *System—*

5             *“(i) which are held by an individual*  
6             *solely by reason of status as a director of*  
7             *such bank or company or its controlled sub-*  
8             *sidary; and*

9             *“(ii) which are subject to an agreement*  
10            *pursuant to which the holder is required to*  
11            *dispose of the shares of stock upon termi-*  
12            *nation of the holder’s status as a director at*  
13            *the same price as the individual acquired*  
14            *such shares of stock.*

15            *“(3) DISTRIBUTIONS.—A distribution (not in*  
16            *part or full payment in exchange for stock) made by*  
17            *the corporation with respect to qualifying director*  
18            *shares shall be includible as ordinary income of the*  
19            *holder and deductible to the corporation as an expense*  
20            *in computing taxable income under section 1363(b) in*  
21            *the year such distribution is received.”.*

22            *(b) CONFORMING AMENDMENTS.—*

23            *(1) Section 1361(b)(1) is amended by inserting*  
24            *“, except as provided in subsection (f),” before “which*  
25            *does not”.*



1           (2) *Section 1366(a) is amended by adding at the*  
 2           *end the following:*

3           “(3) *ALLOCATION WITH RESPECT TO QUALIFYING*  
 4           *DIRECTOR SHARES.—The holders of qualifying direc-*  
 5           *tor shares (as defined in section 1361(f)) shall not,*  
 6           *with respect to such shares of stock, be allocated any*  
 7           *of the items described in paragraph (1).”.*

8           (3) *Section 1373(a) is amended by striking*  
 9           *“and” at the end of paragraph (1), by striking the pe-*  
 10          *riod at the end of paragraph (2) and inserting “,*  
 11          *and”, and adding at the end the following:*

12          “(3) *no amount of an expense deductible under*  
 13          *this subchapter by reason of section 1361(f)(3) shall*  
 14          *be apportioned or allocated to such income.”.*

15          (c) *EFFECTIVE DATE.—The amendments made by this*  
 16          *section shall apply to taxable years beginning after Decem-*  
 17          *ber 31, 1999.*

18       **SEC. 608. INCREASE IN ESTATE TAX DEDUCTION FOR FAM-**  
 19               **ILY-OWNED BUSINESS INTEREST.**

20          (a) *IN GENERAL.—Section 2057(a)(2) (relating to*  
 21          *maximum deduction) is amended by striking “\$675,000”*  
 22          *and inserting “\$1,975,000”.*

23          (b)           *CONFORMING           AMENDMENTS.—Section*  
 24          *2057(a)(3)(B) (relating to coordination with unified credit)*

1 *is amended by striking “\$675,000” each place it appears*  
 2 *in the text and heading and inserting “\$1,975,000”.*

3 *(c) EFFECTIVE DATE.—The amendments made by this*  
 4 *section shall apply to estates of decedents dying after De-*  
 5 *cember 31, 2000.*

6 **SEC. 609. CREDIT FOR EMPLOYEE HEALTH INSURANCE EX-**  
 7 **PENSES.**

8 *(a) IN GENERAL.—Subpart D of part IV of subchapter*  
 9 *A of chapter 1 (relating to business-related credits) is*  
 10 *amended by adding at the end the following:*

11 **“SEC. 45E. EMPLOYEE HEALTH INSURANCE EXPENSES.**

12 *“(a) GENERAL RULE.—For purposes of section 38, in*  
 13 *the case of a small employer, the employee health insurance*  
 14 *expenses credit determined under this section is an amount*  
 15 *equal to the applicable percentage of the amount paid by*  
 16 *the taxpayer during the taxable year for qualified employee*  
 17 *health insurance expenses.*

18 *“(b) APPLICABLE PERCENTAGE.—For purposes of sub-*  
 19 *section (a), the applicable percentage is equal to—*

20 *“(1) 60 percent in the case of self-only coverage,*  
 21 *and*

22 *“(2) 70 percent in the case of family coverage (as*  
 23 *defined in section 220(c)(5)).*

24 *“(c) PER EMPLOYEE DOLLAR LIMITATION.—The*  
 25 *amount of qualified employee health insurance expenses*

1 *taken into account under subsection (a) with respect to any*  
 2 *qualified employee for any taxable year shall not exceed—*

3 *“(1) \$1,000 in the case of self-only coverage, and*

4 *“(2) \$1,715 in the case of family coverage (as so*  
 5 *defined).*

6 *“(d) DEFINITIONS.—For purposes of this section—*

7 *“(1) SMALL EMPLOYER.—*

8 *“(A) IN GENERAL.—The term ‘small em-*  
 9 *ployer’ means, with respect to any calendar*  
 10 *year, any employer if such employer employed*  
 11 *an average of 9 or fewer employees on business*  
 12 *days during either of the 2 preceding calendar*  
 13 *years. For purposes of the preceding sentence, a*  
 14 *preceding calendar year may be taken into ac-*  
 15 *count only if the employer was in existence*  
 16 *throughout such year.*

17 *“(B) EMPLOYERS NOT IN EXISTENCE IN*  
 18 *PRECEDING YEAR.—In the case of an employer*  
 19 *which was not in existence throughout the 1st*  
 20 *preceding calendar year, the determination*  
 21 *under subparagraph (A) shall be based on the*  
 22 *average number of employees that it is reason-*  
 23 *ably expected such employer will employ on busi-*  
 24 *ness days in the current calendar year.*

1           “(2) *QUALIFIED EMPLOYEE HEALTH INSURANCE*  
2       *EXPENSES.*—

3           “(A) *IN GENERAL.*—*The term ‘qualified em-*  
4       *ployee health insurance expenses’ means any*  
5       *amount paid by an employer for health insur-*  
6       *ance coverage to the extent such amount is at-*  
7       *tributable to coverage provided to any employee*  
8       *while such employee is a qualified employee.*

9           “(B) *EXCEPTION FOR AMOUNTS PAID*  
10       *UNDER SALARY REDUCTION ARRANGEMENTS.*—  
11       *No amount paid or incurred for health insurance*  
12       *coverage pursuant to a salary reduction arrange-*  
13       *ment shall be taken into account under subpara-*  
14       *graph (A).*

15           “(C) *HEALTH INSURANCE COVERAGE.*—*The*  
16       *term ‘health insurance coverage’ has the meaning*  
17       *given such term by section 9832(b)(1).*

18       “(3) *QUALIFIED EMPLOYEE.*—

19           “(A) *IN GENERAL.*—*The term ‘qualified em-*  
20       *ployee’ means, with respect to any period, an*  
21       *employee of an employer if the total amount of*  
22       *wages paid or incurred by such employer to such*  
23       *employee at an annual rate during the taxable*  
24       *year exceeds \$5,000 but does not exceed \$16,000.*

1           “(B) *TREATMENT OF CERTAIN EMPLOY-*  
2           *EES.—For purposes of subparagraph (A), the*  
3           *term ‘employee’—*

4                   “(i) *shall not include an employee*  
5                   *within the meaning of section 401(c)(1), but*

6                   “(ii) *shall include a leased employee*  
7                   *within the meaning of section 414(n).*

8           “(C) *WAGES.—The term ‘wages’ has the*  
9           *meaning given such term by section 3121(a) (de-*  
10           *termined without regard to any dollar limitation*  
11           *contained in such section).*

12           “(D) *INFLATION ADJUSTMENT.—*

13                   “(i) *IN GENERAL.—In the case of any*  
14                   *taxable year beginning in a calendar year*  
15                   *after 2001, the \$16,000 amount contained*  
16                   *in subparagraph (A) shall be increased by*  
17                   *an amount equal to—*

18                           “(I) *such dollar amount, multi-*  
19                           *plied by*

20                           “(II) *the cost-of-living adjustment*  
21                           *under section 1(f)(3) for the calendar*  
22                           *year in which the taxable year begins,*  
23                           *determined by substituting ‘calendar*  
24                           *year 2000’ for ‘calendar year 1992’ in*  
25                           *subparagraph (B) thereof.*

1                   “(ii) *ROUNDING*.—If any increase de-  
2                   *termined under clause (i) is not a multiple*  
3                   *of \$100, such amount shall be rounded to*  
4                   *the nearest multiple of \$100.*

5           “(e) *CERTAIN RULES MADE APPLICABLE*.—For pur-  
6   *poses of this section, rules similar to the rules of section*  
7   *52 shall apply.*

8           “(f) *DENIAL OF DOUBLE BENEFIT*.—No deduction or  
9   *credit under any other provision of this chapter shall be*  
10   *allowed with respect to qualified employee health insurance*  
11   *expenses taken into account under subsection (a).”.*

12       (b) *CREDIT TO BE PART OF GENERAL BUSINESS*  
13   *CREDIT*.—Section 38(b) (relating to current year business  
14   *credit) is amended by striking “plus” at the end of para-*  
15   *graph (13), by striking the period at the end of paragraph*  
16   *(14) and inserting “, plus”, and by adding at the end the*  
17   *following:*

18               “(15) *the employee health insurance expenses*  
19       *credit determined under section 45E.”.*

20       (c) *NO CARRYBACKS*.—Subsection (d) of section 39 (re-  
21   *lating to carryback and carryforward of unused credits) is*  
22   *amended by adding at the end the following:*

23               “(10) *NO CARRYBACK OF SECTION 45E CREDIT*  
24       *BEFORE EFFECTIVE DATE*.—No portion of the unused  
25       *business credit for any taxable year which is attrib-*

1        *utable to the employee health insurance expenses cred-*  
 2        *it determined under section 45E may be carried back*  
 3        *to a taxable year ending before January 1, 2001.”.*

4        (d) *CLERICAL AMENDMENT.—The table of sections for*  
 5        *subpart D of part IV of subchapter A of chapter 1 is amend-*  
 6        *ed by adding at the end the following:*

*“Sec. 45E. Employee health insurance expenses.”.*

7        (e) *EFFECTIVE DATE.—The amendments made by this*  
 8        *section shall apply to amounts paid or incurred in taxable*  
 9        *years beginning after December 31, 2000.*

10        ***TITLE VII—ESTATE AND GIFT***  
 11        ***TAX RELIEF PROVISIONS***  
 12        ***Subtitle A—Reductions of Estate,***  
 13        ***Gift, and Generation-Skipping***  
 14        ***Transfer Taxes***

15        ***SEC. 701. REDUCTIONS OF ESTATE, GIFT, AND GENERA-***  
 16        ***TION-SKIPPING TRANSFER TAXES.***

17        (a) *MAXIMUM RATE OF TAX REDUCED TO 53 PER-*  
 18        *CENT.—The table contained in section 2001(c)(1) is amend-*  
 19        *ed by striking the 2 highest brackets and inserting the fol-*  
 20        *lowing:*

<i>“Over \$2,500,000 .....</i>	<i>\$1,025,800, plus 53% of the excess over \$2,500,000.”.</i>
--------------------------------	--------------------------------------------------------------------

21        (b) *REPEAL OF PHASEOUT OF GRADUATED RATES.—*  
 22        *Subsection (c) of section 2001 is amended by striking para-*  
 23        *graph (2).*

1       (c) *EFFECTIVE DATES.*—

2               (1) *SUBSECTION (a).*—*The amendment made by*  
 3       *subsection (a) shall apply to estates of decedents*  
 4       *dying, and gifts made, after December 31, 2000.*

5               (2) *SUBSECTION (b).*—*The amendment made by*  
 6       *subsection (b) shall apply to estates of decedents*  
 7       *dying, and gifts made, after December 31, 2003.*

8       **SEC. 702. UNIFIED CREDIT AGAINST ESTATE AND GIFT**  
 9                       **TAXES REPLACED WITH UNIFIED EXEMPTION**  
 10                      **AMOUNT.**

11       (a) *IN GENERAL.*—

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

15       **“SEC. 2052. EXEMPTION.**

16               “(a) *IN GENERAL.*—*For purposes of the tax imposed*  
 17       *by section 2001, the value of the taxable estate shall be deter-*  
 18       *mined by deducting from the value of the gross estate an*  
 19       *amount equal to the excess (if any) of—*

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

22                       “(2) *the sum of—*

23                               “(A) *the aggregate amount allowed as an*  
 24       *exemption under section 2521 with respect to*



1        *gifts made by the decedent after December 31,*  
 2        *2003, and*

3                *“(B) the aggregate amount of gifts made by*  
 4        *the decedent for which credit was allowed by sec-*  
 5        *tion 2505 (as in effect on the day before the date*  
 6        *of the enactment of the Taxpayer Refund Act of*  
 7        *1999).*

8        *Gifts which are includible in the gross estate of the decedent*  
 9        *shall not be taken into account in determining the amounts*  
 10       *under paragraph (2).*

11        *“(b) EXEMPTION AMOUNT.—For purposes of sub-*  
 12       *section (a), the term ‘exemption amount’ means the amount*  
 13       *determined in accordance with the following table:*

<b><i>“In the case of calendar year:</i></b>	<b><i>The exemption amount is:</i></b>
<i>2004 .....</i>	<i>\$850,000</i>
<i>2005 .....</i>	<i>\$950,000</i>
<i>2006 .....</i>	<i>\$1,000,000</i>
<i>2007 or thereafter .....</i>	<i>\$1,500,000.”.</i>

14        *(2) GIFT TAX.—Subchapter C of chapter 12 (re-*  
 15       *lating to deductions) is amended by inserting before*  
 16       *section 2522 the following new section:*

17       ***“SEC. 2521. EXEMPTION.***

18        *“(a) IN GENERAL.—In computing taxable gifts for any*  
 19       *calendar year, there shall be allowed as a deduction in the*  
 20       *case of a citizen or resident of the United States an amount*  
 21       *equal to the excess of—*

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

3           “(2) the sum of—

4                   “(A) the aggregate amount allowed as an  
5                   exemption under this section for all preceding  
6                   calendar years after 2003, and

7                   “(B) the aggregate amount of gifts for which  
8                   credit was allowed by section 2505 (as in effect  
9                   on the day before the date of the enactment of the  
10                  Taxpayer Refund Act of 1999).”.

11          (b) *REPEAL OF UNIFIED CREDITS.*—

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

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

16          (c) *CONFORMING AMENDMENTS.*—

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

20               (B) Subsection (b) of section 2001 is amended by  
21               adding at the end the following new sentence: “For  
22               purposes of paragraph (2), the amount of the tax pay-  
23               able under chapter 12 shall be determined without re-  
24               gard to the credit provided by section 2505 (as in ef-

1     *fect on the day before the date of the enactment of the*  
2     *Taxpayer Refund Act of 1999).”.*

3             *(2) Subsection (f) of section 2011 is amended by*  
4     *striking “, reduced by the amount of the unified cred-*  
5     *it provided by section 2010”.*

6             *(3) Subsection (a) of section 2012 is amended by*  
7     *striking “and the unified credit provided by section*  
8     *2010”.*

9             *(4) Subsection (b) of section 2013 is amended by*  
10    *inserting before the period at the end of the first sen-*  
11    *tence “and increased by the exemption allowed under*  
12    *section 2052 or 2106(a)(4) (or the corresponding pro-*  
13    *visions of prior law) in determining the taxable estate*  
14    *of the transferor for purposes of the estate tax”.*

15            *(5) Subparagraph (A) of section 2013(c)(1) is*  
16    *amended by striking “2010,”.*

17            *(6) Paragraph (2) of section 2014(b) is amended*  
18    *by striking “2010,”.*

19            *(7) Clause (ii) of section 2056A(b)(12)(C) is*  
20    *amended to read as follows:*

21                    *“(ii) to treat any reduction in the tax*  
22                    *imposed by paragraph (1)(A) by reason of*  
23                    *the credit allowable under section 2010 (as*  
24                    *in effect on the day before the date of the en-*  
25                    *actment of the Taxpayer Refund Act of*

1                   1999) or the exemption allowable under sec-  
2                   tion 2052 with respect to the decedent as  
3                   such a credit or exemption (as the case may  
4                   be) allowable to such surviving spouse for  
5                   purposes of determining the amount of the  
6                   exemption allowable under section 2521  
7                   with respect to taxable gifts made by the  
8                   surviving spouse during the year in which  
9                   the spouse becomes a citizen or any subse-  
10                  quent year.”.

11               (8) Section 2102 is amended by striking sub-  
12               section (c).

13               (9) Subsection (a) of section 2106 is amended by  
14               adding at the end the following new paragraph:

15               “(4) *EXEMPTION.*—

16                   “(A) *IN GENERAL.*—An exemption of  
17                   \$60,000.

18                   “(B) *RESIDENTS OF POSSESSIONS OF THE*  
19                   *UNITED STATES.*—In the case of a decedent who  
20                   is considered to be a nonresident not a citizen of  
21                   the United States under section 2209, the exemp-  
22                   tion under this paragraph shall be the greater  
23                   of—

24                   “(i) \$60,000, or

1           “(ii) that proportion of \$175,000  
2           which the value of that part of the dece-  
3           dent’s gross estate which at the time of his  
4           death is situated in the United States bears  
5           to the value of his entire gross estate wher-  
6           ever situated.

7           “(C) SPECIAL RULES.—

8           “(i) COORDINATION WITH TREATIES.—  
9           To the extent required under any treaty ob-  
10          ligation of the United States, the exemption  
11          allowed under this paragraph shall be equal  
12          to the amount which bears the same ratio to  
13          the exemption amount under section 2052  
14          (for the calendar year in which the decedent  
15          died) as the value of the part of the dece-  
16          dent’s gross estate which at the time of his  
17          death is situated in the United States bears  
18          to the value of his entire gross estate wher-  
19          ever situated. For purposes of the preceding  
20          sentence, property shall not be treated as  
21          situated in the United States if such prop-  
22          erty is exempt from the tax imposed by this  
23          subchapter under any treaty obligation of  
24          the United States.

1                   “(ii) *COORDINATION WITH GIFT TAX*  
 2                   *EXEMPTION AND UNIFIED CREDIT.*—*If an*  
 3                   *exemption has been allowed under section*  
 4                   *2521 (or a credit has been allowed under*  
 5                   *section 2505 as in effect on the day before*  
 6                   *the date of the enactment of the Taxpayer*  
 7                   *Refund Act of 1999) with respect to any gift*  
 8                   *made by the decedent, each dollar amount*  
 9                   *contained in subparagraph (A) or (B) or*  
 10                   *the exemption amount applicable under*  
 11                   *clause (i) of this subparagraph (whichever*  
 12                   *applies) shall be reduced by the exemption*  
 13                   *so allowed under 2521 (or, in the case of*  
 14                   *such a credit, by the amount of the gift for*  
 15                   *which the credit was so allowed).”.*

16                   (10) *Subsection (c) of section 2107 is amended—*

17                               *(A) by striking paragraph (1) and by redes-*  
 18                               *ignating paragraphs (2) and (3) as paragraphs*  
 19                               *(1) and (2), respectively, and*

20                               *(B) by striking the second sentence of para-*  
 21                               *graph (2) (as so redesignated).*

22                   (11) *Section 2206 is amended by striking “the*  
 23                   *taxable estate” in the first sentence and inserting “the*  
 24                   *sum of the taxable estate and the amount of the ex-*

1        *emption allowed under section 2052 or 2106(a)(4) in*  
2        *computing the taxable estate”.*

3            (12) *Section 2207 is amended by striking “the*  
4        *taxable estate” in the first sentence and inserting “the*  
5        *sum of the taxable estate and the amount of the ex-*  
6        *emption allowed under section 2052 or 2106(a)(4) in*  
7        *computing the taxable estate”.*

8            (13) *Subparagraph (B) of section 2207B(a)(1) is*  
9        *amended to read as follows:*

10            *“(B) the sum of the taxable estate and the*  
11            *amount of the exemption allowed under section*  
12            *2052 or 2106(a)(4) in computing the taxable es-*  
13            *tate.”.*

14            (14) *Subsection (a) of section 2503 is amended*  
15        *by striking “section 2522” and inserting “section*  
16        *2521”.*

17            (15) *Paragraph (1) of section 6018(a) is amend-*  
18        *ed by striking “the applicable exclusion amount” and*  
19        *inserting “the exemption amount under section 2052*  
20        *for the calendar year which includes the date of*  
21        *death”.*

22            (16) *Subparagraph (A) of section 6601(j)(2) is*  
23        *amended to read as follows:*

24            *“(A)(i) the amount of the tax which would*  
25        *be imposed by chapter 11 on an amount of tax-*

1           able estate equal to the sum of \$1,000,000 and  
2           the exemption amount allowable under section  
3           2052, reduced by

4                   “(ii) the amount of tax which would be so  
5           imposed if the taxable estate equaled such exemp-  
6           tion amount, or”.

7           (17) The table of sections for part II of sub-  
8           chapter A of chapter 11 is amended by striking the  
9           item relating to section 2010.

10           (18) The table of sections for subchapter A of  
11           chapter 12 is amended by striking the item relating  
12           to section 2505.

13           (d) *EFFECTIVE DATE.*—The amendments made by this  
14           section—

15                   (1) insofar as they relate to the tax imposed by  
16           chapter 11 of the Internal Revenue Code of 1986, shall  
17           apply to estates of decedents dying after December 31,  
18           2003, and

19                   (2) insofar as they relate to the tax imposed by  
20           chapter 12 of such Code, shall apply to gifts made  
21           after December 31, 2003.



***Subtitle B—Conservation  
Easements***

***SEC. 711. EXPANSION OF ESTATE TAX RULE FOR CON-  
SERVATION EASEMENTS.***

*(a) WHERE LAND IS LOCATED.—*

*(1) IN GENERAL.—Clause (i) of section 2031(c)(8)(A) (defining land subject to a conservation easement) is amended—*

*(A) by striking “25 miles” both places it appears and inserting “50 miles”, and*

*(B) striking “10 miles” and inserting “25 miles”.*

*(2) EFFECTIVE DATE.—The amendments made by this subsection shall apply to estates of decedents dying after December 31, 1999.*

***(b) CLARIFICATION OF DATE FOR DETERMINING  
VALUE OF LAND AND EASEMENT.—***

*(1) IN GENERAL.—Section 2031(c)(2) (defining applicable percentage) is amended by adding at the end the following new sentence: “The values taken into account under the preceding sentence shall be such values as of the date of the contribution referred to in paragraph (8)(B).”.*

1           (2) *EFFECTIVE DATE.*—*The amendment made by*  
 2       *this subsection shall apply to estates of decedents*  
 3       *dying after December 31, 1997.*

## 4       ***Subtitle C—Annual Gift Exclusion***

### 5       ***SEC. 721. INCREASE IN ANNUAL GIFT EXCLUSION.***

6           (a) *IN GENERAL.*—*Section 2503(b) (relating to exclu-*  
 7       *sions from gifts) is amended—*

8                 (1) *by striking the following:*

9                 “(b) *EXCLUSIONS FROM GIFTS.*—

10                   “(1) *IN GENERAL.*—*In the case of gifts*”,

11                   (2) *by inserting the following:*

12                   “(b) *EXCLUSIONS FROM GIFTS.*—*In the case of gifts*”,

13                   (3) *by striking paragraph (2), and*

14                   (4) *by striking “\$10,000” and inserting*

15                   “\$20,000”.

16           (b) *EFFECTIVE DATE.*—*The amendments made by this*  
 17       *section shall apply to gifts made after December 31, 2004.*

## 18       ***Subtitle D—Simplification of*** 19       ***Generation-Skipping Transfer Tax***

### 20       ***SEC. 731. RETROACTIVE ALLOCATION OF GST EXEMPTION.***

21           (a) *IN GENERAL.*—*Section 2632 (relating to special*  
 22       *rules for allocation of GST exemption) is amended by redes-*  
 23       *ignating subsection (c) as subsection (d) and by inserting*  
 24       *after subsection (b) the following new subsection:*

25                 “(c) *RETROACTIVE ALLOCATIONS.*—

1           “(1) *IN GENERAL.*—If—

2                   “(A) *a non-skip person has an interest or a*  
3                   *future interest in a trust to which any transfer*  
4                   *has been made,*

5                   “(B) *such person—*

6                           “(i) *is a lineal descendant of a grand-*  
7                           *parent of the transferor or of a grandparent*  
8                           *of the transferor’s spouse, and*

9                           “(ii) *is assigned to a generation below*  
10                          *the generation assignment of the transferor,*  
11                          *and*

12                   “(C) *such person predeceases the transferor,*  
13                   *then the transferor may make an allocation of any of*  
14                   *such transferor’s unused GST exemption to any pre-*  
15                   *vious transfer or transfers to the trust on a chrono-*  
16                   *logical basis.*

17           “(2) *SPECIAL RULES.*—If the allocation under  
18           *paragraph (1) by the transferor is made on a gift tax*  
19           *return filed on or before the date prescribed by section*  
20           *6075(b) for gifts made within the calendar year with-*  
21           *in which the non-skip person’s death occurred—*

22                   “(A) *the value of such transfer or transfers*  
23                   *for purposes of section 2642(a) shall be deter-*  
24                   *mined as if such allocation had been made on a*

1           *timely filed gift tax return for each calendar*  
 2           *year within which each transfer was made,*

3           “(B) *such allocation shall be effective imme-*  
 4           *diately before such death, and*

5           “(C) *the amount of the transferor’s unused*  
 6           *GST exemption available to be allocated shall be*  
 7           *determined immediately before such death.*

8           “(3) *FUTURE INTEREST.—For purposes of this*  
 9           *subsection, a person has a future interest in a trust*  
 10          *if the trust may permit income or corpus to be paid*  
 11          *to such person on a date or dates in the future.”.*

12          “(b) *EFFECTIVE DATE.—The amendments made by this*  
 13          *section shall apply to deaths of non-skip persons occurring*  
 14          *after the date of the enactment of this Act.*

15   **SEC. 732. SEVERING OF TRUSTS.**

16          “(a) *IN GENERAL.—Subsection (a) of section 2642 (re-*  
 17          *lating to inclusion ratio) is amended by adding at the end*  
 18          *the following new paragraph:*

19               “(3) *SEVERING OF TRUSTS.—*

20               “(A) *IN GENERAL.—If a trust is severed in*  
 21               *a qualified severance, the trusts resulting from*  
 22               *such severance shall be treated as separate trusts*  
 23               *thereafter for purposes of this chapter.*

24               “(B) *QUALIFIED SEVERANCE.—For pur-*  
 25               *poses of subparagraph (A)—*

1           “(i) *IN GENERAL.*—The term ‘qualified  
2           *severance*’ means the division of a single  
3           *trust and the creation (by any means avail-*  
4           *able under the governing instrument or*  
5           *under local law) of 2 or more trusts if—*

6                     “(I) *the single trust was divided*  
7                     *on a fractional basis, and*

8                     “(II) *the terms of the new trusts,*  
9                     *in the aggregate, provide for the same*  
10                    *succession of interests of beneficiaries*  
11                    *as are provided in the original trust.*

12           “(ii) *TRUSTS WITH INCLUSION RATIO*  
13           *GREATER THAN ZERO.*—If a trust has an  
14           *inclusion ratio of greater than zero and less*  
15           *than 1, a severance is a qualified severance*  
16           *only if the single trust is divided into 2*  
17           *trusts, one of which receives a fractional*  
18           *share of the total value of all trust assets*  
19           *equal to the applicable fraction of the single*  
20           *trust immediately before the severance. In*  
21           *such case, the trust receiving such fractional*  
22           *share shall have an inclusion ratio of zero*  
23           *and the other trust shall have an inclusion*  
24           *ratio of 1.*

1                   “(iii)     *REGULATIONS.—The term*  
 2                   *‘qualified severance’ includes any other sev-*  
 3                   *erance permitted under regulations pre-*  
 4                   *scribed by the Secretary.*

5                   “(C)     *TIMING     AND     MANNER     OF*  
 6                   *SEVERANCES.—A severance pursuant to this*  
 7                   *paragraph may be made at any time. The Sec-*  
 8                   *retary shall prescribe by forms or regulations the*  
 9                   *manner in which the qualified severance shall be*  
 10                   *reported to the Secretary.”.*

11           (b) *EFFECTIVE DATE.—The amendment made by this*  
 12           *section shall apply to severances after the date of the enact-*  
 13           *ment of this Act.*

14   **SEC. 733. MODIFICATION OF CERTAIN VALUATION RULES.**

15           (a) *GIFTS FOR WHICH GIFT TAX RETURN FILED OR*  
 16           *DEEMED ALLOCATION MADE.—Paragraph (1) of section*  
 17           *2642(b) (relating to valuation rules, etc.) is amended to*  
 18           *read as follows:*

19                   “(1) *GIFTS FOR WHICH GIFT TAX RETURN FILED*  
 20                   *OR DEEMED ALLOCATION MADE.—If the allocation of*  
 21                   *the GST exemption to any transfers of property is*  
 22                   *made on a gift tax return filed on or before the date*  
 23                   *prescribed by section 6075(b) for such transfer or is*  
 24                   *deemed to be made under section 2632(b)(1)—*

1           “(A) the value of such property for purposes  
2           of subsection (a) shall be its value as finally de-  
3           termined for purposes of chapter 12 (within the  
4           meaning of section 2001(f)(2)), or, in the case of  
5           an allocation deemed to have been made at the  
6           close of an estate tax inclusion period, its value  
7           at the time of the close of the estate tax inclusion  
8           period, and

9           “(B) such allocation shall be effective on  
10          and after the date of such transfer, or, in the  
11          case of an allocation deemed to have been made  
12          at the close of an estate tax inclusion period, on  
13          and after the close of such estate tax inclusion  
14          period.”.

15          (b) *TRANSFERS AT DEATH*.—Subparagraph (A) of sec-  
16          tion 2642(b)(2) is amended to read as follows:

17               “(A) *TRANSFERS AT DEATH*.—If property is  
18               transferred as a result of the death of the trans-  
19               feror, the value of such property for purposes of  
20               subsection (a) shall be its value as finally deter-  
21               mined for purposes of chapter 11; except that, if  
22               the requirements prescribed by the Secretary re-  
23               specting allocation of post-death changes in value  
24               are not met, the value of such property shall be

1           *determined as of the time of the distribution con-*  
 2           *cerned.”.*

3           (c) *EFFECTIVE DATE.*—*The amendments made by this*  
 4           *section shall take effect as if included in the amendments*  
 5           *made by section 1431 of the Tax Reform Act of 1986.*

6   **SEC. 734. RELIEF PROVISIONS.**

7           (a) *IN GENERAL.*—*Section 2642 is amended by adding*  
 8           *at the end the following new subsection:*

9           “(g) *RELIEF PROVISIONS.*—

10           “(1) *RELIEF FOR LATE ELECTIONS.*—

11           “(A) *IN GENERAL.*—*The Secretary shall by*  
 12           *regulation prescribe such circumstances and pro-*  
 13           *cedures under which extensions of time will be*  
 14           *granted to make—*

15           “(i) *an allocation of GST exemption*  
 16           *described in paragraph (1) or (2) of sub-*  
 17           *section (b), and*

18           “(ii) *an election under section*  
 19           *2632(b)(3).*

20           *Such regulations shall include procedures for re-*  
 21           *questing comparable relief with respect to trans-*  
 22           *fers made before the date of enactment of this*  
 23           *paragraph.*

24           “(B) *BASIS FOR DETERMINATIONS.*—*In de-*  
 25           *termining whether to grant relief under this*



1        *paragraph, the Secretary shall take into account*  
2        *all relevant circumstances, including evidence of*  
3        *intent contained in the trust instrument or in-*  
4        *strument of transfer and such other factors as the*  
5        *Secretary deems relevant. For purposes of deter-*  
6        *mining whether to grant relief under this para-*  
7        *graph, the time for making the allocation (or*  
8        *election) shall be treated as if not expressly pre-*  
9        *scribed by statute.*

10        “(2) *SUBSTANTIAL COMPLIANCE.—An allocation*  
11        *of GST exemption under section 2632 that dem-*  
12        *onstrates an intent to have the lowest possible inclu-*  
13        *sion ratio with respect to a transfer or a trust shall*  
14        *be deemed to be an allocation of so much of the trans-*  
15        *feror’s unused GST exemption as produces the lowest*  
16        *possible inclusion ratio. In determining whether there*  
17        *has been substantial compliance, all relevant cir-*  
18        *cumstances shall be taken into account, including evi-*  
19        *dence of intent contained in the trust instrument or*  
20        *instrument of transfer and such other factors as the*  
21        *Secretary deems relevant.”.*

22        (b) *EFFECTIVE DATES.—*

23        (1) *RELIEF FOR LATE ELECTIONS.—Section*  
24        *2642(g)(1) (as added by subsection (a)) shall apply to*

requests pending on, or filed after, the date of the enactment of this Act.

(2) *SUBSTANTIAL COMPLIANCE.*—Section 2642(g)(2) (as so added) shall take effect on the date of the enactment of this Act and shall apply to allocations made prior to such date for purposes of determining the tax consequences of generation-skipping transfers with respect to which the period of time for filing claims for refund has not expired. No implication is intended with respect to the availability of relief for late elections or the application of a rule of substantial compliance before the enactment of this amendment.

## **TITLE VIII—TAX EXEMPT ORGANIZATIONS PROVISIONS**

### **SEC. 801. EXEMPTION FROM INCOME TAX FOR STATE-CREATED ORGANIZATIONS PROVIDING PROPERTY AND CASUALTY INSURANCE FOR PROPERTY FOR WHICH SUCH COVERAGE IS OTHERWISE UNAVAILABLE.**

(a) *IN GENERAL.*—Subsection (c) of section 501 (relating to exemption from tax on corporations, certain trusts, etc.) is amended by adding at the end the following new paragraph:

1           “(28)(A) *Any association created before January*  
2           *1, 1999, by State law and organized and operated ex-*  
3           *clusively to provide property and casualty insurance*  
4           *coverage for property located within the State for*  
5           *which the State has determined that coverage in the*  
6           *authorized insurance market is limited or unavailable*  
7           *at reasonable rates, if—*

8                     “(i) *no part of the net earnings of which in-*  
9                     *ures to the benefit of any private shareholder or*  
10                    *individual,*

11                   “(ii) *except as provided in clause (v), no*  
12                    *part of the assets of which may be used for, or*  
13                    *diverted to, any purpose other than—*

14                    “(I) *to satisfy, in whole or in part, the*  
15                    *liability of the association for, or with re-*  
16                    *spect to, claims made on policies written by*  
17                    *the association,*

18                    “(II) *to invest in investments author-*  
19                    *ized by applicable law,*

20                    “(III) *to pay reasonable and necessary*  
21                    *administration expenses in connection with*  
22                    *the establishment and operation of the asso-*  
23                    *ciation and the processing of claims against*  
24                    *the association, or*

1           “(IV) to make remittances pursuant to  
2           State law to be used by the State to provide  
3           for the payment of claims on policies writ-  
4           ten by the association, purchase reinsurance  
5           covering losses under such policies, or to  
6           support governmental programs to prepare  
7           for or mitigate the effects of natural cata-  
8           strophic events,

9           “(iii) the State law governing the associa-  
10          tion permits the association to levy assessments  
11          on insurance companies authorized to sell prop-  
12          erty and casualty insurance in the State, or on  
13          property and casualty insurance policyholders  
14          with insurable interests in property located in  
15          the State to fund deficits of the association, in-  
16          cluding the creation of reserves,

17          “(iv) the plan of operation of the associa-  
18          tion is subject to approval by the chief executive  
19          officer or other executive branch official of the  
20          State, by the State legislature, or both, and

21          “(v) the assets of the association revert upon  
22          dissolution to the State, the State’s designee, or  
23          an entity designated by the State law governing  
24          the association, or State law does not permit the  
25          dissolution of the association.

1           “(B)(i) *An entity described in clause (ii) shall be*  
 2           *disregarded as a separate entity and treated as part*  
 3           *of the association described in subparagraph (A) from*  
 4           *which it receives remittances described in clause (ii)*  
 5           *if an election is made within 30 days after the date*  
 6           *that such association is determined to be exempt from*  
 7           *tax.*

8           “(ii) *An entity is described in this clause if it*  
 9           *is an entity or fund created before January 1, 1999,*  
 10          *pursuant to State law and organized and operated*  
 11          *exclusively to receive, hold, and invest remittances*  
 12          *from an association described in subparagraph (A)*  
 13          *and exempt from tax under subsection (a) and to*  
 14          *make disbursements to pay claims on insurance con-*  
 15          *tracts issued by such association, and to make dis-*  
 16          *bursements to support governmental programs to pre-*  
 17          *pare for or mitigate the effects of natural catastrophic*  
 18          *events.”.*

19          (b) *UNRELATED BUSINESS TAXABLE INCOME.*—Sub-  
 20          *section (a) of section 512 (relating to unrelated business*  
 21          *taxable income) is amended by adding at the end the fol-*  
 22          *lowing new paragraph:*

23                 “(6) *SPECIAL RULE APPLICABLE TO ORGANIZA-*  
 24                 *TIONS DESCRIBED IN SECTION 501(C)(28).*—*In the case*  
 25                 *of an organization described in section 501(c)(28), the*

1       term ‘unrelated business taxable income’ means tax-  
 2       able income for a taxable year computed without the  
 3       application of section 501(c)(28) if, at the end of the  
 4       immediately preceding taxable year, the organiza-  
 5       tion’s net equity exceeded 15 percent of the total cov-  
 6       erage in force under insurance contracts issued by the  
 7       organization and outstanding at the end of such pre-  
 8       ceding year.”.

9       (c) *TRANSITIONAL RULE.*—No income or gain shall be  
 10      recognized by an association as a result of a change in sta-  
 11      tus to that of an association described by section 501(c)(28)  
 12      of the Internal Revenue Code of 1986, as amended by sub-  
 13      section (a).

14      (d) *EFFECTIVE DATE.*—The amendment made by sub-  
 15      section (a) shall apply to taxable years beginning after De-  
 16      cember 31, 1999.

17      **SEC. 802. MODIFICATIONS TO SECTION 512(b)(13).**

18      (a) *IN GENERAL.*—Paragraph (13) of section 512(b)  
 19      is amended by redesignating subparagraph (E) as subpara-  
 20      graph (F) and by inserting after subparagraph (D) the fol-  
 21      lowing new paragraph:

22                               “(E) *PARAGRAPH TO APPLY ONLY TO EX-*  
 23                               *CESS PAYMENTS.*—

24                               “(i) *IN GENERAL.*—Subparagraph (A)  
 25                               shall apply only to the portion of a speci-

1            *fied payment received by the controlling or-*  
2            *ganization which exceeds the amount which*  
3            *would have been paid if such payment met*  
4            *the requirements prescribed under section*  
5            *482.*

6            *“(ii) ADDITION TO TAX FOR VALUATION*  
7            *MISSTATEMENTS.—The tax imposed by this*  
8            *chapter on the controlling organization*  
9            *shall be increased by an amount equal to 20*  
10           *percent of such excess.”.*

11        *(b) EFFECTIVE DATE.—*

12           *(1) IN GENERAL.—The amendment made by this*  
13           *section shall apply to payments received or accrued*  
14           *after December 31, 1999.*

15           *(2) PAYMENTS SUBJECT TO BINDING CONTRACT*  
16           *TRANSITION RULE.—If the amendments made by sec-*  
17           *tion 1041 of the Taxpayer Relief Act of 1997 do not*  
18           *apply to any amount received or accrued after the*  
19           *date of the enactment of this Act under any contract*  
20           *described in subsection (b)(2) of such section, such*  
21           *amendments also shall not apply to amounts received*  
22           *or accrued under such contract before January 1,*  
23           *2000.*

1 **SEC. 803. SIMPLIFICATION OF LOBBYING EXPENDITURE**  
2 **LIMITATION.**

3 (a) *REPEAL OF GRASSROOTS EXPENDITURE LIMIT.*—  
4 *Paragraph (1) of section 501(h) (relating to expenditures*  
5 *by public charities to influence legislation) is amended to*  
6 *read as follows:*

7 “(1) *GENERAL RULE.*—*In the case of an organi-*  
8 *zation to which this subsection applies, exemption*  
9 *from taxation under subsection (a) shall be denied be-*  
10 *cause a substantial part of the activities of such orga-*  
11 *nization consists of carrying on propaganda, or oth-*  
12 *erwise attempting, to influence legislation, but only if*  
13 *such organization normally makes lobbying expendi-*  
14 *tures in excess of the lobbying ceiling amount for such*  
15 *organization for each taxable year.”.*

16 (b) *CONFORMING AMENDMENTS.*—

17 (1) *Section 501(h)(2) is amended by striking*  
18 *subparagraphs (C) and (D).*

19 (2) *Section 4911(b) is amended to read as fol-*  
20 *lows:*

21 “(b) *EXCESS LOBBYING EXPENDITURES.*—*For pur-*  
22 *poses of this section, the term ‘excess lobbying expenditures’*  
23 *means, for a taxable year, the amount by which the lobbying*  
24 *expenditures made by the organization during the taxable*  
25 *year exceed the lobbying nontaxable amount for such orga-*  
26 *nization for such taxable year.”.*



1           (3) *Section 4911(c) is amended by striking para-*  
2           *graphs (3) and (4).*

3           (4) *Paragraph (1)(A) of section 4911(f) is*  
4           *amended by striking “limits of section 501(h)(1)*  
5           *have” and inserting “limit of section 501(h)(1) has”.*

6           (5) *Paragraph (1)(C) of section 4911(f) is*  
7           *amended by striking “limits of section 501(h)(1) are”*  
8           *and inserting “limit of section 501(h)(1) is”.*

9           (6) *Paragraphs (4)(A) and (4)(B) of section*  
10          *4911(f) are each amended by striking “limits of sec-*  
11          *tion 501(h)(1)” and inserting “limit of section*  
12          *501(h)(1)”.*

13          (7) *Paragraph (8) of section 6033(b) (relating to*  
14          *certain organizations described in section 501(c)(3))*  
15          *is amended by inserting “and” at the end of subpara-*  
16          *graph (A) and by striking subparagraphs (C) and*  
17          *(D).*

18          (c) *EFFECTIVE DATE.—The amendments made by this*  
19          *section shall apply to taxable years beginning after Decem-*  
20          *ber 31, 1999.*

1 **SEC. 804. TAX-FREE DISTRIBUTIONS FROM INDIVIDUAL RE-**  
 2 **TIREMENT ACCOUNTS FOR CHARITABLE PUR-**  
 3 **POSES.**

4 (a) *IN GENERAL.*—Subsection (d) of section 408 (relat-  
 5 ing to individual retirement accounts) is amended by add-  
 6 ing at the end the following new paragraph:

7 “(8) *DISTRIBUTIONS FOR CHARITABLE PUR-*  
 8 *POSES.*—

9 “(A) *IN GENERAL.*—In the case of a quali-  
 10 fied charitable distribution from an individual  
 11 retirement account to an organization described  
 12 in section 170(c), no amount shall be includible  
 13 in the gross income of the distributee.

14 “(B) *SPECIAL RULES RELATING TO CHARI-*  
 15 *TABLE REMAINDER TRUSTS, POOLED INCOME*  
 16 *FUNDS, AND CHARITABLE GIFT ANNUITIES.*—

17 “(i) *IN GENERAL.*—In the case of a  
 18 qualified charitable distribution from an in-  
 19 dividual retirement account—

20 “(I) to a charitable remainder an-  
 21 nuity trust or a charitable remainder  
 22 unitrust (as such terms are defined in  
 23 section 664(d)),

24 “(II) to a pooled income fund (as  
 25 defined in section 642(c)(5)), or

1                   “(III) for the issuance of a chari-  
2                   table gift annuity (as defined in sec-  
3                   tion 501(m)(5)),

4                   no amount shall be includible in gross in-  
5                   come of the distributee. The preceding sen-  
6                   tence shall apply only if no person holds  
7                   any interest in the amounts in the trust,  
8                   fund, or annuity attributable to such dis-  
9                   tribution other than one or more of the fol-  
10                  lowing: the individual for whose benefit  
11                  such account is maintained, the spouse of  
12                  such individual, or any organization de-  
13                  scribed in section 170(c).

14                  “(ii) *DETERMINATION OF INCLUSION*  
15                  *OF AMOUNTS DISTRIBUTED.*—In deter-  
16                  mining the amount includible in the gross  
17                  income of the distributee of a distribution  
18                  from a trust described in clause (i)(I) or an  
19                  annuity (as described in clause (i)(III)), the  
20                  portion of any qualified charitable distribu-  
21                  tion to such trust or for such annuity which  
22                  would (but for this subparagraph) have been  
23                  includible in gross income—

1                   “(I) in the case of any such trust,  
2                   shall be treated as income described in  
3                   section 664(b)(1), or

4                   “(II) in the case of any such an-  
5                   nuity, shall not be treated as an invest-  
6                   ment in the contract.

7                   “(iii) NO INCLUSION FOR DISTRIBUTION TO POOLED INCOME FUND.—No  
8                   amount shall be includible in the gross in-  
9                   come of a pooled income fund (as so de-  
10                  fined) by reason of a qualified charitable  
11                  distribution to such fund.  
12

13                  “(C) QUALIFIED CHARITABLE DISTRIBUTION.—For purposes of this paragraph, the term  
14                  ‘qualified charitable distribution’ means any dis-  
15                  tribution from an individual retirement  
16                  account—  
17

18                         “(i) which is made on or after the date  
19                         that the individual for whose benefit the ac-  
20                         count is maintained has attained age 70½,  
21                         and

22                         “(ii) which is a charitable contribution  
23                         (as defined in section 170(c)) made directly  
24                         from the account to—

1                   “(I) an organization described in  
2                   section 170(c), or

3                   “(II) a trust, fund, or annuity de-  
4                   scribed in subparagraph (B).

5                   “(D) *DENIAL OF DEDUCTION.*—The amount  
6                   allowable as a deduction to the taxpayer for the  
7                   taxable year under section 170 for qualified  
8                   charitable distributions shall be reduced (but not  
9                   below zero) by the sum of the amounts of the  
10                  qualified charitable distributions during such  
11                  year which (but for this paragraph) would have  
12                  been includible in the gross income of the tax-  
13                  payer for such year.”.

14                  (b) *EFFECTIVE DATE.*—The amendment made by sub-  
15                  section (a) shall apply to taxable years beginning after De-  
16                  cember 31, 2000.

17       **SEC. 805. MILEAGE REIMBURSEMENTS TO CHARITABLE**  
18                               **VOLUNTEERS EXCLUDED FROM GROSS IN-**  
19                               **COME.**

20                  (a) *IN GENERAL.*—Part III of subchapter B of chapter  
21                  1 is amended by inserting after section 138 the following  
22                  new section:

1   **“SEC. 138A. MILEAGE REIMBURSEMENTS TO CHARITABLE**  
2                   **VOLUNTEERS.**

3           “(a) *IN GENERAL.*—Gross income of an individual  
4   does not include amounts received, from an organization  
5   described in section 170(c), as reimbursement of operating  
6   expenses with respect to use of a passenger automobile for  
7   the benefit of such organization for which a deduction would  
8   otherwise be allowable under section 170. The preceding sen-  
9   tence shall apply only to the extent that such reimbursement  
10   would be deductible under section 274(d) (determined by  
11   applying the standard business mileage rate established  
12   pursuant to section 274(d)) if the organization were not so  
13   described and such individual were an employee of such or-  
14   ganization.

15          “(b) *NO DOUBLE BENEFIT.*—Subsection (a) shall not  
16   apply with respect to any expenses if the individual claims  
17   a deduction or credit for such expenses under any other pro-  
18   vision of this title.

19          “(c) *EXEMPTION FROM REPORTING REQUIRE-*  
20   *MENTS.*—Section 6041 shall not apply with respect to reim-  
21   bursements excluded from income under subsection (a).”.

22          “(b) *CLERICAL AMENDMENT.*—The table of sections for  
23   part III of subchapter B of chapter 1 is amended by insert-  
24   ing after the item relating to section 138 the following new  
25   items:

*“Sec. 138A. Reimbursement for use of passenger automobile for charity.”.*

1       (c) *EFFECTIVE DATE.*—*The amendments made by this*  
 2 *section shall apply to taxable years beginning after Decem-*  
 3 *ber 31, 1999.*

4       **SEC. 806. CHARITABLE CONTRIBUTION DEDUCTION FOR**  
 5                               **CERTAIN EXPENSES INCURRED IN SUPPORT**  
 6                               **OF NATIVE ALASKAN SUBSISTENCE WHALING.**

7       (a) *IN GENERAL.*—*Section 170 (relating to charitable,*  
 8 *etc., contributions and gifts) is amended by redesignating*  
 9 *subsection (m) as subsection (n) and by inserting after sub-*  
 10 *section (l) the following new subsection:*

11       “(m) *EXPENSES PAID BY CERTAIN WHALING CAP-*  
 12 *TAINS IN SUPPORT OF NATIVE ALASKAN SUBSISTENCE*  
 13 *WHALING.*—

14               “(1) *IN GENERAL.*—*In the case of an individual*  
 15 *who is recognized by the Alaska Eskimo Whaling*  
 16 *Commission as a whaling captain charged with the*  
 17 *responsibility of maintaining and carrying out sanc-*  
 18 *tioned whaling activities and who engages in such ac-*  
 19 *tivities during the taxable year, the amount described*  
 20 *in paragraph (2) (to the extent such amount does not*  
 21 *exceed \$7,500 for the taxable year) shall be treated for*  
 22 *purposes of this section as a charitable contribution.*

23               “(2) *AMOUNT DESCRIBED.*—

1           “(A) *IN GENERAL.*—*The amount described*  
2           *in this paragraph is the aggregate of the reason-*  
3           *able and necessary whaling expenses paid by the*  
4           *taxpayer during the taxable year in carrying out*  
5           *sanctioned whaling activities.*

6           “(B) *WHALING EXPENSES.*—*For purposes of*  
7           *subparagraph (A), the term ‘whaling expenses’*  
8           *includes expenses for—*

9                   “(i) *the acquisition and maintenance*  
10                  *of whaling boats, weapons, and gear used in*  
11                  *sanctioned whaling activities,*

12                  “(ii) *the supplying of food for the crew*  
13                  *and other provisions for carrying out such*  
14                  *activities, and*

15                  “(iii) *storage and distribution of the*  
16                  *catch from such activities.*

17           “(3) *SANCTIONED WHALING ACTIVITIES.*—*For*  
18           *purposes of this subsection, the term ‘sanctioned whal-*  
19           *ing activities’ means subsistence bowhead whale hunt-*  
20           *ing activities conducted pursuant to the management*  
21           *plan of the Alaska Eskimo Whaling Commission.”.*

22           “(b) *EFFECTIVE DATE.*—*The amendments made by sub-*  
23           *section (a) shall apply to taxable years beginning after De-*  
24           *cember 31, 1999.*



1 **SEC. 807. CHARITABLE CONTRIBUTIONS TO CERTAIN LOW**  
2 **INCOME SCHOOLS MAY BE MADE IN NEXT**  
3 **TAXABLE YEAR.**

4 (a) *IN GENERAL.*—Section 170(f) (relating to dis-  
5 allowance of deduction in certain cases and special rules)  
6 is amended by adding at the end the following new para-  
7 graph:

8 “(10) *TIME WHEN CERTAIN CONTRIBUTIONS*  
9 *DEEMED MADE.*—

10 “(A) *IN GENERAL.*—At the election of the  
11 taxpayer, a qualified low-income school contribu-  
12 tion shall be deemed to be made on the last day  
13 of the preceding taxable year if the contribution  
14 is made on account of such taxable year and is  
15 made not later than the time prescribed by law  
16 for filing the return for such taxable year (not  
17 including extensions thereof). The election may  
18 be made at the time of the filing of the return  
19 for such taxable year, and shall be made and sub-  
20 stantiated in such manner as the Secretary shall  
21 by regulations prescribe.

22 “(B) *QUALIFIED LOW-INCOME SCHOOL CON-*  
23 *TRIBUTION.*—For purposes of subparagraph (A),  
24 the term ‘qualified low-income school contribu-  
25 tion’ means a charitable contribution to an edu-

1            *cational organization described in subsection*  
 2            *(b)(1)(A)(ii)—*

3                    *“(i) which is a public, private, or sec-*  
 4                    *tarian school which provides elementary or*  
 5                    *secondary education (through grade 12), as*  
 6                    *determined under State law, and*

7                    *“(ii) with respect to which at least 50*  
 8                    *percent of the students attending such school*  
 9                    *are eligible for free or reduced-cost lunches*  
 10                   *under the school lunch program established*  
 11                   *under the National School Lunch Act.”.*

12            *(b) EFFECTIVE DATE.—The amendment made by this*  
 13            *section shall apply to taxable years beginning after Decem-*  
 14            *ber 31, 1999.*

15    **SEC. 808. DEDUCTION FOR PORTION OF CHARITABLE CON-**  
 16                    **TRIBUTIONS TO BE ALLOWED TO INDIVID-**  
 17                    **UALS WHO DO NOT ITEMIZE DEDUCTIONS.**

18            *(a) IN GENERAL.—Section 170 (relating to charitable,*  
 19            *etc., contributions and gifts), as amended by section 806,*  
 20            *is amended by redesignating subsection (n) as subsection*  
 21            *(o) and by inserting after subsection (m) the following new*  
 22            *subsection:*

23                    *“(n) DEDUCTION FOR INDIVIDUALS NOT ITEMIZING*  
 24                    *DEDUCTIONS.—In the case of an individual who does not*  
 25                    *itemize his deductions for the taxable year, there shall be*

1 *taken into account as a direct charitable deduction under*  
 2 *section 63 an amount equal to the lesser of—*

3 *“(1) the amount allowable as a deduction under*  
 4 *subsection (a) for the taxable year, or*

5 *“(2) \$50 (\$100 in the case of a joint return).”.*

6 *(b) DIRECT CHARITABLE DEDUCTION.—*

7 *(1) IN GENERAL.—Subsection (b) of section 63 is*  
 8 *amended by striking “and” at the end of paragraph*  
 9 *(1), by striking the period at the end of paragraph (2)*  
 10 *and inserting “, and”, and by adding at the end*  
 11 *thereof the following new paragraph:*

12 *“(3) the direct charitable deduction.”.*

13 *(2) DEFINITION.—Section 63 is amended by re-*  
 14 *designating subsection (g) as subsection (h) and by*  
 15 *inserting after subsection (f) the following new sub-*  
 16 *section:*

17 *“(g) DIRECT CHARITABLE DEDUCTION.—For purposes*  
 18 *of this section, the term ‘direct charitable deduction’ means*  
 19 *that portion of the amount allowable under section 170(a)*  
 20 *which is taken as a direct charitable deduction for the tax-*  
 21 *able year under section 170(n).”.*

22 *(3) CONFORMING AMENDMENT.—Subsection (d)*  
 23 *of section 63 is amended by striking “and” at the end*  
 24 *of paragraph (1), by striking the period at the end of*

1 paragraph (2) and inserting “, and”, and by adding  
 2 at the end thereof the following new paragraph:

3 “(3) the direct charitable deduction.”.

4 (c) *EFFECTIVE DATE.*—The amendments made by this  
 5 section shall apply to taxable years beginning after Decem-  
 6 ber 31, 2004, and before January 1, 2007.

7 **SEC. 809. INCREASE IN LIMIT ON CHARITABLE CONTRIBU-**  
 8 **TIONS AS PERCENTAGE OF AGI.**

9 (a) *IN GENERAL.*—

10 (1) *INDIVIDUAL LIMIT.*—Section 170(b)(1) (relat-  
 11 ing to percentage limitations) is amended—

12 (A) by striking “50 percent” in subpara-  
 13 graph (A) and inserting “the applicable percent-  
 14 age”, and

15 (B) by striking “30 percent” each place it  
 16 appears in subparagraph (C) and inserting “the  
 17 applicable percentage”.

18 (2) *CORPORATE LIMIT.*—Section 170(b)(2) is  
 19 amended by striking “10 percent” and inserting “the  
 20 applicable percentage”.

21 (b) *APPLICABLE PERCENTAGE.*—Section 170(b) is  
 22 amended by adding at the end the following new paragraph:

23 “(3) *APPLICABLE PERCENTAGE.*—For purposes  
 24 of this subsection, the applicable percentage shall be  
 25 determined under the following tables:

1 “(A) In the case of paragraph (1)(A):

<b>“For taxable year—</b>	<b>The applicable percentage is—</b>
2002 .....	52
2003 .....	54
2004 .....	56
2005 .....	58
2006 .....	60
2007 and thereafter .....	70.

2 “(B) In the case of paragraph (1)(C):

<b>“For taxable year—</b>	<b>The applicable percentage is—</b>
2002 .....	32
2003 .....	34
2004 .....	36
2005 .....	38
2006 .....	40
2007 and thereafter .....	50.

3 “(C) In the case of paragraph (2):

<b>“For taxable year—</b>	<b>The applicable percentage is—</b>
2002 .....	12
2003 .....	14
2004 .....	16
2005 .....	18
2006 and thereafter .....	20.”.

4 (c) **CONFORMING AMENDMENT.**—Section 170(d)(1)(A)  
5 is amended by striking “50 percent” each place it appears  
6 and inserting “the applicable percentage in effect under  
7 subsection (b)(1)(A)”.

8 (d) **EFFECTIVE DATE.**—The amendments made by this  
9 section shall apply to taxable years beginning after Decem-  
10 ber 31, 2001.

11 **SEC. 810. LIMITED EXCEPTION TO EXCESS BUSINESS HOLD-**  
12 **INGS RULE.**

13 (a) **IN GENERAL.**—Section 4943(c)(2) (relating to per-  
14 mitted holdings in a corporation) is amended by adding  
15 at the end the following new subparagraphs:

1                   “(D) *RULE WHERE VOTING STOCK IS PUB-*  
2                   *LICLY TRADED.—*

3                   “(i) *IN GENERAL.—If—*

4                   *“(I) the private foundation and*  
5                   *all disqualified persons together do not*  
6                   *own more than the applicable percent-*  
7                   *age of the voting stock and not more*  
8                   *than the applicable percentage in value*  
9                   *of all outstanding shares of all classes*  
10                  *of stock of an incorporated business en-*  
11                  *terprise,*

12                  *“(II) the voting stock owned by*  
13                  *the private foundation and all dis-*  
14                  *qualified persons together is stock for*  
15                  *which market quotations are readily*  
16                  *available on an established securities*  
17                  *market, and*

18                  *“(III) the requirements of clause*  
19                  *(ii) are met,*

20                  *then subparagraph (A) shall be applied by*  
21                  *substituting ‘the applicable percentage’ for*  
22                  *‘20 percent’.*

23                  “(ii) *REQUIREMENTS TO BE MET.—*

24                  *The requirements of this clause are met dur-*  
25                  *ing any taxable year—*

1           “(I) in which disqualified persons  
2           with respect to the private foundation  
3           do not receive compensation (as an em-  
4           ployee or otherwise) from the corpora-  
5           tion or engage in any act with such  
6           corporation which would constitute  
7           self-dealing within the meaning of sec-  
8           tion 4941(d) if such corporation were a  
9           private foundation and if each such  
10          disqualified person were a disqualified  
11          person with respect to such corpora-  
12          tion,

13          “(II) in which disqualified per-  
14          sons with respect to such private foun-  
15          dation do not own in the aggregate  
16          more than 2 percent of the voting stock  
17          and not more than 2 percent in value  
18          of all outstanding shares of all classes  
19          of stock in such corporation, and

20          “(III) for which there is submitted  
21          with the annual return of the private  
22          foundation for such year (filed within  
23          the time prescribed by law, including  
24          extensions, for filing such return) a  
25          certification which is signed by all the

1           *members of an audit committee of the*  
2           *Board of Directors of such corporation*  
3           *consisting of a majority of persons who*  
4           *are not disqualified persons with re-*  
5           *spect to such private foundation and*  
6           *which certifies that such members, after*  
7           *due inquiry, are not aware that any*  
8           *disqualified person has received com-*  
9           *pensation from such corporation or has*  
10          *engaged in any act with such corpora-*  
11          *tion that would constitute self-dealing*  
12          *within the meaning of section 4941(d)*  
13          *if such corporation were a private*  
14          *foundation and if each such disquali-*  
15          *fied person were a disqualified person*  
16          *with respect to such corporation.*

17          *For purposes of this clause, the fact that a*  
18          *disqualified person has received compensa-*  
19          *tion from such corporation or has engaged*  
20          *in any act with such corporation which*  
21          *would constitute self-dealing within the*  
22          *meaning of section 4941(d) shall be dis-*  
23          *regarded if such receipt or act is corrected*  
24          *not later than the due date (not including*  
25          *extensions thereof) for the filing of the pri-*



1           vate foundation's annual return for the year  
 2           in which the receipt or act occurs and on  
 3           the terms that would be necessary to correct  
 4           such receipt or act and thereby avoid im-  
 5           position of tax under section 4941(b).

6           “(E) *APPLICABLE PERCENTAGE*.—For pur-  
 7           poses of this paragraph, the applicable percent-  
 8           age shall be determined under the following table:

<b>“For taxable year—</b>	<b>The applicable percentage is—</b>
2007 .....	40
2008 and thereafter .....	49.”.

9           (b) *EFFECTIVE DATE*.—The amendment made by this  
 10          section shall apply to foundations established by bequest of  
 11          decedents dying after December 31, 2006.

12       **SEC. 811. CERTAIN COSTS OF PRIVATE FOUNDATION IN RE-**  
 13                       **MOVING HAZARDOUS SUBSTANCES TREATED**  
 14                       **AS QUALIFYING DISTRIBUTION.**

15          (a) *IN GENERAL*.—In the case of any taxable year be-  
 16          ginning after December 31, 1999, the distributable amount  
 17          of a private foundation for such taxable year for purposes  
 18          of section 4942 of the Internal Revenue Code of 1986 shall  
 19          be reduced (but not below zero) by any amount paid or in-  
 20          curred (or set aside) by such private foundation for the in-  
 21          vestigatory costs and direct costs of removal or taking reme-  
 22          dial action with respect to a hazardous substance released  
 23          at a facility which was owned or operated by such private  
 24          foundation.

1       (b) *LIMITATIONS.*—*Subsection (a) shall only apply to*  
2 *costs—*

3           (1) *incurred with respect to hazardous substances*  
4 *disposed of at a facility owned or operated by the pri-*  
5 *ivate foundation but only if—*

6           (A) *such facility was transferred to such*  
7 *foundation by bequest before December 11, 1980,*  
8 *and*

9           (B) *the active operation of such facility by*  
10 *such foundation was terminated before December*  
11 *12, 1980, and*

12          (2) *which were not incurred pursuant to a pend-*  
13 *ing order issued to the private foundation unilater-*  
14 *ally by the President or the President’s assignee under*  
15 *section 106 of the Comprehensive Environmental Re-*  
16 *sponse, Compensation, and Liability Act of 1980 (42*  
17 *U.S.C. 9606), or pursuant to a nonconsensual judg-*  
18 *ment against the private foundation issued in a gov-*  
19 *ernmental cost recovery action under section 107 of*  
20 *such Act (42 U.S.C. 9607).*

21       (c) *HAZARDOUS SUBSTANCE.*—*For purposes of this*  
22 *section, the term “hazardous substance” has the meaning*  
23 *given such term by section 101(14) of the Comprehensive*  
24 *Environmental Response, Compensation, and Liability Act*  
25 *of 1980 (42 U.S.C. 9601(14)).*

1 **SEC. 812. HOLDING PERIOD REDUCED TO 12 MONTHS FOR**  
 2 **PURPOSES OF DETERMINING WHETHER**  
 3 **HORSES ARE SECTION 1231 ASSETS.**

4 (a) *IN GENERAL.*—Subparagraph (A) of section  
 5 1231(b)(3) (relating to definition of property used in the  
 6 trade or business) is amended by striking “and horses”.

7 (b) *EFFECTIVE DATE.*—The amendment made by this  
 8 section shall apply to taxable years beginning after Decem-  
 9 ber 31, 2000.

10 **TITLE IX—INTERNATIONAL TAX**  
 11 **RELIEF**

12 **SEC. 901. INTEREST ALLOCATION RULES.**

13 (a) *ELECTION TO ALLOCATE INTEREST ON A WORLD-*  
 14 *WIDE BASIS.*—Subsection (e) of section 864 (relating to  
 15 rules for allocating interest, etc.) is amended by redesignig-  
 16 nating paragraphs (6) and (7) as paragraphs (7) and (8),  
 17 respectively, and by inserting after paragraph (5) the fol-  
 18 lowing new paragraph:

19 “(6) *ELECTION TO ALLOCATE INTEREST ON A*  
 20 *WORLDWIDE BASIS.*—

21 “(A) *IN GENERAL.*—Except as provided in  
 22 this paragraph, this subsection shall be applied  
 23 by treating a worldwide affiliated group for  
 24 which an election is in effect under this para-  
 25 graph as an affiliated group solely for purposes  
 26 of allocating and apportioning interest expense

1        *of each domestic corporation which is a member*  
2        *of such group.*

3                “(B) *WORLDWIDE AFFILIATED GROUP.—*  
4        *For purposes of this paragraph, the term ‘world-*  
5        *wide affiliated group’ means the group of cor-*  
6        *porations which consists of—*

7                “(i) *all corporations in an affiliated*  
8                *group (as defined in paragraph (5)(A), ex-*  
9                *cept that section 1504 shall also be applied*  
10               *without regard to subsection (b)(2) thereof),*  
11               *and*

12               “(ii) *all foreign corporations (other*  
13               *than a FSC, as defined in section 922(a))*  
14               *which would be a member of such affiliated*  
15               *group if paragraph (3) of section 1504 (b)*  
16               *did not apply.*

17               “(C) *TREATMENT OF WORLDWIDE AFFILI-*  
18        *ATED GROUP.—For purposes of applying para-*  
19        *graph (1), the taxable income of the domestic*  
20        *members of a worldwide affiliated group from*  
21        *sources outside the United States shall be deter-*  
22        *mined by allocating and apportioning the inter-*  
23        *est expense of such domestic members to such in-*  
24        *come in an amount equal to the excess (if any)*  
25        *of—*

1           “(i) the total interest expense of the  
2           worldwide affiliated group multiplied by  
3           the ratio which the foreign assets of the  
4           worldwide affiliated group bears to all the  
5           assets of the worldwide affiliated group,  
6           over

7           “(ii) the interest expense of all foreign  
8           corporations which are members of the  
9           worldwide affiliated group to the extent  
10          such interest expense of such foreign cor-  
11          porations would have been allocated and  
12          apportioned to foreign source income if this  
13          subsection were applied to a group con-  
14          sisting of all the foreign corporations in  
15          such worldwide affiliated group.

16          “(D) *ELECTION*.—An election under this  
17          paragraph with respect to any worldwide affili-  
18          ated group may be made only by the common  
19          parent of the affiliated group referred to in sub-  
20          paragraph (B)(i) and may be made only for the  
21          first taxable year beginning after December 31,  
22          2004, in which a worldwide affiliated group ex-  
23          ists which includes such affiliated group and at  
24          least 1 corporation described in subparagraph  
25          (B)(ii). Such an election, once made, shall apply

1           to such common parent and all other corpora-  
 2           tions which are members of such worldwide af-  
 3           filiated group for such taxable year and all sub-  
 4           sequent years unless revoked with the consent of  
 5           the Secretary.”.

6           (b) *ELECTION TO EXPAND FINANCIAL INSTITUTION*  
 7 *GROUP OF WORLDWIDE GROUP.*—Section 864 is amended  
 8 by redesignating subsection (f) as subsection (g) and by in-  
 9 serting after subsection (e) the following new subsection:

10          “(f) *ELECTION TO EXPAND FINANCIAL INSTITUTION*  
 11 *GROUP OF WORLDWIDE GROUP.*—

12           “(1) *IN GENERAL.*—If a worldwide affiliated  
 13 group for which an election under subsection (e)(6) is  
 14 in effect elects the application of this subsection, all  
 15 financial corporations which—

16           “(A) are members of such worldwide affili-  
 17 ated group, but

18           “(B) are not corporations described in sub-  
 19 section (e)(5)(C),

20 shall be treated as described in subsection (e)(5)(C)  
 21 for purposes of applying subsection (e)(5)(B). Sub-  
 22 section (e) shall apply to any such group in the same  
 23 manner as subsection (e) applies to the pre-election  
 24 worldwide affiliated group of which such group is a  
 25 part.

1           “(2) *FINANCIAL CORPORATION.*—For purposes of  
2       this subsection, the term ‘financial corporation’  
3       means any corporation if at least 80 percent of its  
4       gross income is income described in section  
5       904(d)(2)(C)(ii) and the regulations thereunder which  
6       is derived from transactions with persons not bearing  
7       a relationship described in section 267(b) or 707(b)(1)  
8       to the corporation.

9           “(3) *ANTIABUSE RULES.*—In the case of a cor-  
10      poration which is a member of an electing financial  
11      institution group, to the extent that such  
12      corporation—

13           “(A) distributes dividends or makes other  
14      distributions with respect to its stock after the  
15      date of the enactment of this paragraph to any  
16      member of the pre-election worldwide affiliated  
17      group (other than to a member of the electing fi-  
18      nancial institution group) in excess of the great-  
19      er of—

20           “(i) its average annual dividend (ex-  
21      pressed as a percentage of current earnings  
22      and profits) during the 5-taxable-year pe-  
23      riod ending with the taxable year preceding  
24      the taxable year, or

1                   “(ii) 25 percent of its average annual  
2                   earnings and profits for such 5 taxable year  
3                   period, or

4                   “(B) deals with any person in any manner  
5                   not clearly reflecting the income of the corpora-  
6                   tion (as determined under principles similar to  
7                   the principles of section 482),  
8                   an amount of indebtedness of the electing financial  
9                   institution group equal to the excess distribution or  
10                  the understatement or overstatement of income, as the  
11                  case may be, shall be recharacterized (for the taxable  
12                  year and subsequent taxable years) for purposes of  
13                  this subsection as indebtedness of the worldwide affili-  
14                  ated group (excluding the electing financial institu-  
15                  tion group). If a corporation has not been in existence  
16                  for 5 taxable years, this subparagraph shall be ap-  
17                  plied with respect to the period it was in existence.

18                  “(4) *ELECTION*.—An election under this sub-  
19                  section with respect to any financial institution  
20                  group may be made only by the common parent of the  
21                  pre-election worldwide affiliated group and may be  
22                  made only for the first taxable year beginning after  
23                  December 31, 2004, in which such affiliated group in-  
24                  cludes 1 or more financial corporations described in  
25                  paragraph (1)(B). Such an election, once made, shall



1        *apply to all financial corporations which are mem-*  
 2        *bers of the electing financial institution group for*  
 3        *such taxable year and all subsequent years unless re-*  
 4        *voked with the consent of the Secretary.*

5                *“(5) DEFINITIONS RELATING TO GROUPS.—For*  
 6        *purposes of this subsection—*

7                        *“(A) PRE-ELECTION WORLDWIDE AFFILI-*  
 8        *ATED GROUP.—The term ‘pre-election worldwide*  
 9        *affiliated group’ means, with respect to a cor-*  
 10        *poration, the worldwide affiliated group of which*  
 11        *such corporation would (but for an election*  
 12        *under this subsection) be a member for purposes*  
 13        *of applying subsection (e).*

14                        *“(B) ELECTING FINANCIAL INSTITUTION*  
 15        *GROUP.—The term ‘electing financial institution*  
 16        *group’ means the group of corporations to which*  
 17        *subsection (e) applies separately by reason of the*  
 18        *application of subsection (e)(5)(B) and which in-*  
 19        *cludes financial corporations by reason of an*  
 20        *election under paragraph (1).*

21                *“(6) REGULATIONS.—The Secretary shall pre-*  
 22        *scribe such regulations as may be appropriate to*  
 23        *carry out this subsection and subsection (e), including*  
 24        *regulations—*

1           “(A) providing for the direct allocation of  
 2           interest expense in other circumstances where  
 3           such allocation would be appropriate to carry  
 4           out the purposes of this subsection,

5           “(B) preventing assets or interest expense  
 6           from being taken into account more than once,  
 7           and

8           “(C) dealing with changes in members of  
 9           any group (through acquisitions or otherwise)  
 10          treated under this subsection as an affiliated  
 11          group for purposes of subsection (e).”.

12          (c) *EFFECTIVE DATE.*—The amendments made by this  
 13          section shall apply to taxable years beginning after Decem-  
 14          ber 31, 2004.

15      **SEC. 902. LOOK-THRU RULES TO APPLY TO DIVIDENDS**  
 16                              **FROM NONCONTROLLED SECTION 902 COR-**  
 17                              **PORATIONS.**

18          (a) *IN GENERAL.*—Section 904(d)(4) (relating to ap-  
 19          plication of look-thru rules to dividends from noncontrolled  
 20          section 902 corporations) is amended to read as follows:

21                      “(4) *LOOK-THRU APPLIES TO DIVIDENDS FROM*  
 22                      *NONCONTROLLED SECTION 902 CORPORATIONS.*—

23                      “(A) *IN GENERAL.*—For purposes of this  
 24                      subsection, any dividend from a noncontrolled  
 25                      section 902 corporation with respect to the tax-

1        *payer shall be treated as income in a separate*  
 2        *category in proportion to the ratio of—*

3                *“(i) the portion of earnings and profits*  
 4                *attributable to income in such category, to*  
 5                *“(ii) the total amount of earnings and*  
 6                *profits.*

7                *“(B) SPECIAL RULES.—For purposes of this*  
 8        *paragraph—*

9                *“(i) IN GENERAL.—Rules similar to*  
 10                *the rules of paragraph (3)(F) shall apply,*  
 11                *except that the term ‘separate category’*  
 12                *shall include the category of income de-*  
 13                *scribed in paragraph (1)(I).*

14                *“(ii) EARNINGS AND PROFITS.—*

15                *“(I) IN GENERAL.—The rules of*  
 16                *section 316 shall apply.*

17                *“(II) REGULATIONS.—The Sec-*  
 18                *retary may prescribe regulations re-*  
 19                *garding the treatment of distributions*  
 20                *out of earnings and profits for periods*  
 21                *before the taxpayer’s acquisition of the*  
 22                *stock to which the distributions relate.*

23                *“(iii) DIVIDENDS NOT ALLOCABLE TO*  
 24                *SEPARATE CATEGORY.—The portion of any*  
 25                *dividend from a noncontrolled section 902*

1            *corporation which is not treated as income*  
 2            *in a separate category under subparagraph*  
 3            *(A) shall be treated as a dividend to which*  
 4            *subparagraph (A) does not apply.*

5            *“(iv) LOOK-THRU WITH RESPECT TO*  
 6            *CARRYFORWARDS OF CREDIT.—Rules simi-*  
 7            *lar to subparagraph (A) also shall apply to*  
 8            *any carryforward under subsection (c) from*  
 9            *a taxable year beginning before January 1,*  
 10           *2005, of tax allocable to a dividend from a*  
 11           *noncontrolled section 902 corporation with*  
 12           *respect to the taxpayer.”.*

13           *(b) CONFORMING AMENDMENTS.—*

14           *(1) Subparagraph (E) of section 904(d)(1), as in*  
 15           *effect both before and after the amendments made by*  
 16           *section 1105 of the Taxpayer Relief Act of 1997, is*  
 17           *hereby repealed.*

18           *(2) Section 904(d)(2)(C)(iii), as so in effect, is*  
 19           *amended by striking subclause (II) and by redesign-*  
 20           *ating subclause (III) as subclause (II).*

21           *(3) The last sentence of section 904(d)(2)(D), as*  
 22           *so in effect, is amended to read as follows: “Such term*  
 23           *does not include any financial services income.”.*

1           (4) Section 904(d)(2)(E) is amended by striking  
2           clauses (ii) and (iv) and by redesignating clause (iii)  
3           as clause (ii).

4           (5) Section 904(d)(3)(F) is amended by striking  
5           “(D), or (E)” and inserting “or (D)”.

6           (6) Section 864(d)(5)(A)(i) is amended by strik-  
7           ing “(C)(iii)(III)” and inserting “(C)(iii)(II)”.

8           (c) *EFFECTIVE DATE.*—The amendments made by this  
9           section shall apply to taxable years beginning after Decem-  
10          ber 31, 2004.

11       **SEC. 903. CLARIFICATION OF TREATMENT OF PIPELINE**  
12       **TRANSPORTATION INCOME.**

13          (a) *IN GENERAL.*—Section 954(g)(1) (defining foreign  
14          base company oil related income) is amended by striking  
15          “or” at the end of subparagraph (A), by striking the period  
16          at the end of subparagraph (B) and inserting “, or”, and  
17          by inserting after subparagraph (B) the following new sub-  
18          paragraph:

19                       “(C) the pipeline transportation of oil or  
20                       gas within such foreign country.”.

21          (b) *EFFECTIVE DATE.*—The amendment made by this  
22          section shall apply to taxable years of controlled foreign cor-  
23          porations beginning after December 31, 2002, and taxable  
24          years of United States shareholders with or within which  
25          such taxable years of controlled foreign corporations end.

1 **SEC. 904. SUBPART F TREATMENT OF INCOME FROM TRANS-**  
 2 **MISSION OF HIGH VOLTAGE ELECTRICITY.**

3 (a) *IN GENERAL.*—Paragraph (2) of section 954(e) (re-  
 4 lating to foreign base company services income) is amended  
 5 by striking “or” at the end of subparagraph (A), by striking  
 6 the period at the end of subparagraph (B) and inserting  
 7 “, or”, and by inserting after subparagraph (B) the fol-  
 8 lowing new subparagraph:

9 “(C) the transmission of high voltage elec-  
 10 tricity.”.

11 (b) *EFFECTIVE DATE.*—The amendment made by this  
 12 section shall apply to taxable years of controlled foreign cor-  
 13 porations beginning after December 31, 2002, and taxable  
 14 years of United States shareholders with or within which  
 15 such taxable years of controlled foreign corporations end.

16 **SEC. 905. ADVANCE PRICING AGREEMENTS TREATED AS**  
 17 **CONFIDENTIAL TAXPAYER INFORMATION.**

18 (a) *IN GENERAL.*—

19 (1) *TREATMENT AS RETURN INFORMATION.*—  
 20 Paragraph (2) of section 6103(b) (defining return in-  
 21 formation) is amended by striking “and” at the end  
 22 of subparagraph (A), by inserting “and” at the end  
 23 of subparagraph (B), and by inserting after subpara-  
 24 graph (B) the following new subparagraph:

25 “(C) any advance pricing agreement en-  
 26 tered into by a taxpayer and the Secretary and

1           *any background information related to such*  
2           *agreement or any application for an advance*  
3           *pricing agreement,”.*

4           (2) *EXCEPTION FROM PUBLIC INSPECTION AS*  
5           *WRITTEN DETERMINATION.—Paragraph (1) of section*  
6           *6110(b) (defining written determination) is amended*  
7           *by adding at the end the following new sentence:*  
8           *“Such term shall not include any advance pricing*  
9           *agreement entered into by a taxpayer and the Sec-*  
10           *retary and any background information related to*  
11           *such agreement or any application for an advance*  
12           *pricing agreement.”.*

13           (3) *EFFECTIVE DATE.—The amendments made*  
14           *by this subsection shall take effect on the date of the*  
15           *enactment of this Act.*

16           (b) *ANNUAL REPORT REGARDING ADVANCE PRICING*  
17           *AGREEMENTS.—*

18           (1) *IN GENERAL.—Not later than 90 days after*  
19           *the end of each calendar year, the Secretary of the*  
20           *Treasury shall prepare and publish a report regard-*  
21           *ing advance pricing agreements.*

22           (2) *CONTENTS OF REPORT.—The report shall in-*  
23           *clude the following for the calendar year to which*  
24           *such report relates:*

1           (A) *Information about the structure, com-*  
2           *position, and operation of the advance pricing*  
3           *agreement program office.*

4           (B) *A copy of each model advance pricing*  
5           *agreement.*

6           (C) *The number of—*

7               (i) *applications filed during such cal-*  
8               *endar year for advanced pricing agree-*  
9               *ments;*

10              (ii) *advance pricing agreements exe-*  
11              *cuted cumulatively to date and during such*  
12              *calendar year;*

13              (iii) *renewals of advanced pricing*  
14              *agreements issued;*

15              (iv) *pending requests for advance pric-*  
16              *ing agreements;*

17              (v) *pending renewals of advance pric-*  
18              *ing agreements;*

19              (vi) *for each of the items in clauses (ii)*  
20              *through (v), the number that are unilateral,*  
21              *bilateral, and multilateral, respectively;*

22              (vii) *advance pricing agreements re-*  
23              *voked or canceled, and the number of with-*  
24              *drawals from the advance pricing agree-*  
25              *ment program; and*



1                   (viii) advanced pricing agreements fi-  
2                   nalized or renewed by industry.

3                   (D) General descriptions of—

4                   (i) the nature of the relationships be-  
5                   tween the related organizations, trades, or  
6                   businesses covered by advance pricing agree-  
7                   ments;

8                   (ii) the covered transactions and the  
9                   business functions performed and risks as-  
10                  sumed by such organizations, trades, or  
11                  businesses;

12                  (iii) the related organizations, trades,  
13                  or businesses whose prices or results are  
14                  tested to determine compliance with transfer  
15                  pricing methodologies prescribed in ad-  
16                  vanced pricing agreements;

17                  (iv) methodologies used to evaluate test-  
18                  ed parties and transactions and the cir-  
19                  cumstances leading to the use of those meth-  
20                  odologies;

21                  (v) critical assumptions made and  
22                  sources of comparables used;

23                  (vi) comparable selection criteria and  
24                  the rationale used in determining such cri-  
25                  teria;

1                   (vii) the nature of adjustments to  
2 comparables or tested parties;

3                   (viii) the nature of any ranges agreed  
4 to, including information regarding when  
5 no range was used and why, when inter-  
6 quartile ranges were used, and when there  
7 was a statistical narrowing of the  
8 comparables;

9                   (ix) adjustment mechanisms provided  
10 to rectify results that fall outside of the  
11 agreed upon advance pricing agreement  
12 range;

13                  (x) the various term lengths for ad-  
14 vance pricing agreements, including roll-  
15 back years, and the number of advance  
16 pricing agreements with each such term  
17 length;

18                  (xi) the nature of documentation re-  
19 quired; and

20                  (xii) approaches for sharing of cur-  
21 rency or other risks.

22                  (E) Statistics regarding the amount of time  
23 taken to complete new and renewal advance pric-  
24 ing agreements.

1           (3) *CONFIDENTIALITY.*—*The reports required by*  
 2           *this subsection shall be treated as authorized by the*  
 3           *Internal Revenue Code of 1986 for purposes of section*  
 4           *6103 of such Code, but the reports shall not include*  
 5           *information—*

6                   (A) *which would not be permitted to be dis-*  
 7                   *closed under section 6110(c) of such Code if such*  
 8                   *report were a written determination as defined*  
 9                   *in section 6110 of such Code, or*

10                   (B) *which can be associated with, or other-*  
 11                   *wise identify, directly or indirectly, a particular*  
 12                   *taxpayer.*

13           (4) *FIRST REPORT.*—*The report for calendar*  
 14           *year 1999 shall include prior calendar years after*  
 15           *1990.*

16           (c) *USER FEE.*—*Section 7527, as added by this Act,*  
 17           *is amended by redesignating subsection (c) as subsection (d)*  
 18           *and by inserting after subsection (b) the following new sub-*  
 19           *section:*

20                   “(c) *ADVANCE PRICING AGREEMENTS.*—

21                           “(1) *IN GENERAL.*—*In addition to any fee other-*  
 22                           *wise imposed under this section, the fee imposed for*  
 23                           *requests for advance pricing agreements shall be in-*  
 24                           *creased by \$500.*

1           “(2) *REDUCED FEE FOR SMALL BUSINESSES.*—  
 2           *The Secretary shall provide an appropriate reduction*  
 3           *in the amount imposed by reason of paragraph (1)*  
 4           *for requests for advance pricing agreements for small*  
 5           *businesses.”.*

6           (d) *REGULATIONS.*—*The Secretary of the Treasury or*  
 7           *the Secretary’s delegate shall prescribe such regulations as*  
 8           *may be necessary or appropriate to carry out the purposes*  
 9           *of section 6103(b)(2)(C), and the last sentence of section*  
 10           *6110(b)(1), of the Internal Revenue Code of 1986, as added*  
 11           *by this section.*

12   **SEC. 906. AIRLINE MILEAGE AWARDS TO CERTAIN FOREIGN**  
 13                           **PERSONS.**

14           (a) *IN GENERAL.*—*The last sentence of section*  
 15           *4261(e)(3)(C) (relating to regulations) is amended by in-*  
 16           *serting “and mileage awards which are issued to individ-*  
 17           *uals whose mailing addresses on record with the person pro-*  
 18           *viding the right to air transportation are outside the United*  
 19           *States” before the period at the end thereof.*

20           (b) *EFFECTIVE DATE.*—*The amendment made by this*  
 21           *section shall apply to amounts paid after December 31,*  
 22           *2004.*

1 **SEC. 907. REPEAL OF FOREIGN TAX CREDIT LIMITATION**  
 2 **UNDER ALTERNATIVE MINIMUM TAX.**

3 (a) *IN GENERAL.*—Section 59(a) (relating to alter-  
 4 native minimum tax foreign tax credit) is amended by  
 5 striking paragraph (2) and by redesignating paragraphs  
 6 (3) and (4) as paragraphs (2) and (3), respectively.

7 (b) *CONFORMING AMENDMENT.*—Section  
 8 53(d)(1)(B)(i)(II) is amended by striking “and if section  
 9 59(a)(2) did not apply”.

10 (c) *EFFECTIVE DATE.*—The amendments made by this  
 11 section shall apply to taxable years beginning after Decem-  
 12 ber 31, 2004.

13 **SEC. 908. TREATMENT OF MILITARY PROPERTY OF FOREIGN**  
 14 **SALES CORPORATIONS.**

15 (a) *IN GENERAL.*—Section 923(a) (defining exempt  
 16 foreign trade income) is amended by striking paragraph (5)  
 17 and by redesignating paragraph (6) as paragraph (5).

18 (b) *EFFECTIVE DATE.*—The amendment made by this  
 19 section shall apply to taxable years beginning after Decem-  
 20 ber 31, 2004.

1 **TITLE X—HOUSING AND REAL**  
 2 **ESTATE TAX RELIEF PROVI-**  
 3 **SIONS**

4 **Subtitle A—Low-Income Housing**  
 5 **Credit**

6 **SEC. 1001. MODIFICATION OF STATE CEILING ON LOW-IN-**  
 7 **COME HOUSING CREDIT.**

8 (a) *IN GENERAL.*—Clauses (i) and (ii) of section  
 9 42(h)(3)(C) (relating to State housing credit ceiling) are  
 10 amended to read as follows:

11 “(i) the unused State housing credit  
 12 ceiling (if any) of such State for the pre-  
 13 ceding calendar year,

14 “(ii) the greater of—

15 “(I) the applicable amount under  
 16 subparagraph (H) multiplied by the  
 17 State population, or

18 “(II) \$2,000,000.”

19 (b) *APPLICABLE AMOUNT.*—Paragraph (3) of section  
 20 42(h) (relating to housing credit dollar amount for agen-  
 21 cies) is amended by adding at the end the following new  
 22 subparagraph:

23 “(H) *APPLICABLE AMOUNT OF STATE CEIL-*  
 24 *ING.*—For purposes of subparagraph (C)(ii), the

1           applicable amount shall be determined under the  
2           following table:

<b><i>“For calendar year—</i></b>	<b><i>The applicable amount is—</i></b>
2001 .....	\$1.35
2002 .....	1.45
2003 .....	1.55
2004 .....	1.65
2005 and thereafter .....	1.75.”.

3           (c) *ADJUSTMENT OF STATE CEILING FOR INCREASES*  
4 *IN COST-OF-LIVING.*—Paragraph (3) of section 42(h) (relat-  
5 *ing to housing credit dollar amount for agencies), as*  
6 *amended by subsection (b), is amended by adding at the*  
7 *end the following new subparagraph:*

8                   “(I) *COST-OF-LIVING ADJUSTMENT.*—

9                           “(i) *IN GENERAL.*—In the case of a  
10                           *calendar year after 2005, the \$1.75 amount*  
11                           *in subparagraph (H) shall be increased by*  
12                           *an amount equal to—*

13                                   “(I) *such dollar amount, multi-*  
14                                   *plied by*

15                                           “(II) *the cost-of-living adjustment*  
16                                           *determined under section 1(f)(3) for*  
17                                           *such calendar year by substituting ‘cal-*  
18                                           *endar year 2004’ for ‘calendar year*  
19                                           *1992’ in subparagraph (B) thereof.*

20                                   “(ii) *ROUNDING.*—Any increase under  
21                                   *clause (i) which is not a multiple of 5 cents*

1                   shall be rounded to the next lowest multiple  
2                   of 5 cents.”.

3           (d) *CONFORMING AMENDMENTS.*—

4                   (1) *Section 42(h)(3)(C), as amended by sub-*  
5                   *section (a), is amended—*

6                           (A) *by striking “clause (ii)” in the matter*  
7                           *following clause (iv) and inserting “clause (i)”*,  
8                           *and*

9                           (B) *by striking “clauses (i)” in the matter*  
10                          *following clause (iv) and inserting “clauses (ii)”*.

11                   (2) *Section 42(h)(3)(D)(ii) is amended—*

12                           (A) *by striking “subparagraph (C)(i)” and*  
13                           *inserting “subparagraph (C)(i)”*, *and*

14                           (B) *by striking “clauses (i)” in subclause*  
15                           *(II) and inserting “clauses (ii)”*.

16           (e) *EFFECTIVE DATE.*—*The amendments made by this*  
17           *section shall apply to calendar years after 2000.*

## 18                   ***Subtitle B—Historic Homes***

### 19   ***SEC. 1011. TAX CREDIT FOR RENOVATING HISTORIC*** 20                   ***HOMES.***

21           (a) *IN GENERAL.*—*Subpart A of part IV of subchapter*  
22           *A of chapter 1 (relating to nonrefundable personal credits)*  
23           *is amended by inserting after section 25A the following new*  
24           *section:*



1 **“SEC. 25B. HISTORIC HOMEOWNERSHIP REHABILITATION**  
 2 **CREDIT.**

3 “(a) *GENERAL RULE.*—In the case of an individual,  
 4 there shall be allowed as a credit against the tax imposed  
 5 by this chapter for the taxable year an amount equal to  
 6 20 percent of the qualified rehabilitation expenditures made  
 7 by the taxpayer with respect to a qualified historic home.

8 “(b) *DOLLAR LIMITATION.*—The credit allowed by sub-  
 9 section (a) with respect to any residence of a taxpayer shall  
 10 not exceed \$20,000 (\$10,000 in the case of a married indi-  
 11 vidual filing a separate return).

12 “(c) *QUALIFIED REHABILITATION EXPENDITURE.*—  
 13 For purposes of this section—

14 “(1) *IN GENERAL.*—The term ‘qualified rehabili-  
 15 tation expenditure’ means any amount properly  
 16 chargeable to capital account—

17 “(A) in connection with the certified reha-  
 18 bilitation of a qualified historic home, and

19 “(B) for property for which depreciation  
 20 would be allowable under section 168 if the  
 21 qualified historic home were used in a trade or  
 22 business.

23 “(2) *CERTAIN EXPENDITURES NOT INCLUDED.*—

24 “(A) *EXTERIOR.*—Such term shall not in-  
 25 clude any expenditure in connection with the re-  
 26 habilitation of a building unless at least 5 per-

1           *cent of the total expenditures made in the reha-*  
 2           *bilitation process are allocable to the rehabilita-*  
 3           *tion of the exterior of such building.*

4           “(B) *OTHER RULES TO APPLY.—Rules*  
 5           *similar to the rules of clauses (ii) and (iii) of*  
 6           *section 47(c)(2)(B) shall apply.*

7           “(3) *MIXED USE OR MULTIFAMILY BUILDING.—*  
 8           *If only a portion of a building is used as the prin-*  
 9           *cipal residence of the taxpayer, only qualified reha-*  
 10          *bilitation expenditures which are properly allocable to*  
 11          *such portion shall be taken into account under this*  
 12          *section.*

13          “(d) *CERTIFIED REHABILITATION.—For purposes of*  
 14          *this section:*

15               “(1) *IN GENERAL.—Except as otherwise provided*  
 16               *in this subsection, the term ‘certified rehabilitation’*  
 17               *has the meaning given such term by section*  
 18               *47(c)(2)(C).*

19               “(2) *FACTORS TO BE CONSIDERED IN THE CASE*  
 20               *OF TARGETED AREA RESIDENCES, ETC.—*

21                       “(A) *IN GENERAL.—For purposes of apply-*  
 22                       *ing section 47(c)(2)(C) under this section with*  
 23                       *respect to the rehabilitation of a building to*  
 24                       *which this paragraph applies, consideration*  
 25                       *shall be given to—*

1                   “(i) the feasibility of preserving exist-  
 2                   ing architectural and design elements of the  
 3                   interior of such building,

4                   “(ii) the risk of further deterioration or  
 5                   demolition of such building in the event  
 6                   that certification is denied because of the  
 7                   failure to preserve such interior elements,  
 8                   and

9                   “(iii) the effects of such deterioration  
 10                  or demolition on neighboring historic prop-  
 11                  erties.

12                  “(B) BUILDINGS TO WHICH THIS PARA-  
 13                  GRAPH APPLIES.—This paragraph shall apply  
 14                  with respect to any building—

15                  “(i) any part of which is a targeted  
 16                  area residence within the meaning of sec-  
 17                  tion 143(j)(1), or

18                  “(ii) which is located within an enter-  
 19                  prise community or empowerment zone as  
 20                  designated under section 1391,

21                  but shall not apply with respect to any building  
 22                  which is listed in the National Register.

23                  “(3) APPROVED STATE PROGRAM.—The term  
 24                  ‘certified rehabilitation’ includes a certification made  
 25                  by—

1           “(A) a State Historic Preservation Officer  
 2           who administers a State Historic Preservation  
 3           Program approved by the Secretary of the Inte-  
 4           rior pursuant to section 101(b)(1) of the Na-  
 5           tional Historic Preservation Act, as in effect on  
 6           July 21, 1999, or

7           “(B) a local government, certified pursuant  
 8           to section 101(c)(1) of the National Historic  
 9           Preservation Act, as in effect on July 21, 1999,  
 10          and authorized by a State Historic Preservation  
 11          Officer, or the Secretary of the Interior where  
 12          there is no approved State program),

13          subject to such terms and conditions as may be speci-  
 14          fied by the Secretary of the Interior for the rehabilita-  
 15          tion of buildings within the jurisdiction of such offi-  
 16          cer (or local government) for purposes of this section.

17          “(e) DEFINITIONS AND SPECIAL RULES.—For pur-  
 18          poses of this section—

19                 “(1) QUALIFIED HISTORIC HOME.—The term  
 20                 ‘qualified historic home’ means a certified historic  
 21                 structure—

22                         “(A) which has been substantially rehabili-  
 23                         tated, and

24                         “(B) which (or any portion of which)—

25                                 “(i) is owned by the taxpayer, and

1                   “(ii) is used (or will, within a reason-  
2                   able period, be used) by such taxpayer as  
3                   his principal residence.

4                   “(2) *SUBSTANTIALLY REHABILITATED.*—The  
5                   term ‘substantially rehabilitated’ has the meaning  
6                   given such term by section 47(c)(1)(C); except that, in  
7                   the case of any building described in subsection  
8                   (d)(2), clause (i)(I) thereof shall not apply.

9                   “(3) *PRINCIPAL RESIDENCE.*—The term ‘prin-  
10                  cipal residence’ has the same meaning as when used  
11                  in section 121.

12                  “(4) *CERTIFIED HISTORIC STRUCTURE.*—

13                  “(A) *IN GENERAL.*—The term ‘certified his-  
14                  toric structure’ means any building (and its  
15                  structural components) which—

16                         “(i) is listed in the National Register,  
17                         or

18                         “(ii) is located in a registered historic  
19                         district (as defined in section 47(c)(3)(B))  
20                         within which only qualified census tracts  
21                         (or portions thereof) are located, and is cer-  
22                         tified by the Secretary of the Interior to the  
23                         Secretary as being of historic significance to  
24                         the district.

1                   “(B) *CERTAIN STRUCTURES INCLUDED.*—

2                   *Such term includes any building (and its struc-*  
 3                   *tural components) which is designated as being*  
 4                   *of historic significance under a statute of a State*  
 5                   *or local government, if such statute is certified*  
 6                   *by the Secretary of the Interior to the Secretary*  
 7                   *as containing criteria which will substantially*  
 8                   *achieve the purpose of preserving and rehabili-*  
 9                   *tating buildings of historic significance.*

10                   “(C) *QUALIFIED CENSUS TRACTS.*—*For*  
 11                   *purposes of subparagraph (A)(ii)—*

12                   “(i) *IN GENERAL.*—*The term ‘qualified*  
 13                   *census tract’ means a census tract in which*  
 14                   *the median family income is less than twice*  
 15                   *the statewide median family income.*

16                   “(ii) *DATA USED.*—*The determination*  
 17                   *under clause (i) shall be made on the basis*  
 18                   *of the most recent decennial census for*  
 19                   *which data are available.*

20                   “(5) *REHABILITATION NOT COMPLETE BEFORE*  
 21                   *CERTIFICATION.*—*A rehabilitation shall not be treated*  
 22                   *as complete before the date of the certification referred*  
 23                   *to in subsection (d).*

24                   “(6) *LESSEES.*—*A taxpayer who leases his prin-*  
 25                   *cipal residence shall, for purposes of this section, be*

1       *treated as the owner thereof if the remaining term of*  
2       *the lease (as of the date determined under regulations*  
3       *prescribed by the Secretary) is not less than such*  
4       *minimum period as the regulations require.*

5               “(7) *TENANT-STOCKHOLDER IN COOPERATIVE*  
6       *HOUSING CORPORATION.—If the taxpayer holds stock*  
7       *as a tenant-stockholder (as defined in section 216) in*  
8       *a cooperative housing corporation (as defined in such*  
9       *section), such stockholder shall be treated as owning*  
10       *the house or apartment which the taxpayer is entitled*  
11       *to occupy as such stockholder.*

12               “(8) *ALLOCATION OF EXPENDITURES RELATING*  
13       *TO EXTERIOR OF BUILDING CONTAINING COOPERATIVE*  
14       *OR CONDOMINIUM UNITS.—The percentage of the total*  
15       *expenditures made in the rehabilitation of a building*  
16       *containing cooperative or condominium residential*  
17       *units allocated to the rehabilitation of the exterior of*  
18       *the building shall be attributed proportionately to*  
19       *each cooperative or condominium residential unit in*  
20       *such building for which a credit under this section is*  
21       *claimed.*

22               “(f) *WHEN EXPENDITURES TAKEN INTO ACCOUNT.—*  
23       *In the case of a building other than a building to which*  
24       *subsection (g) applies, qualified rehabilitation expenditures*

1 *shall be treated for purposes of this section as made on the*  
2 *date the rehabilitation is completed.*

3 “(g) *ALLOWANCE OF CREDIT FOR PURCHASE OF RE-*  
4 *HABILITATED HISTORIC HOME.*—

5 “(1) *IN GENERAL.*—*In the case of a qualified*  
6 *purchased historic home, the taxpayer shall be treated*  
7 *as having made (on the date of purchase) the quali-*  
8 *fied rehabilitation expenditures made by the seller of*  
9 *such home. For purposes of the preceding sentence, ex-*  
10 *penditures made by the seller shall be deemed to be*  
11 *qualified rehabilitation expenditures if such expendi-*  
12 *tures, if made by the purchaser, would be qualified re-*  
13 *habilitation expenditures.*

14 “(2) *QUALIFIED PURCHASED HISTORIC HOME.*—  
15 *For purposes of this subsection, the term ‘qualified*  
16 *purchased historic home’ means any substantially re-*  
17 *habilitated certified historic structure purchased by*  
18 *the taxpayer if—*

19 “(A) *the taxpayer is the first purchaser of*  
20 *such structure after the date rehabilitation is*  
21 *completed, and the purchase occurs within 5*  
22 *years after such date,*

23 “(B) *the structure (or a portion thereof)*  
24 *will, within a reasonable period, be the principal*  
25 *residence of the taxpayer,*



1           “(C) no credit was allowed to the seller  
2           under this section or section 47 with respect to  
3           such rehabilitation, and

4           “(D) the taxpayer is furnished with such  
5           information as the Secretary determines is nec-  
6           essary to determine the credit under this sub-  
7           section.

8           “(h) *HISTORIC REHABILITATION MORTGAGE CREDIT*  
9           *CERTIFICATE.*—

10           “(1) *IN GENERAL.*—The taxpayer may elect, in  
11           lieu of the credit otherwise allowable under this sec-  
12           tion, to receive a historic rehabilitation mortgage  
13           credit certificate. An election under this paragraph  
14           shall be made—

15           “(A) in the case of a building to which sub-  
16           section (g) applies, at the time of purchase, or

17           “(B) in any other case, at the time rehabili-  
18           tation is completed.

19           “(2) *HISTORIC REHABILITATION MORTGAGE*  
20           *CREDIT CERTIFICATE.*—For purposes of this sub-  
21           section, the term ‘historic rehabilitation mortgage  
22           credit certificate’ means a certificate—

23           “(A) issued to the taxpayer, in accordance  
24           with procedures prescribed by the Secretary, with  
25           respect to a certified rehabilitation,

1           “(B) the face amount of which shall be  
2           equal to the credit which would (but for this sub-  
3           section) be allowable under subsection (a) to the  
4           taxpayer with respect to such rehabilitation,

5           “(C) which may only be transferred by the  
6           taxpayer to a lending institution (including a  
7           non-depository institution) in connection with a  
8           loan—

9           “(i) that is secured by the building  
10          with respect to which the credit relates, and

11          “(ii) the proceeds of which may not be  
12          used for any purpose other than the acquisi-  
13          tion or rehabilitation of such building, and

14          “(D) in exchange for which such lending in-  
15          stitution provides the taxpayer—

16          “(i) a reduction in the rate of interest  
17          on the loan which results in interest pay-  
18          ment reductions which are substantially  
19          equivalent on a present value basis to the  
20          face amount of such certificate, or

21          “(ii) if the taxpayer so elects with re-  
22          spect to a specified amount of the face  
23          amount of such a certificate relating to a  
24          building—

1                   “(I) which is a targeted area resi-  
2                   dence within the meaning of section  
3                   143(j)(1), or

4                   “(II) which is located in an enter-  
5                   prise community or empowerment zone  
6                   as designated under section 1391,  
7                   a payment which is substantially equivalent  
8                   to such specified amount to be used to re-  
9                   duce the taxpayer’s cost of purchasing the  
10                  building (and only the remainder of such  
11                  face amount shall be taken into account  
12                  under clause (i)).

13               “(3) METHOD OF DISCOUNTING.—The present  
14               value under paragraph (2)(D)(i) shall be  
15               determined—

16               “(A) for a period equal to the term of the  
17               loan referred to in subparagraph (D)(i),

18               “(B) by using the convention that any pay-  
19               ment on such loan in any taxable year within  
20               such period is deemed to have been made on the  
21               last day of such taxable year,

22               “(C) by using a discount rate equal to 65  
23               percent of the average of the annual Federal  
24               mid-term rate and the annual Federal long-term  
25               rate applicable under section 1274(d)(1) to the

1           *month in which the taxpayer makes an election*  
2           *under paragraph (1) and compounded annually,*  
3           *and*

4           “(D) *by assuming that the credit allowable*  
5           *under this section for any year is received on the*  
6           *last day of such year.*

7           “(4) *USE OF CERTIFICATE BY LENDER.—The*  
8           *amount of the credit specified in the certificate shall*  
9           *be allowed to the lender only to offset the regular tax*  
10          *(as defined in section 55(c)) of such lender. The lender*  
11          *may carry forward all unused amounts under this*  
12          *subsection until exhausted.*

13          “(5) *HISTORIC REHABILITATION MORTGAGE*  
14          *CREDIT CERTIFICATE NOT TREATED AS TAXABLE IN-*  
15          *COME.—Notwithstanding any other provision of law,*  
16          *no benefit accruing to the taxpayer through the use of*  
17          *an historic rehabilitation mortgage credit certificate*  
18          *shall be treated as taxable income for purposes of this*  
19          *title.*

20          “(i) *RECAPTURE.—*

21          “(1) *IN GENERAL.—If, before the end of the 5-*  
22          *year period beginning on the date on which the reha-*  
23          *bilitation of the building is completed (or, if sub-*  
24          *section (g) applies, the date of purchase of such build-*

1        *ing by the taxpayer, or, if subsection (h) applies, the*  
 2        *date of the loan)—*

3                *“(A) the taxpayer disposes of such tax-*  
 4                *payer’s interest in such building, or*

5                *“(B) such building ceases to be used as the*  
 6                *principal residence of the taxpayer,*  
 7        *the taxpayer’s tax imposed by this chapter for the*  
 8        *taxable year in which such disposition or cessation*  
 9        *occurs shall be increased by the recapture percentage*  
 10        *of the credit allowed under this section for all prior*  
 11        *taxable years with respect to such rehabilitation.*

12                *“(2) RECAPTURE PERCENTAGE.—For purposes of*  
 13        *paragraph (1), the recapture percentage shall be de-*  
 14        *termined in accordance with the following table:*

***“If the disposition or ces-    The recapture percentage is—  
 sation occurs within—***

<i>(i) One full year after the taxpayer becomes entitled to the credit.</i>	100
<i>(ii) One full year after the close of the period described in clause (i).</i>	80
<i>(iii) One full year after the close of the period described in clause (ii).</i>	60
<i>(iv) One full year after the close of the period described in clause (iii).</i>	40
<i>(v) One full year after the close of the period described in clause (iv).</i>	20.”.

15                *“(j) BASIS ADJUSTMENTS.—For purposes of this sub-*  
 16        *title, if a credit is allowed under this section for any ex-*  
 17        *penditure with respect to any property (including any pur-*  
 18        *chase under subsection (g) and any transfer under sub-*  
 19        *section (h)), the increase in the basis of such property which*

1 *would (but for this subsection) result from such expenditure*  
 2 *shall be reduced by the amount of the credit so allowed.*

3 “(k) *DENIAL OF DOUBLE BENEFIT.*—No credit shall  
 4 *be allowed under this section for any amount for which*  
 5 *credit is allowed under section 47.*

6 “(l) *REGULATIONS.*—The Secretary shall prescribe  
 7 *such regulations as may be appropriate to carry out the*  
 8 *purposes of this section, including regulations where less*  
 9 *than all of a building is used as a principal residence and*  
 10 *where more than 1 taxpayer use the same dwelling unit*  
 11 *as their principal residence.”.*

12 (b) *CONFORMING AMENDMENT.*—Subsection (a) of sec-  
 13 *tion 1016 is amended by striking “and” at the end of para-*  
 14 *graph (26), by striking the period at the end of paragraph*  
 15 *(27) and inserting “, and”, and by adding at the end the*  
 16 *following new item:*

17 “(28) *to the extent provided in section 25B(j).*”.

18 (c) *CLERICAL AMENDMENT.*—The table of sections for  
 19 *subpart A of part IV of subchapter A of chapter 1 is amend-*  
 20 *ed by inserting after the item relating to section 25A the*  
 21 *following new item:*

“Sec. 25B. *Historic homeownership rehabilitation credit.*”.

22 (d) *EFFECTIVE DATE.*—The amendments made by this  
 23 *section shall apply to expenses paid or incurred in taxable*  
 24 *years beginning after December 31, 1999.*

1    ***Subtitle C—Provisions Relating to***  
 2    ***Real Estate Investment Trusts***

3    ***PART I—TREATMENT OF INCOME AND SERVICES***  
 4    ***PROVIDED BY TAXABLE REIT SUBSIDIARIES***

5    ***SEC. 1021. MODIFICATIONS TO ASSET DIVERSIFICATION***  
 6    ***TEST.***

7    (a) *IN GENERAL.*—Subparagraph (B) of section  
 8    856(c)(4) is amended to read as follows:

9                   “(B)(i) not more than 25 percent of the  
 10                   value of its total assets is represented by securi-  
 11                   ties (other than those includible under subpara-  
 12                   graph (A)), and

13                   “(ii) except with respect to a taxable REIT  
 14                   subsidiary and securities includible under sub-  
 15                   paragraph (A)—

16                   “(I) not more than 5 percent of the  
 17                   value of its total assets is represented by se-  
 18                   curities of any 1 issuer,

19                   “(II) the trust does not hold securities  
 20                   possessing more than 10 percent of the total  
 21                   voting power of the outstanding securities of  
 22                   any 1 issuer, and

23                   “(III) the trust does not hold securities  
 24                   having a value of more than 10 percent of

1                   the total value of the outstanding securities  
2                   of any 1 issuer.”.

3           (b) *EXCEPTION FOR STRAIGHT DEBT SECURITIES.*—  
4 Subsection (c) of section 856 is amended by adding at the  
5 end the following new paragraph:

6                   “(7) *STRAIGHT DEBT SAFE HARBOR IN APPLYING*  
7           *PARAGRAPH (4).*—Securities of an issuer which are  
8           straight debt (as defined in section 1361(c)(5) without  
9           regard to subparagraph (B)(iii) thereof) shall not be  
10          taken into account in applying paragraph  
11          (4)(B)(ii)(III) if—

12                   “(A) the issuer is an individual, or

13                   “(B) the only securities of such issuer which  
14           are held by the trust or a taxable REIT sub-  
15           sidiary of the trust are straight debt (as so de-  
16           fined), or

17                   “(C) the issuer is a partnership and the  
18           trust holds at least a 20 percent profits interest  
19           in the partnership.”.

20 **SEC. 1022. TREATMENT OF INCOME AND SERVICES PRO-**  
21 **VIDED BY TAXABLE REIT SUBSIDIARIES.**

22           (a) *INCOME FROM TAXABLE REIT SUBSIDIARIES NOT*  
23 *TREATED AS IMPERMISSIBLE TENANT SERVICE INCOME.*—  
24 Clause (i) of section 856(d)(7)(C) (relating to exceptions to  
25 impermissible tenant service income) is amended by insert-



1 ing “or through a taxable REIT subsidiary of such trust”  
 2 after “income”.

3 (b) CERTAIN INCOME FROM TAXABLE REIT SUBSIDI-  
 4 ARIES NOT EXCLUDED FROM RENTS FROM REAL PROP-  
 5 ERTY.—

6 (1) IN GENERAL.—Subsection (d) of section 856  
 7 (relating to rents from real property defined) is  
 8 amended by adding at the end the following new  
 9 paragraphs:

10 “(8) SPECIAL RULE FOR TAXABLE REIT SUBSIDI-  
 11 ARIES.—For purposes of this subsection, amounts  
 12 paid to a real estate investment trust by a taxable  
 13 REIT subsidiary of such trust shall not be excluded  
 14 from rents from real property by reason of paragraph  
 15 (2)(B) if the requirements of subparagraph (A) or (B)  
 16 are met.

17 “(A) LIMITED RENTAL EXCEPTION.—The re-  
 18 quirements of this subparagraph are met with  
 19 respect to any property if at least 90 percent of  
 20 the leased space of the property is rented to per-  
 21 sons other than taxable REIT subsidiaries of  
 22 such trust and other than persons described in  
 23 section 856(d)(2)(B). The preceding sentence  
 24 shall apply only to the extent that the amounts  
 25 paid to the trust as rents from real property (as

1       *defined in paragraph (1) without regard to*  
2       *paragraph (2)(B)) from such property are sub-*  
3       *stantially comparable to such rents made by the*  
4       *other tenants of the trust's property for com-*  
5       *parable space.*

6               “(B) *EXCEPTION FOR CERTAIN LODGING FA-*  
7       *CILITIES.—The requirements of this subpara-*  
8       *graph are met with respect to an interest in real*  
9       *property which is a qualified lodging facility*  
10       *leased by the trust to a taxable REIT subsidiary*  
11       *of the trust if the property is operated on behalf*  
12       *of such subsidiary by a person who is an eligible*  
13       *independent contractor.*

14               “(9) *ELIGIBLE INDEPENDENT CONTRACTOR.—*  
15       *For purposes of paragraph (8)(B)—*

16               “(A) *IN GENERAL.—The term ‘eligible inde-*  
17       *pendent contractor’ means, with respect to any*  
18       *qualified lodging facility, any independent con-*  
19       *tractor if, at the time such contractor enters into*  
20       *a management agreement or other similar serv-*  
21       *ice contract with the taxable REIT subsidiary to*  
22       *operate the facility, such contractor (or any re-*  
23       *lated person) is actively engaged in the trade or*  
24       *business of operating qualified lodging facilities*  
25       *for any person who is not a related person with*

1       *respect to the real estate investment trust or the*  
2       *taxable REIT subsidiary.*

3               “(B) *SPECIAL RULES.*—Solely for purposes  
4       *of this paragraph and paragraph (8)(B), a per-*  
5       *son shall not fail to be treated as an independent*  
6       *contractor with respect to any qualified lodging*  
7       *facility by reason of any of the following:*

8               “(i) *The taxable REIT subsidiary*  
9       *bears the expenses for the operation of the*  
10       *facility pursuant to the management agree-*  
11       *ment or other similar service contract.*

12              “(ii) *The taxable REIT subsidiary re-*  
13       *ceives the revenues from the operation of*  
14       *such facility, net of expenses for such oper-*  
15       *ation and fees payable to the operator pur-*  
16       *suant to such agreement or contract.*

17              “(iii) *The real estate investment trust*  
18       *receives income from such person with re-*  
19       *spect to another property that is attrib-*  
20       *utable to a lease of such other property to*  
21       *such person that was in effect as on the*  
22       *later of—*

23                   “(I) *January 1, 1999, or*

24                   “(II) *the earliest date that any*  
25       *taxable REIT subsidiary of such trust*

1                   entered into a management agreement  
2                   or other similar service contract with  
3                   such person with respect to such quali-  
4                   fied lodging facility.

5                   “(C) RENEWALS, ETC., OF EXISTING  
6           LEASES.—For purposes of subparagraph  
7           (B)(iii)—

8                   “(i) a lease shall be treated as in effect  
9                   on January 1, 1999, without regard to its  
10                  renewal after such date, so long as such re-  
11                  newal is pursuant to the terms of such lease  
12                  as in effect on whichever of the dates under  
13                  subparagraph (B)(iii) is the latest, and

14                  “(ii) a lease of a property entered into  
15                  after whichever of the dates under subpara-  
16                  graph (B)(iii) is the latest shall be treated  
17                  as in effect on such date if—

18                          “(I) on such date, a lease of such  
19                          property from the trust was in effect,  
20                          and

21                          “(II) under the terms of the new  
22                          lease, such trust receives a substan-  
23                          tially similar or lesser benefit in com-  
24                          parison to the lease referred to in sub-  
25                          clause (I).

1           “(D) *QUALIFIED LODGING FACILITY.*—For  
2           purposes of this paragraph—

3           “(i) *IN GENERAL.*—The term ‘qualified  
4           lodging facility’ means any lodging facility  
5           unless wagering activities are conducted at  
6           or in connection with such facility by any  
7           person who is engaged in the business of ac-  
8           cepting wagers and who is legally author-  
9           ized to engage in such business at or in con-  
10          nection with such facility.

11          “(ii) *LODGING FACILITY.*—The term  
12          ‘lodging facility’ means a hotel, motel, or  
13          other establishment more than one-half of  
14          the dwelling units in which are used on a  
15          transient basis.

16          “(iii) *CUSTOMARY AMENITIES AND FA-*  
17          *CILITIES.*—The term ‘lodging facility’ in-  
18          cludes customary amenities and facilities  
19          operated as part of, or associated with, the  
20          lodging facility so long as such amenities  
21          and facilities are customary for other prop-  
22          erties of a comparable size and class owned  
23          by other owners unrelated to such real estate  
24          investment trust.

1           “(E) *OPERATE INCLUDES MANAGE.*—*Ref-*  
 2           *erences in this paragraph to operating a prop-*  
 3           *erty shall be treated as including a reference to*  
 4           *managing the property.*

5           “(F) *RELATED PERSON.*—*Persons shall be*  
 6           *treated as related to each other if such persons*  
 7           *are treated as a single employer under subsection*  
 8           *(a) or (b) of section 52.”.*

9           (2) *CONFORMING AMENDMENT.*—*Subparagraph*  
 10          *(B) of section 856(d)(2) is amended by inserting “ex-*  
 11          *cept as provided in paragraph (8),” after “(B)”.*

12          (3) *DETERMINING RENTS FROM REAL PROP-*  
 13          *ERTY.*—

14                (A)(i) *Paragraph (1) of section 856(d) is*  
 15                *amended by striking “adjusted bases” in each*  
 16                *place that it occurs and inserting “fair market*  
 17                *values” in each such place.*

18                (ii) *The amendment made by this para-*  
 19                *graph shall apply to taxable years beginning*  
 20                *after December 31, 1999.*

21                (B)(i) *Clause (i) of section 856(d)(2)(B) is*  
 22                *amended by striking “number” and inserting*  
 23                *“value”.*

24                (ii) *The amendment made by this para-*  
 25                *graph shall apply to amounts received or accrued*

1           *in taxable years beginning after December 31,*  
 2           *1999, except for amounts paid pursuant to leases*  
 3           *in effect on July 12, 1999 or pursuant to a bind-*  
 4           *ing contract in effect on such date and at all*  
 5           *times thereafter.*

6 **SEC. 1023. TAXABLE REIT SUBSIDIARY.**

7           *(a) IN GENERAL.—Section 856 is amended by adding*  
 8           *at the end the following new subsection:*

9           *“(l) TAXABLE REIT SUBSIDIARY.—For purposes of*  
 10          *this part—*

11           *“(1) IN GENERAL.—The term ‘taxable REIT sub-*  
 12          *sidary’ means, with respect to a real estate invest-*  
 13          *ment trust, a corporation (other than a real estate in-*  
 14          *vestment trust) if—*

15                   *“(A) such trust directly or indirectly owns*  
 16                   *stock in such corporation, and*

17                   *“(B) such trust and such corporation joint-*  
 18                   *ly elect that such corporation shall be treated as*  
 19                   *a taxable REIT subsidiary of such trust for pur-*  
 20                   *poses of this part.*

21          *Such an election, once made, shall be irrevocable un-*  
 22          *less both such trust and corporation consent to its rev-*  
 23          *ocation. Such election, and any revocation thereof,*  
 24          *may be made without the consent of the Secretary.*

1           “(2) 35 PERCENT OWNERSHIP IN ANOTHER TAX-  
 2       ABLE REIT SUBSIDIARY.—The term ‘taxable REIT  
 3       subsidiary’ includes, with respect to any real estate  
 4       investment trust, any corporation (other than a real  
 5       estate investment trust) with respect to which a tax-  
 6       able REIT subsidiary of such trust owns directly or  
 7       indirectly—

8           “(A) securities possessing more than 35 per-  
 9       cent of the total voting power of the outstanding  
 10      securities of such corporation, or

11          “(B) securities having a value of more than  
 12      35 percent of the total value of the outstanding  
 13      securities of such corporation.

14      The preceding sentence shall not apply to a qualified  
 15      REIT subsidiary (as defined in subsection (i)(2)).  
 16      The rule of section 856(c)(7) shall apply for purposes  
 17      of subparagraph (B).

18          “(3) EXCEPTIONS.—The term ‘taxable REIT  
 19      subsidiary’ shall not include—

20          “(A) any corporation which directly or in-  
 21      directly operates or manages a lodging facility  
 22      or a health care facility, and

23          “(B) any corporation which directly or in-  
 24      directly provides to any other person (under a  
 25      franchise, license, or otherwise) rights to any



1           *brand name under which any lodging facility or*  
 2           *health care facility is operated.*

3           *Subparagraph (B) shall not apply to rights provided*  
 4           *to an eligible independent contractor to operate or*  
 5           *manage a lodging facility if such rights are held by*  
 6           *such corporation as a franchisee, licensee, or in a*  
 7           *similar capacity and such lodging facility is either*  
 8           *owned by such corporation or is leased to such cor-*  
 9           *poration from the real estate investment trust.*

10           “(4) *DEFINITIONS.*—For purposes of paragraph  
 11           (3)—

12                   “(A) *LODGING FACILITY.*—The term ‘lodg-  
 13                   ing facility’ has the meaning given to such term  
 14                   by paragraph (9)(D)(ii).

15                   “(B) *HEALTH CARE FACILITY.*—The term  
 16                   ‘health care facility’ has the meaning given to  
 17                   such term by subsection (e)(6)(D)(ii).”.

18           (b) *CONFORMING AMENDMENT.*—Paragraph (2) of sec-  
 19           tion 856(i) is amended by adding at the end the following  
 20           new sentence: “Such term shall not include a taxable *REIT*  
 21           subsidiary.”.

22   **SEC. 1024. LIMITATION ON EARNINGS STRIPPING.**

23           *Paragraph (3) of section 163(j) (relating to limitation*  
 24           *on deduction for interest on certain indebtedness) is amend-*  
 25           *ed by striking “and” at the end of subparagraph (A), by*

1 *striking the period at the end of subparagraph (B) and in-*  
 2 *serting “, and”, and by adding at the end the following*  
 3 *new subparagraph:*

4                   “(C) any interest paid or accrued (directly  
 5                   or indirectly) by a taxable REIT subsidiary (as  
 6                   defined in section 856(l)) of a real estate invest-  
 7                   ment trust to such trust.”.

8 **SEC. 1025. 100 PERCENT TAX ON IMPROPERLY ALLOCATED**  
 9 **AMOUNTS.**

10           (a) *IN GENERAL.*—Subsection (b) of section 857 (relat-  
 11 *ing to method of taxation of real estate investment trusts*  
 12 *and holders of shares or certificates of beneficial interest)*  
 13 *is amended by redesignating paragraphs (7) and (8) as*  
 14 *paragraphs (8) and (9), respectively, and by inserting after*  
 15 *paragraph (6) the following new paragraph:*

16                   “(7) *INCOME FROM REDETERMINED RENTS, RE-*  
 17 *DETERMINED DEDUCTIONS, AND EXCESS INTEREST.*—

18                   “(A) *IMPOSITION OF TAX.*—There is hereby  
 19                   imposed for each taxable year of the real estate  
 20                   investment trust a tax equal to 100 percent of re-  
 21                   determined rents, redetermined deductions, and  
 22                   excess interest.

23                   “(B) *REDETERMINED RENTS.*—

24                   “(i) *IN GENERAL.*—The term ‘redeter-  
 25                   mined rents’ means rents from real prop-

erty (as defined in subsection 856(d)) the amount of which would (but for subparagraph (E)) be reduced on distribution, apportionment, or allocation under section 482 to clearly reflect income as a result of services furnished or rendered by a taxable REIT subsidiary of the real estate investment trust to a tenant of such trust.

“(ii) *EXCEPTION FOR CERTAIN SERVICES.*—Clause (i) shall not apply to amounts received directly or indirectly by a real estate investment trust for services described in paragraph (1)(B) or (7)(C)(i) of section 856(d).

“(iii) *EXCEPTION FOR DE MINIMIS AMOUNTS.*—Clause (i) shall not apply to amounts described in section 856(d)(7)(A) with respect to a property to the extent such amounts do not exceed the one percent threshold described in section 856(d)(7)(B) with respect to such property.

“(iv) *EXCEPTION FOR COMPARABLY PRICED SERVICES.*—Clause (i) shall not apply to any service rendered by a taxable

1 *REIT subsidiary of a real estate investment*  
2 *trust to a tenant of such trust if—*

3 “(I) *such subsidiary renders a sig-*  
4 *nificant amount of similar services to*  
5 *persons other than such trust and ten-*  
6 *ants of such trust who are unrelated*  
7 *(within the meaning of section*  
8 *856(d)(8)(F)) to such subsidiary, trust,*  
9 *and tenants, but*

10 “(II) *only to the extent the charge*  
11 *for such service so rendered is substan-*  
12 *tially comparable to the charge for the*  
13 *similar services rendered to persons re-*  
14 *ferred to in subclause (I).*

15 “(v) *EXCEPTION FOR CERTAIN SEPA-*  
16 *RATELY CHARGED SERVICES.—Clause (i)*  
17 *shall not apply to any service rendered by*  
18 *a taxable REIT subsidiary of a real estate*  
19 *investment trust to a tenant of such trust*  
20 *if—*

21 “(I) *the rents paid to the trust by*  
22 *tenants (leasing at least 25 percent of*  
23 *the net leasable space in the trust’s*  
24 *property) who are not receiving such*  
25 *service from such subsidiary are sub-*

1                   *stantially comparable to the rents paid*  
2                   *by tenants leasing comparable space*  
3                   *who are receiving such service from*  
4                   *such subsidiary, and*

5                   “(II) *the charge for such service*  
6                   *from such subsidiary is separately*  
7                   *stated.*

8                   “(vi) *EXCEPTION FOR CERTAIN SERV-*  
9                   *ICES BASED ON SUBSIDIARY’S INCOME FROM*  
10                  *THE SERVICES.—Clause (i) shall not apply*  
11                  *to any service rendered by a taxable REIT*  
12                  *subsidiary of a real estate investment trust*  
13                  *to a tenant of such trust if the gross income*  
14                  *of such subsidiary from such service is not*  
15                  *less than 150 percent of such subsidiary’s*  
16                  *direct cost in furnishing or rendering the*  
17                  *service.*

18                  “(vii) *EXCEPTIONS GRANTED BY SEC-*  
19                  *RETARY.—The Secretary may waive the tax*  
20                  *otherwise imposed by subparagraph (A) if*  
21                  *the trust establishes to the satisfaction of the*  
22                  *Secretary that rents charged to tenants were*  
23                  *established on an arms’ length basis even*  
24                  *though a taxable REIT subsidiary of the*  
25                  *trust provided services to such tenants.*

1           “(C) *REDETERMINED DEDUCTIONS.*—The  
2           term ‘redetermined deductions’ means deductions  
3           (other than redetermined rents) of a taxable  
4           REIT subsidiary of a real estate investment  
5           trust if the amount of such deductions would  
6           (but for subparagraph (E)) be decreased on dis-  
7           tribution, apportionment, or allocation under  
8           section 482 to clearly reflect income as between  
9           such subsidiary and such trust.

10           “(D) *EXCESS INTEREST.*—The term ‘excess  
11           interest’ means any deductions for interest pay-  
12           ments by a taxable REIT subsidiary of a real es-  
13           tate investment trust to such trust to the extent  
14           that the interest payments are in excess of a rate  
15           that is commercially reasonable.

16           “(E) *COORDINATION WITH SECTION 482.*—  
17           The imposition of tax under subparagraph (A)  
18           shall be in lieu of any distribution, apportion-  
19           ment, or allocation under section 482.

20           “(F) *REGULATORY AUTHORITY.*—The Sec-  
21           retary shall prescribe such regulations as may be  
22           necessary or appropriate to carry out the pur-  
23           poses of this paragraph. Until the Secretary pre-  
24           scribes such regulations, real estate investment  
25           trusts and their taxable REIT subsidiaries may

1           *base their allocations on any reasonable meth-*  
 2           *od.”.*

3           **(b) AMOUNT SUBJECT TO TAX NOT REQUIRED TO BE**  
 4   *DISTRIBUTED.*—Subparagraph (E) of section 857(b)(2) (re-  
 5   *lating to real estate investment trust taxable income)* is  
 6   *amended by striking “paragraph (5)” and inserting “para-*  
 7   *graphs (5) and (7)”.*

8   **SEC. 1026. EFFECTIVE DATE.**

9           **(a) IN GENERAL.**—The amendments made by this part  
 10   *shall apply to taxable years beginning after December 31,*  
 11   *2000.*

12          **(b) TRANSITIONAL RULES RELATED TO SECTION**  
 13   *1021.*—

14           **(1) EXISTING ARRANGEMENTS.**—

15                   **(A) IN GENERAL.**—Except as otherwise pro-  
 16                   *vided in this paragraph, the amendment made*  
 17                   *by section 1021 shall not apply to a real estate*  
 18                   *investment trust with respect to—*

19                           *(i) securities of a corporation held di-*  
 20                           *rectly or indirectly by such trust on July*  
 21                           *12, 1999,*

22                           *(ii) securities of a corporation held by*  
 23                           *an entity on July 12, 1999, if such trust ac-*  
 24                           *quires control of such entity pursuant to a*  
 25                           *written binding contract in effect on such*

1           *date and at all times thereafter before such*  
2           *acquisition,*

3                 *(iii) securities received by such trust*  
4                 *(or a successor) in exchange for, or with re-*  
5                 *spect to, securities described in clause (i) or*  
6                 *(ii) in a transaction in which gain or loss*  
7                 *is not recognized, and*

8                 *(iv) securities acquired directly or in-*  
9                 *directly by such trust as part of a reorga-*  
10                *nization (as defined in section 368(a)(1) of*  
11                *the Internal Revenue Code of 1986) with re-*  
12                *spect to such trust if such securities are de-*  
13                *scribed in clause (i), (ii), or (iii) with re-*  
14                *spect to any other real estate investment*  
15                *trust.*

16           *Notwithstanding the preceding sentence, such se-*  
17           *curities shall be taken into account in deter-*  
18           *mining whether such trust fails to meet the re-*  
19           *quirements of section 856(c)(4)(B) of such Code*  
20           *(as amended by such amendments) if such trust*  
21           *acquires or receives securities to which the pre-*  
22           *ceding sentence does not apply.*

23                 *(B) NEW TRADE OR BUSINESS OR SUBSTAN-*  
24                 *TIAL NEW ASSETS.—Subparagraph (A) shall*  
25                 *cease to apply to securities of a corporation as*



1        *of the first day after July 12, 1999, on which*  
2        *such corporation engages in a substantial new*  
3        *line of business, or acquires any substantial*  
4        *asset, other than—*

5                *(i) pursuant to a binding contract in*  
6                *effect on such date and at all times there-*  
7                *after before the acquisition of such asset,*

8                *(ii) in a transaction in which gain or*  
9                *loss is not recognized by reason of section*  
10               *1031 or 1033 of the Internal Revenue Code*  
11               *of 1986, or*

12               *(iii) in a reorganization (as so de-*  
13               *finied) with another corporation the securi-*  
14               *ties of which are described in paragraph*  
15               *(1)(A) of this subsection.*

16               *(C) LIMITATION ON TRANSITION RULES.—*  
17        *Subparagraph (A) shall cease to apply to securi-*  
18        *ties of a corporation held, acquired, or received,*  
19        *directly or indirectly, by a real estate investment*  
20        *trust as of the first day after July 12, 1999, on*  
21        *which such trust acquires any additional securi-*  
22        *ties of such corporation other than—*

23               *(i) pursuant to a binding contract in*  
24               *effect on such date and at all times there-*  
25               *after, or*

1                   (ii) in a reorganization (as so defined)  
 2                   with another corporation the securities of  
 3                   which are described in paragraph (1)(A) of  
 4                   this subsection.

5                   (2) *TAX-FREE CONVERSION.*—If—

6                   (A) at the time of an election for a corpora-  
 7                   tion to become a taxable REIT subsidiary, the  
 8                   amendment made by section 1021 does not apply  
 9                   to such corporation by reason of paragraph (1),  
 10                  and

11                  (B) such election first takes effect before  
 12                  January 1, 2004,  
 13                  such election shall be treated as a reorganization  
 14                  qualifying under section 368(a)(1)(A) of such Code.

15                   **PART II—HEALTH CARE REITS**

16                  **SEC. 1031. HEALTH CARE REITS.**

17                  (a) *SPECIAL FORECLOSURE RULE FOR HEALTH CARE*  
 18                  *PROPERTIES.*—Subsection (e) of section 856 (relating to  
 19                  special rules for foreclosure property) is amended by adding  
 20                  at the end the following new paragraph:

21                   “(6) *SPECIAL RULE FOR QUALIFIED HEALTH*  
 22                   *CARE PROPERTIES.*—For purposes of this  
 23                   subsection—

24                   “(A) *ACQUISITION AT EXPIRATION OF*  
 25                   *LEASE.*—The term ‘foreclosure property’ shall in-

1        *clude any qualified health care property ac-*  
2        *quired by a real estate investment trust as the*  
3        *result of the termination of a lease of such prop-*  
4        *erty (other than a termination by reason of a de-*  
5        *fault, or the imminence of a default, on the*  
6        *lease).*

7                *“(B) GRACE PERIOD.—In the case of a*  
8        *qualified health care property which is fore-*  
9        *closure property solely by reason of subpara-*  
10       *graph (A), in lieu of applying paragraphs (2)*  
11       *and (3)—*

12                *“(i) the qualified health care property*  
13        *shall cease to be foreclosure property as of*  
14        *the close of the second taxable year after the*  
15        *taxable year in which such trust acquired*  
16        *such property, and*

17                *“(ii) if the real estate investment trust*  
18        *establishes to the satisfaction of the Sec-*  
19        *retary that an extension of the grace period*  
20        *in clause (i) is necessary to the orderly leas-*  
21        *ing or liquidation of the trust’s interest in*  
22        *such qualified health care property, the Sec-*  
23        *retary may grant 1 or more extensions of*  
24        *the grace period for such qualified health*  
25        *care property.*

1        *Any such extension shall not extend the grace pe-*  
2        *riod beyond the close of the 6th year after the*  
3        *taxable year in which such trust acquired such*  
4        *qualified health care property.*

5                *“(C) INCOME FROM INDEPENDENT CON-*  
6        *TRACTORS.—For purposes of applying para-*  
7        *graph (4)(C) with respect to qualified health care*  
8        *property which is foreclosure property by reason*  
9        *of subparagraph (A) or paragraph (1), income*  
10       *derived or received by the trust from an inde-*  
11       *pendent contractor shall be disregarded to the ex-*  
12       *tent such income is attributable to—*

13                *“(i) any lease of property in effect on*  
14        *the date the real estate investment trust ac-*  
15        *quired the qualified health care property*  
16        *(without regard to its renewal after such*  
17        *date so long as such renewal is pursuant to*  
18        *the terms of such lease as in effect on such*  
19        *date), or*

20                *“(ii) any lease of property entered into*  
21        *after such date if—*

22                *“(I) on such date, a lease of such*  
23        *property from the trust was in effect,*  
24        *and*

1                   “(II) under the terms of the new  
 2                   lease, such trust receives a substan-  
 3                   tially similar or lesser benefit in com-  
 4                   parison to the lease referred to in sub-  
 5                   clause (I).

6                   “(D) QUALIFIED HEALTH CARE PROP-  
 7                   PERTY.—

8                   “(i) IN GENERAL.—The term ‘qualified  
 9                   health care property’ means any real prop-  
 10                  erty (including interests therein), and any  
 11                  personal property incident to such real  
 12                  property, which—

13                   “(I) is a health care facility, or

14                   “(II) is necessary or incidental to  
 15                  the use of a health care facility.

16                  “(ii) HEALTH CARE FACILITY.—For  
 17                  purposes of clause (i), the term ‘health care  
 18                  facility’ means a hospital, nursing facility,  
 19                  assisted living facility, congregate care fa-  
 20                  cility, qualified continuing care facility (as  
 21                  defined in section 7872(g)(4)), or other li-  
 22                  censed facility which extends medical or  
 23                  nursing or ancillary services to patients  
 24                  and which, immediately before the termi-  
 25                  nation, expiration, default, or breach of the

1           *lease of or mortgage secured by such facil-*  
 2           *ity, was operated by a provider of such*  
 3           *services which was eligible for participation*  
 4           *in the medicare program under title XVIII*  
 5           *of the Social Security Act with respect to*  
 6           *such facility.”.*

7           ***(b) EFFECTIVE DATE.***—*The amendment made by this*  
 8           *section shall apply to taxable years beginning after Decem-*  
 9           *ber 31, 2000.*

10           ***PART III—CONFORMITY WITH REGULATED***  
 11           ***INVESTMENT COMPANY RULES***

12           ***SEC. 1041. CONFORMITY WITH REGULATED INVESTMENT***  
 13           ***COMPANY RULES.***

14           ***(a) DISTRIBUTION REQUIREMENT.***—*Clauses (i) and*  
 15           *(ii) of section 857(a)(1)(A) (relating to requirements appli-*  
 16           *cable to real estate investment trusts) are each amended by*  
 17           *striking “95 percent (90 percent for taxable years beginning*  
 18           *before January 1, 1980)” and inserting “90 percent”.*

19           ***(b) IMPOSITION OF TAX.***—*Clause (i) of section*  
 20           *857(b)(5)(A) (relating to imposition of tax in case of failure*  
 21           *to meet certain requirements) is amended by striking “95*  
 22           *percent (90 percent in the case of taxable years beginning*  
 23           *before January 1, 1980)” and inserting “90 percent”.*

1       (c) *EFFECTIVE DATE.*—*The amendments made by this*  
2 *section shall apply to taxable years beginning after Decem-*  
3 *ber 31, 2000.*

4       ***PART IV—CLARIFICATION OF EXCEPTION FROM***  
5       ***IMPERMISSIBLE TENANT SERVICE INCOME***

6       ***SEC. 1051. CLARIFICATION OF EXCEPTION FOR INDE-***  
7       ***PENDENT OPERATORS.***

8       (a) *IN GENERAL.*—*Paragraph (3) of section 856(d)*  
9 *(relating to independent contractor defined) is amended by*  
10 *adding at the end the following flush sentence:*

11       *“In the event that any class of stock of either the real*  
12 *estate investment trust or such person is regularly*  
13 *traded on an established securities market, only per-*  
14 *sons who own, directly or indirectly, more than 5 per-*  
15 *cent of such class of stock shall be taken into account*  
16 *as owning any of the stock of such class for purposes*  
17 *of applying the 35 percent limitation set forth in sub-*  
18 *paragraph (B) (but all of the outstanding stock of*  
19 *such class shall be considered outstanding in order to*  
20 *compute the denominator for purpose of determining*  
21 *the applicable percentage of ownership).”.*

22       (b) *EFFECTIVE DATE.*—*The amendment made by this*  
23 *section shall apply to taxable years beginning after Decem-*  
24 *ber 31, 2000.*

**PART V—MODIFICATION OF EARNINGS AND  
PROFITS RULES**

**SEC. 1061. MODIFICATION OF EARNINGS AND PROFITS  
RULES.**

*(a) RULES FOR DETERMINING WHETHER REGULATED  
INVESTMENT COMPANY HAS EARNINGS AND PROFITS FROM  
NON-RIC YEAR.—Subsection (c) of section 852 is amended  
by adding at the end the following new paragraph:*

*“(3) DISTRIBUTIONS TO MEET REQUIREMENTS  
OF SUBSECTION (a)(2)(B).—Any distribution which  
is made in order to comply with the requirements of  
subsection (a)(2)(B)—*

*“(A) shall be treated for purposes of this  
subsection and subsection (a)(2)(B) as made  
from the earliest earnings and profits accumu-  
lated in any taxable year to which the provisions  
of this part did not apply rather than the most  
recently accumulated earnings and profits, and*

*“(B) to the extent treated under subpara-  
graph (A) as made from accumulated earnings  
and profits, shall not be treated as a distribution  
for purposes of subsection (b)(2)(D) and section  
855.”.*

*(b) CLARIFICATION OF APPLICATION OF REIT SPILL-  
OVER DIVIDEND RULES TO DISTRIBUTIONS TO MEET  
QUALIFICATION REQUIREMENT.—Subparagraph (B) of sec-*



1 *tion 857(d)(3) is amended by inserting before the period*  
 2 *“and section 858”.*

3 *(c) APPLICATION OF DEFICIENCY DIVIDEND PROCE-*  
 4 *DURES.—Paragraph (1) of section 852(e) is amended by*  
 5 *adding at the end the following new sentence: “If the deter-*  
 6 *mination under subparagraph (A) is solely as a result of*  
 7 *the failure to meet the requirements of subsection (a)(2), the*  
 8 *preceding sentence shall also apply for purposes of applying*  
 9 *subsection (a)(2) to the non-RIC year.”.*

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

12 **PART VI—STUDY RELATING TO TAXABLE REIT**  
 13 **SUBSIDIARIES**

14 **SEC. 1071. STUDY RELATING TO TAXABLE REIT SUBSIDI-**  
 15 **ARIES.**

16 *The Commissioner of the Internal Revenue shall con-*  
 17 *duct a study to determine how many taxable REIT subsidi-*  
 18 *aries are in existence and the aggregate amount of taxes*  
 19 *paid by such subsidiaries. The Secretary shall submit a re-*  
 20 *port to the Congress describing the results of such study.*

1     ***Subtitle D—Private Activity Bond***  
 2                     ***Volume Cap***

3     ***SEC. 1081. INCREASE IN VOLUME CAP ON PRIVATE ACTIV-***  
 4                     ***ITY BONDS.***

5             (a) *IN GENERAL.*—The table contained in section  
 6     146(d)(2) (relating to per capita limit; aggregate limit) is  
 7     amended by striking “2002”, “2003”, “2004”, “2005”,  
 8     “2006”, and “2007” and inserting “2000”, “2001”, “2002”,  
 9     “2003”, “2004”, and “2005”, respectively.

10            (b) *EFFECTIVE DATE.*—The amendments made by this  
 11     section shall apply to calendar years after 2000.

12                     ***Subtitle E—Leasehold***  
 13                     ***Improvements Depreciation***

14     ***SEC. 1091. RECOVERY PERIOD FOR DEPRECIATION OF CER-***  
 15                     ***TAIN LEASEHOLD IMPROVEMENTS.***

16            (a) *15-YEAR RECOVERY PERIOD.*—Subparagraph (E)  
 17     of section 168(e)(3) (relating to 15-year property) is amend-  
 18     ed by striking “and” at the end of clause (ii), by striking  
 19     the period at the end of clause (iii) and inserting “, and”,  
 20     and by adding at the end the following new clause:

21                             “(iv) any qualified leasehold improve-  
 22                             ment property.”.

23            (b) *QUALIFIED LEASEHOLD IMPROVEMENT PROP-*  
 24     *ERTY.*—Subsection (e) of section 168 is amended by adding  
 25     at the end the following new paragraph:

1           “(6) QUALIFIED LEASEHOLD IMPROVEMENT  
2       PROPERTY.—

3           “(A) IN GENERAL.—The term ‘qualified  
4       leasehold improvement property’ means any im-  
5       provement to an interior portion of a building  
6       which is nonresidential real property if—

7           “(i) such improvement is made under  
8       or pursuant to a lease (as defined in sub-  
9       section (h)(7))—

10           “(I) by the lessee (or any subles-  
11       see) of such portion, or

12           “(II) by the lessor of such portion,

13           “(ii) the original use of such improve-  
14       ment begins with the lessee and after De-  
15       cember 31, 2002,

16           “(iii) such portion is to be occupied ex-  
17       clusively by the lessee (or any sublessee) of  
18       such portion, and

19           “(iv) such improvement is placed in  
20       service more than 3 years after the date the  
21       building was first placed in service.

22           “(B) CERTAIN IMPROVEMENTS NOT IN-  
23       CLUDED.—Such term shall not include any im-  
24       provement for which the expenditure is attrib-  
25       utable to—

1 “(i) the enlargement of the building,

2 “(ii) any elevator or escalator,

3 “(iii) any structural component bene-  
4 fitting a common area, and

5 “(iv) the internal structural framework  
6 of the building.

7 “(C) *DEFINITIONS AND SPECIAL RULES.*—

8 *For purposes of this paragraph—*

9 “(i) *COMMITMENT TO LEASE TREATED*  
10 *AS LEASE.*—A commitment to enter into a  
11 lease shall be treated as a lease, and the  
12 parties to such commitment shall be treated  
13 as lessor and lessee, respectively, if the lease  
14 is in effect at the time the property is  
15 placed in service.

16 “(ii) *RELATED PERSONS.*—A lease be-  
17 tween related persons shall not be considered  
18 a lease. For purposes of the preceding sen-  
19 tence, the term ‘related persons’ means—

20 “(I) members of an affiliated  
21 group (as defined in section 1504), and

22 “(II) persons having a relation-  
23 ship described in subsection (b) of sec-  
24 tion 267(b) or 707(b)(1); except that,  
25 for purposes of this clause, the phrase

1                   ‘80 percent or more’ shall be sub-  
 2                   stituted for the phrase ‘more than 50  
 3                   percent’ each place it appears in such  
 4                   subsections.”.

5           (c) *REQUIREMENT TO USE STRAIGHT LINE METH-*  
 6 *OD.*—Paragraph (3) of section 168(b) is amended by adding  
 7 *at the end the following new subparagraph:*

8                   “(G) Qualified leasehold improvement prop-  
 9                   erty described in subsection (e)(6).”.

10          (d) *EFFECTIVE DATE.*—The amendments made by this  
 11 *section shall apply to qualified leasehold improvement*  
 12 *property placed in service after December 31, 2002.*

## 13           ***TITLE XI—MISCELLANEOUS*** 14                   ***PROVISIONS***

### 15   ***SEC. 1101. REPEAL OF CERTAIN MOTOR FUEL EXCISE TAXES*** 16                   ***ON FUEL USED BY RAILROADS AND ON IN-*** 17                   ***LAND WATERWAY TRANSPORTATION.***

18          (a) *REPEAL OF 4.3-CENT MOTOR FUEL EXCISE TAXES*  
 19 *ON RAILROADS AND INLAND WATERWAY TRANSPORTATION*  
 20 *WHICH REMAIN IN GENERAL FUND.*—

21           (1) *TAXES ON TRAINS.*—

22                   (A) *IN GENERAL.*—Subparagraph (A) of  
 23 *section 4041(a)(1) is amended by striking “or a*  
 24 *diesel-powered train” each place it appears and*  
 25 *by striking “or train”.*

1                   (B) *CONFORMING AMENDMENTS.*—

2                   (i) *Subparagraph (C) of section*  
3                   *4041(a)(1) is amended by striking clause*  
4                   *(ii) and by redesignating clause (iii) as*  
5                   *clause (ii).*

6                   (ii) *Subparagraph (C) of section*  
7                   *4041(b)(1) is amended by striking all that*  
8                   *follows “section 6421(e)(2)” and inserting a*  
9                   *period.*

10                  (iii) *Paragraph (3) of section 4083(a)*  
11                  *is amended by striking “or a diesel-powered*  
12                  *train”.*

13                  (iv) *Section 6427(l) is amended by*  
14                  *striking paragraph (3) and by redesign-*  
15                  *ating paragraphs (4) and (5) as para-*  
16                  *graphs (3) and (4), respectively.*

17                  (2) *FUEL USED ON INLAND WATERWAYS.*—

18                  (A) *IN GENERAL.*—*Paragraph (1) of section*  
19                  *4042(b) is amended by adding “and” at the end*  
20                  *of subparagraph (A), by striking “, and” at the*  
21                  *end of subparagraph (B) and inserting a period,*  
22                  *and by striking subparagraph (C).*

23                  (B) *CONFORMING AMENDMENT.*—*Paragraph*  
24                  *(2) of section 4042(b) is amended by striking*  
25                  *subparagraph (C).*

1       (b) *EFFECTIVE DATE.*—*The amendments made by this*  
 2 *subsection shall take effect on October 1, 2000.*

3       **SEC. 1102. TAX TREATMENT OF ALASKA NATIVE SETTLE-**  
 4                               **MENT TRUSTS.**

5       (a) *TAX EXEMPTION.*—*Section 501(c), as amended by*  
 6 *section 801(a), is amended by adding at the end the fol-*  
 7 *lowing new paragraph:*

8                       “(29) *A trust which—*

9                               “(A) *constitutes a Settlement Trust under*  
 10                               *section 39 of the Alaska Native Claims Settle-*  
 11                               *ment Act (43 U.S.C. 1629e), and*

12                               “(B) *with respect to which an election*  
 13                               *under subsection (p)(2) is in effect.”.*

14       (b) *SPECIAL RULES RELATING TO TAXATION OF ALAS-*  
 15 *KA NATIVE SETTLEMENT TRUSTS.*—*Section 501 is amend-*  
 16 *ed by redesignating subsection (p) as subsection (q) and by*  
 17 *inserting after subsection (o) the following new subsection:*

18                       “(p) *SPECIAL RULES FOR TAXATION OF ALASKA NA-*  
 19 *TIVE SETTLEMENT TRUSTS.*—

20                               “(1) *IN GENERAL.*—*For purposes of this title, the*  
 21                               *following rules shall apply in the case of a Settlement*  
 22                               *Trust:*

23                               “(A) *ELECTING TRUST.*—*If an election*  
 24                               *under paragraph (2) is in effect for any taxable*  
 25                               *year—*

1           “(i) no amount shall be includible in  
 2           the gross income of a beneficiary of the Set-  
 3           tlement Trust by reason of a contribution to  
 4           the Settlement Trust made during such tax-  
 5           able year, and

6           “(ii) except as provided in this sub-  
 7           section, the provisions of subchapter J and  
 8           section 1(e) shall not apply to the Settle-  
 9           ment Trust and its beneficiaries for such  
 10          taxable year.

11          “(B) NONELECTING TRUST.—If an election  
 12          is not in effect under paragraph (2) for any tax-  
 13          able year, the provisions of subchapter J and sec-  
 14          tion 1(e) shall apply to the Settlement Trust and  
 15          its beneficiaries for such taxable year.

16          “(2) ONE-TIME ELECTION.—

17               “(A) IN GENERAL.—A Settlement Trust  
 18               may elect to have the provisions of this sub-  
 19               section and subsection (c)(29) apply to the trust  
 20               and its beneficiaries.

21               “(B) TIME AND METHOD OF ELECTION.—  
 22               An election under subparagraph (A) shall be  
 23               made—

24                       “(i) on or before the due date (includ-  
 25                       ing extensions) for filing the Settlement



1           *Trust’s return of tax for the 1st taxable year*  
2           *of the Settlement Trust ending after Decem-*  
3           *ber 31, 1999, and*

4           “(ii) by attaching to such return of tax  
5           a statement specifically providing for such  
6           election.

7           “(C) *PERIOD ELECTION IN EFFECT.*—*Ex-*  
8           *cept as provided in paragraph (3), an election*  
9           *under subparagraph (A)—*

10           “(i) shall apply to the 1st taxable year  
11           described in subparagraph (B)(i) and all  
12           subsequent taxable years, and

13           “(ii) may not be revoked once it is  
14           made.

15           “(3) *SPECIAL RULES WHERE TRANSFER RE-*  
16           *STRICTIONS MODIFIED.*—

17           “(A) *TRANSFER OF BENEFICIAL INTER-*  
18           *ESTS.*—*If, at any time, a beneficial interest in*  
19           *a Settlement Trust may be disposed of in a man-*  
20           *ner which would not be permitted by section 7(h)*  
21           *of the Alaska Native Claims Settlement Act (43*  
22           *U.S.C. 1606(h)) if the interest were Settlement*  
23           *Common Stock—*

1           “(i) no election may be made under  
2           paragraph (2)(A) with respect to such trust,  
3           and

4           “(ii) if an election under paragraph  
5           (2)(A) is in effect as of such time—

6                   “(I) such election is revoked as of  
7                   the 1st day of the taxable year fol-  
8                   lowing the taxable year in which such  
9                   disposition is first permitted, and

10                   “(II) there is hereby imposed on  
11                   such trust a tax equal to the product of  
12                   the fair market value of the assets held  
13                   by the trust as of the close of the tax-  
14                   able year in which such disposition is  
15                   first permitted and the highest rate of  
16                   tax under section 1(e) for such taxable  
17                   year.

18           *The tax imposed by clause (ii)(II) shall be in*  
19           *lieu of any other tax imposed by this chapter for*  
20           *the taxable year.*

21           “(B) STOCK IN CORPORATION.—If—

22                   “(i) the Settlement Common Stock in  
23                   any Native Corporation which transferred  
24                   assets to a Settlement Trust making an elec-  
25                   tion under paragraph (2)(A) may be dis-

posed of in a manner not permitted by section 7(h) of the Alaska Native Claims Settlement Act (43 U.S.C. 1606(h)), and

“(ii) at any time after such disposition of stock is first permitted, such corporation transfers assets to such trust,

clause (ii) of subparagraph (A) shall be applied to such trust on and after the date of the transfer in the same manner as if the trust permitted dispositions of beneficial interests in the trust in a manner not permitted by such section 7(h).

“(C) *ADMINISTRATIVE PROVISIONS.*—For purposes of subtitle F, any tax imposed by subparagraph (A)(ii)(II) shall be treated as an excise tax with respect to which the deficiency procedures of such subtitle apply.

“(4) *DISTRIBUTION REQUIREMENT ON ELECTING SETTLEMENT TRUST.*—

“(A) *IN GENERAL.*—If an election is in effect under paragraph (2) for any taxable year, a Settlement Trust shall distribute at least 55 percent of its adjusted taxable income for such taxable year.

“(B) *TAX IMPOSED IF INSUFFICIENT DISTRIBUTION.*—If a Settlement Trust fails to meet

1        *the distribution requirement of subparagraph (A)*  
 2        *for any taxable year, then, notwithstanding sub-*  
 3        *section (c)(29), a tax shall be imposed on the*  
 4        *trust under section 1(e) on an amount of taxable*  
 5        *income equal to the amount of such failure.*

6                “(C) *DESIGNATION OF DISTRIBUTION.—*  
 7        *Solely for purposes of meeting the requirements*  
 8        *of this paragraph, a Settlement Trust may elect*  
 9        *to treat any distribution (or portion) during the*  
 10        *65-day period following the close of any taxable*  
 11        *year as made on the last day of such taxable*  
 12        *year. Any such distribution (or portion) may not*  
 13        *be taken into account under this paragraph for*  
 14        *any other taxable year.*

15               “(D) *ADJUSTED TAXABLE INCOME.—For*  
 16        *purposes of this paragraph, the term ‘adjusted*  
 17        *taxable income’ means taxable income deter-*  
 18        *mined under section 641(b) without regard to*  
 19        *any deduction under section 651 or 661.*

20               “(5) *TAX TREATMENT OF DISTRIBUTIONS TO*  
 21        *BENEFICIARIES.—*

22               “(A) *ELECTING TRUST.—If an election is in*  
 23        *effect under paragraph (2) for any taxable year,*  
 24        *any distribution to a beneficiary shall be in-*

1        *cluded in gross income of the beneficiary as ordi-*  
 2        *nary income.*

3                “(B) *NONELECTING TRUSTS.*—*Any distribu-*  
 4        *tion to a beneficiary from a Settlement Trust not*  
 5        *described in subparagraph (A) shall be includible*  
 6        *in income as provided under subchapter J.*

7                “(C) *EARNINGS AND PROFITS.*—*The earn-*  
 8        *ings and profits of any Native Corporation mak-*  
 9        *ing a contribution to a Settlement Trust shall*  
 10       *not be reduced on account thereof at the time of*  
 11       *such contribution, but such earnings and profits*  
 12       *shall be reduced (up to the amount of such con-*  
 13       *tribution) as distributions are thereafter made*  
 14       *by the Settlement Trust which exceed the sum*  
 15       *of—*

16                “(i) *such Trust’s total undistributed*  
 17        *net income for all prior years during which*  
 18        *an election under paragraph (2) is in effect,*  
 19        *and*

20                “(ii) *such Trust’s distributable net in-*  
 21        *come.*

22                “(6) *DEFINITIONS.*—*For purposes of this*  
 23        *subsection—*

24                “(A) *NATIVE CORPORATION.*—*The term ‘Na-*  
 25        *tive Corporation’ has the meaning given such*

1           *term by section 3(m) of the Alaska Native*  
 2           *Claims Settlement Act (43 U.S.C. 1602(m)).*

3           “(B) *SETTLEMENT TRUST.*—*The term ‘Set-*  
 4           *tlement Trust’ means a trust which constitutes a*  
 5           *Settlement Trust under section 39 of the Alaska*  
 6           *Native Claims Settlement Act (43 U.S.C.*  
 7           *1629e).’.*”

8           (c) *WITHHOLDING ON DISTRIBUTIONS BY ELECTING*  
 9           *ANCSA SETTLEMENT TRUSTS.*—*Section 3402 is amended*  
 10          *by adding at the end the following new subsection:*

11          “(t) *TAX WITHHOLDING ON DISTRIBUTIONS BY*  
 12          *ELECTING ANCSA SETTLEMENT TRUSTS.*—

13                 “(1) *IN GENERAL.*—*Any Settlement Trust (as de-*  
 14                 *finied in section 501(p)(6)(B)) which is exempt from*  
 15                 *income tax under section 501(c)(29) (in this sub-*  
 16                 *section referred to as an ‘electing trust’) and which*  
 17                 *makes a payment to any beneficiary shall deduct and*  
 18                 *withhold from such payment a tax in an amount*  
 19                 *equal to such payment’s proportionate share of the*  
 20                 *annualized tax.*

21                 “(2) *EXCEPTION.*—*The tax imposed by para-*  
 22                 *graph (1) shall not apply to any payment to the ex-*  
 23                 *tent that such payment, when annualized, does not*  
 24                 *exceed an amount equal to the amount in effect under*

1      *section 6012(a)(1)(A)(i) for taxable years beginning*  
 2      *in the calendar year in which the payment is made.*

3            *“(3) ANNUALIZED TAX.—For purposes of para-*  
 4      *graph (1), the term ‘annualized tax’ means, with re-*  
 5      *spect to any payment, the amount of tax which would*  
 6      *be imposed by section 1(c) (determined without re-*  
 7      *gard to any rate of tax in excess of 31 percent) on*  
 8      *an amount of taxable income equal to the excess of—*

9            *“(A) the annualized amount of such pay-*  
 10     *ment, over*

11           *“(B) the amount determined under para-*  
 12     *graph (2).*

13           *“(4) ANNUALIZATION.—For purposes of this sub-*  
 14     *section, amounts shall be annualized in the manner*  
 15     *prescribed by the Secretary.*

16           *“(5) ALTERNATE WITHHOLDING PROCEDURES.—*  
 17     *At the election of an electing trust, the tax imposed*  
 18     *by this subsection on any payment made by such*  
 19     *trust shall be determined in accordance with such ta-*  
 20     *bles or computational procedures as may be specified*  
 21     *in regulations prescribed by the Secretary (in lieu of*  
 22     *in accordance with paragraphs (2) and (3)).*

23           *“(6) COORDINATION WITH OTHER SECTIONS.—*  
 24     *For purposes of this chapter and so much of subtitle*  
 25     *F as relates to this chapter, payments which are sub-*

1        *ject to withholding under this subsection shall be*  
 2        *treated as if they were wages paid by an employer to*  
 3        *an employee.”.*

4        *(d) REPORTING.—Section 6041 is amended by adding*  
 5        *at the end the following new subsection:*

6        *“(f) APPLICATION TO ALASKA NATIVE SETTLEMENT*  
 7        *TRUSTS.—In the case of any distribution from a Settlement*  
 8        *Trust (as defined in section 501(p)(6)(B)) to a beneficiary,*  
 9        *this section shall apply, except that—*

10            *“(1) this section shall apply to such distribution*  
 11            *without regard to the amount thereof,*

12            *“(2) the Settlement Trust shall include on any*  
 13            *return or statement required by this section informa-*  
 14            *tion as to the character of such distribution (if appli-*  
 15            *cable) and the amount of tax imposed by chapter 1*  
 16            *which has been deducted and withheld from such dis-*  
 17            *tribution, and*

18            *“(3) the filing of any return or statement re-*  
 19            *quired by this section shall satisfy any requirement to*  
 20            *file any other form or schedule under this title with*  
 21            *respect to distributive share information (including*  
 22            *any form or schedule to be included with the trust’s*  
 23            *tax return).”.*

24        *(e) EFFECTIVE DATE.—The amendments made by this*  
 25        *section shall apply to taxable years of Settlement Trusts*



1 *ending after December 31, 1999, and to contributions to*  
 2 *such trusts after such date.*

3 **SEC. 1103. LONG-TERM UNUSED CREDITS ALLOWED**  
 4 **AGAINST MINIMUM TAX.**

5 *(a) IN GENERAL.—Subsection (c) of section 53 (relat-*  
 6 *ing to limitation) is amended by adding at the end the fol-*  
 7 *lowing:*

8 *“(2) SPECIAL RULE FOR CORPORATIONS WITH*  
 9 *LONG-TERM UNUSED CREDITS.—*

10 *“(A) IN GENERAL.—If—*

11 *“(i) a corporation to which section*  
 12 *56(g) applies has a long-term unused min-*  
 13 *imum tax credit for a taxable year, and*

14 *“(ii) no credit would be allowable*  
 15 *under this section for the taxable year by*  
 16 *reason of paragraph (1),*

17 *then there shall be allowed a credit under sub-*  
 18 *section (a) for the taxable year in the amount de-*  
 19 *termined under subparagraph (B).*

20 *“(B) AMOUNT OF CREDIT.—For purposes of*  
 21 *subparagraph (A), the amount of the credit shall*  
 22 *be equal to the least of the following for the tax-*  
 23 *able year:*

24 *“(i) The long-term unused minimum*  
 25 *tax credit.*

1                   “(ii) 50 percent of the taxpayer’s ten-  
2                   tative minimum tax.

3                   “(iii) The excess (if any) of the amount  
4                   under paragraph (1)(B) over the amount  
5                   under paragraph (1)(A).

6                   “(C) LONG-TERM UNUSED MINIMUM TAX  
7                   CREDIT.—For purposes of this paragraph—

8                   “(i) IN GENERAL.—The long-term un-  
9                   used minimum tax credit for any taxable  
10                  year is the portion of the minimum tax  
11                  credit determined under subsection (b) at-  
12                  tributable to the adjusted net minimum tax  
13                  for taxable years beginning after 1986 and  
14                  ending before the 5th taxable year imme-  
15                  diately preceding the taxable year for which  
16                  the determination is being made.

17                  “(ii) FIRST-IN, FIRST-OUT ORDERING  
18                  RULE.—For purposes of clause (i), credits  
19                  shall be treated as allowed under subsection  
20                  (a) on a first-in, first-out basis.”.

21                  (b) CONFORMING AMENDMENTS.—Section 53(c) (as in  
22                  effect before the amendment made by subsection (a)) is  
23                  amended—

24                         (1) by striking “The” and inserting the fol-  
25                         lowing:

1           “(1) *IN GENERAL.—The*”; and  
 2           (2) *by redesignating paragraphs (1) and (2) as*  
 3           *subparagraphs (A) and (B), respectively.*

4           (c) *EFFECTIVE DATE.—The amendments made by this*  
 5           *section shall apply to taxable years beginning after Decem-*  
 6           *ber 31, 2003.*

7   **SEC. 1104. 5-YEAR NET OPERATING LOSS CARRYBACK FOR**  
 8           **LOSSES ATTRIBUTABLE TO OPERATING MIN-**  
 9           **ERAL INTERESTS OF INDEPENDENT OIL AND**  
 10           **GAS PRODUCERS.**

11          (a) *IN GENERAL.—Paragraph (1) of section 172(b)*  
 12          *(relating to years to which loss may be carried) is amended*  
 13          *by adding at the end the following new subparagraph:*

14               “(H) *LOSSES ON OPERATING MINERAL IN-*  
 15               *TERESTS OF INDEPENDENT OIL AND GAS PRO-*  
 16               *DUCERS.—In the case of a taxpayer—*

17                       “(i) *which has an eligible oil and gas*  
 18                       *loss (as defined in subsection (j)) for a tax-*  
 19                       *able year, and*

20                       “(ii) *which is not an integrated oil*  
 21                       *company (as defined in section 291(b)(4)),*  
 22                       *such eligible oil and gas loss shall be a net oper-*  
 23                       *ating loss carryback to each of the 5 taxable*  
 24                       *years preceding the taxable year of such loss.”.*

1       (b) *ELIGIBLE OIL AND GAS LOSS.*—Section 172 is  
 2       amended by redesignating subsection (j) as subsection (k)  
 3       and by inserting after subsection (i) the following new sub-  
 4       section:

5       “(j) *ELIGIBLE OIL AND GAS LOSS.*—For purposes of  
 6       this section—

7               “(1) *IN GENERAL.*—The term ‘eligible oil and  
 8       gas loss’ means the lesser of—

9                       “(A) the amount which would be the net op-  
 10                      erating loss for the taxable year if only income  
 11                      and deductions attributable to operating mineral  
 12                      interests (as defined in section 614(d)) in oil and  
 13                      gas wells are taken into account, or

14                     “(B) the amount of the net operating loss  
 15                     for such taxable year.

16               “(2) *COORDINATION WITH SUBSECTION (b)(2).*—  
 17       For purposes of applying subsection (b)(2), an eligible  
 18       oil and gas loss for any taxable year shall be treated  
 19       in a manner similar to the manner in which a speci-  
 20       fied liability loss is treated.

21               “(3) *ELECTION.*—Any taxpayer entitled to a 5-  
 22       year carryback under subsection (b)(1)(H) from any  
 23       loss year may elect to have the carryback period with  
 24       respect to such loss year determined without regard to  
 25       subsection (b)(1)(H).”.

1       (c) *EFFECTIVE DATE.*—*The amendments made by this*  
 2 *section shall apply to net operating losses for taxable years*  
 3 *beginning after December 31, 1998.*

4       **SEC. 1105. ELECTION TO EXPENSE GEOLOGICAL AND GEO-**  
 5                               **PHYSICAL EXPENDITURES.**

6       (a) *IN GENERAL.*—*Section 263 (relating to capital ex-*  
 7 *penditures) is amended by adding at the end the following:*  
 8       “(j) *GEOLOGICAL AND GEOPHYSICAL EXPENDITURES*  
 9 *FOR DOMESTIC OIL AND GAS WELLS.*—*Notwithstanding*  
 10 *subsection (a), a taxpayer may elect to treat geological and*  
 11 *geophysical expenses incurred in connection with the explo-*  
 12 *ration for, or development of, oil or gas within the United*  
 13 *States (as defined in section 638) as expenses which are*  
 14 *not chargeable to capital account. Any expenses so treated*  
 15 *shall be allowed as a deduction in the taxable year in which*  
 16 *paid or incurred.”.*

17       (b) *CONFORMING AMENDMENT.*—*Section 263A(c)(3) is*  
 18 *amended by inserting “263(j),” after “263(i),”.*

19       (c) *EFFECTIVE DATE.*—*The amendments made by this*  
 20 *section shall apply to expenses paid or incurred in taxable*  
 21 *years beginning after December 31, 1999.*

1 **SEC. 1106. ELECTION TO EXPENSE DELAY RENTAL PAY-**  
 2 **MENTS**

3 (a) *IN GENERAL.*—Section 263 (relating to capital ex-  
 4 penditures), as amended by section 1105(a), is amended by  
 5 adding at the end the following:

6 “(k) *DELAY RENTAL PAYMENTS FOR DOMESTIC OIL*  
 7 *AND GAS WELLS.*—

8 “(1) *IN GENERAL.*—Notwithstanding subsection  
 9 (a), a taxpayer may elect to treat delay rental pay-  
 10 ments incurred in connection with the development of  
 11 oil or gas within the United States (as defined in sec-  
 12 tion 638) as payments which are not chargeable to  
 13 capital account. Any payments so treated shall be al-  
 14 lowed as a deduction in the taxable year in which  
 15 paid or incurred.

16 “(2) *DELAY RENTAL PAYMENTS.*—For purposes  
 17 of paragraph (1), the term ‘delay rental payment’  
 18 means an amount paid for the privilege of deferring  
 19 development of an oil or gas well.”.

20 (b) *CONFORMING AMENDMENT.*—Section 263A(c)(3),  
 21 as amended by section 1105(b), is amended by inserting  
 22 “263(k),” after “263(j),”.

23 (c) *EFFECTIVE DATE.*—The amendments made by this  
 24 section shall apply to payments made or incurred in tax-  
 25 able years beginning after December 31, 1999.

1 **SEC. 1107. MODIFICATION OF ACTIVE BUSINESS DEFINI-**  
 2 **TION UNDER SECTION 355.**

3 (a) *IN GENERAL.*—Section 355(b) (defining active con-  
 4 duct of a trade or business) is amended by adding at the  
 5 end the following new paragraph:

6 “(3) *SPECIAL RULES RELATING TO ACTIVE BUSI-*  
 7 *NESS REQUIREMENT.*—

8 “(A) *IN GENERAL.*—For purposes of deter-  
 9 mining whether a corporation meets the require-  
 10 ment of paragraph (2)(A), all members of such  
 11 corporation’s separate affiliated group shall be  
 12 treated as 1 corporation. For purposes of the pre-  
 13 ceding sentence, a corporation’s separate affili-  
 14 ated group is the affiliated group which would be  
 15 determined under section 1504(a) if such cor-  
 16 poration were the common parent and section  
 17 1504(b) did not apply.

18 “(B) *CONTROL.*—For purposes of para-  
 19 graph (2)(D), all distributee corporations which  
 20 are members of the same affiliated group (as de-  
 21 fined in section 1504(a) without regard to sec-  
 22 tion 1504(b)) shall be treated as 1 distributee  
 23 corporation.”.

24 (b) *CONFORMING AMENDMENTS.*—

25 (1) Subparagraph (A) of section 355(b)(2) is  
 26 amended to read as follows:

1           “(A) it is engaged in the active conduct of  
2           a trade or business,”.

3           (2) Section 355(b)(2) is amended by striking the  
4           last sentence.

5           (c) *EFFECTIVE DATE.*—

6           (1) *IN GENERAL.*—The amendments made by  
7           this section shall apply to distributions after the date  
8           of the enactment of this Act.

9           (2) *TRANSITION RULE.*—The amendments made  
10          by this section shall not apply to any distribution  
11          pursuant to a transaction which is—

12               (A) made pursuant to an agreement which  
13               was binding on such date and at all times there-  
14               after,

15               (B) described in a ruling request submitted  
16               to the Internal Revenue Service on or before such  
17               date, or

18               (C) described on or before such date in a  
19               public announcement or in a filing with the Se-  
20               curities and Exchange Commission.

21          (3) *ELECTION TO HAVE AMENDMENTS APPLY.*—  
22          Paragraph (2) shall not apply if the distributing cor-  
23          poration elects not to have such paragraph apply to  
24          distributions of such corporation. Any such election,  
25          once made, shall be irrevocable.



1 **SEC. 1108. TEMPORARY SUSPENSION OF MAXIMUM AMOUNT**  
2 **OF AMORTIZABLE REFORESTATION EXPENDI-**  
3 **TURES.**

4 (a) *INCREASE IN DOLLAR LIMITATION.*—Paragraph  
5 (1) of section 194(b) (relating to amortization of reforest-  
6 ation expenditures) is amended by striking “\$10,000  
7 (\$5,000” and inserting “\$25,000 (\$12,500”.

8 (b) *TEMPORARY SUSPENSION OF INCREASED DOLLAR*  
9 *LIMITATION.*—Subsection (b) of section 194(b) (relating to  
10 amortization of reforestation expenditures) is amended by  
11 adding at the end the following new paragraph:

12 “(5) *SUSPENSION OF DOLLAR LIMITATION.*—  
13 Paragraph (1) shall not apply to taxable years begin-  
14 ning after December 31, 1999, and before January 1,  
15 2004.

16 (c) *CONFORMING AMENDMENT.*—Paragraph (1) of sec-  
17 tion 48(b) is amended by striking “section 194(b)(1)” and  
18 inserting “section 194(b)(1) and without regard to section  
19 194(b)(5)”.

20 (d) *EFFECTIVE DATE.*—The amendments made by this  
21 section shall apply to taxable years beginning after Decem-  
22 ber 31, 1999.

1 **SEC. 1109. MODIFICATION OF EXCISE TAX IMPOSED ON**  
2 **ARROW COMPONENTS.**

3 (a) *IN GENERAL.*—Paragraph (2) of section 4161(b)  
4 (relating to bows and arrows, etc.) is amended to read as  
5 follows:

6 “(2) *ARROWS.*—

7 “(A) *IN GENERAL.*—There is hereby im-  
8 posed on the sale by the manufacturer, producer,  
9 or importer of any shaft, point, article used to  
10 attach a point to a shaft,nock, or vane of a type  
11 used in the manufacture of any arrow which  
12 after its assembly—

13 “(i) measures 18 inches overall or more  
14 in length, or

15 “(ii) measures less than 18 inches over-  
16 all in length but is suitable for use with a  
17 bow described in paragraph (1)(A),  
18 a tax equal to 12.4 percent of the price for which  
19 so sold.

20 “(B) *REDUCED RATE ON CERTAIN HUNTING*  
21 *POINTS.*—Subparagraph (A) shall be applied by  
22 substituting ‘11 percent’ for ‘12.4 percent’ in the  
23 case of a point which is designed primarily for  
24 use in hunting fish or large animals.”.

25 (b) *EFFECTIVE DATE.*—The amendment made by this  
26 section shall apply to articles sold by the manufacturer,

1 *producer, or importer after the close of the first calendar*  
 2 *month ending more than 30 days after the date of the enact-*  
 3 *ment of this Act.*

4 **SEC. 1110. INCREASE IN THRESHOLD FOR JOINT COM-**  
 5 **MITTEE REPORTS ON REFUNDS AND CRED-**  
 6 **ITS.**

7 *(a) GENERAL RULE.—Subsections (a) and (b) of sec-*  
 8 *tion 6405 are each amended by striking “\$1,000,000” and*  
 9 *inserting “\$2,000,000”.*

10 *(b) EFFECTIVE DATE.—The amendment made by sub-*  
 11 *section (a) shall take effect on the date of the enactment*  
 12 *of this Act, except that such amendment shall not apply*  
 13 *with respect to any refund or credit with respect to a report*  
 14 *that has been made before such date of enactment under*  
 15 *section 6405 of the Internal Revenue Code of 1986.*

16 **SEC. 1111. MODIFICATION OF RURAL AIRPORT DEFINITION.**

17 *(a) IN GENERAL.—Clause (ii) of section 4261(e)(1)(B)*  
 18 *(defining rural airport) is amended by striking the period*  
 19 *at the end of subclause (II) and inserting “, or”, and by*  
 20 *adding at the end the following new subclause:*

21 *“(III) is not connected by paved*  
 22 *roads to another airport.”.*

23 *(b) EFFECTIVE DATE.—The amendments made by this*  
 24 *section shall apply to calendar years beginning after 1999.*

1 **SEC. 1112. PAYMENT OF DIVIDENDS ON STOCK OF CO-**  
 2 **OPERATIVES WITHOUT REDUCING PATRON-**  
 3 **AGE DIVIDENDS.**

4 (a) *IN GENERAL.*—Subsection (a) of section 1388 (re-  
 5 lating to patronage dividend defined) is amended by adding  
 6 at the end the following: “For purposes of paragraph (3),  
 7 net earnings shall not be reduced by amounts paid during  
 8 the year as dividends on capital stock or other proprietary  
 9 capital interests of the organization to the extent that the  
 10 articles of incorporation or bylaws of such organization or  
 11 other contract with patrons provide that such dividends are  
 12 in addition to amounts otherwise payable to patrons which  
 13 are derived from business done with or for patrons during  
 14 the taxable year.”.

15 (b) *EFFECTIVE DATE.*—The amendment made by this  
 16 section shall apply to distributions in taxable years begin-  
 17 ning after the date of the enactment of this Act.

18 **SEC. 1113. CONSOLIDATION OF LIFE INSURANCE COMPA-**  
 19 **NIES WITH OTHER CORPORATIONS.**

20 (a) *IN GENERAL.*—Section 1504(b) (defining includ-  
 21 ible corporation) is amended by striking paragraph (2).

22 (b) *CONFORMING AMENDMENTS.*—

23 (1) Section 1504 is amended by striking sub-  
 24 section (c) and by redesignating subsections (d), (e),  
 25 and (f) as subsections (c), (d), and (e), respectively.

1           (2) *Section 1503(c)(1) (relating to special rule*  
2           *for application of certain losses against income of in-*  
3           *surance companies taxed under section 801) is*  
4           *amended by striking “an election under section*  
5           *1504(c)(2) is in effect for the taxable year and”.*

6           (c) *EFFECTIVE DATE.—The amendments made by this*  
7           *section shall apply to taxable years beginning after Decem-*  
8           *ber 31, 2000.*

9           (d) *NO CARRYBACK BEFORE JANUARY 1, 2001.—To*  
10          *the extent that a consolidated net operating loss is allowed*  
11          *or increased by reason of the amendments made by this sec-*  
12          *tion, such loss may not be carried back to a taxable year*  
13          *beginning before January 1, 2001.*

14          (e) *NONTERMINATION OF GROUP.—No affiliated group*  
15          *shall terminate solely as a result of the amendments made*  
16          *by this section.*

17          (f) *WAIVER OF 5-YEAR WAITING PERIOD.—Under reg-*  
18          *ulations prescribed by the Secretary of the Treasury or his*  
19          *delegate, an automatic waiver from the 5-year waiting pe-*  
20          *riod for reconsolidation provided in section 1504(a)(3) of*  
21          *the Internal Revenue Code of 1986 shall be granted to any*  
22          *corporation which was previously an includible corporation*  
23          *but was subsequently deemed a nonincludible corporation*  
24          *as a result of becoming a subsidiary of a corporation which*  
25          *was not an includible corporation solely by operation of sec-*

tion 1504(c)(2) of such Code (as in effect on the day before the date of the enactment of this Act).

**SEC. 1114. EXPANSION OF EXEMPTION FROM PERSONAL HOLDING COMPANY TAX FOR LENDING OR FINANCE COMPANIES.**

(a) *IN GENERAL.*—Paragraph (6) of section 542(c) (defining personal holding company) is amended—

(1) by striking “rents,” in subparagraph (B), and

(2) by adding “and” at the end of subparagraph (B),

(3) by striking subparagraph (C), and

(4) by redesignating subparagraph (D) as subparagraph (C).

(b) *EXCEPTION FOR LENDING OR FINANCE COMPANIES DETERMINED ON AFFILIATED GROUP BASIS.*—Subsection (d) of section 542 is amended by striking paragraphs (1) and (2) and inserting the following new paragraphs:

“(1) *LENDING OR FINANCE BUSINESS DEFINED.*—For purposes of subsection (c)(6), the term ‘lending or finance business’ means a business of—

“(A) making loans,

“(B) purchasing or discounting accounts receivable, notes, or installment obligations,

1           “(C) *engaging in leasing (including enter-*  
2           *ing into leases and purchasing, servicing, and*  
3           *disposing of leases and leased assets),*

4           “(D) *rendering services or making facilities*  
5           *available in the ordinary course of a lending or*  
6           *finance business.*

7           “(E) *rendering services or making facilities*  
8           *available in connection with activities described*  
9           *in subparagraphs (A), (B), and (C) carried on*  
10          *by the corporation rendering services or making*  
11          *facilities available, or*

12          “(F) *rendering services or making facilities*  
13          *available to another corporation which is en-*  
14          *gaged in the lending or finance business (within*  
15          *the meaning of this paragraph), if such services*  
16          *or facilities are related to the lending or finance*  
17          *business (within such meaning) of such other*  
18          *corporation and such other corporation and the*  
19          *corporation rendering services or making facili-*  
20          *ties available are members of the same affiliated*  
21          *group (as defined in section 1504).*

22          “(2) *EXCEPTION DETERMINED ON AN AFFILI-*  
23          *ATED GROUP BASIS.—In the case of a lending or fi-*  
24          *nance company which is a member of an affiliated*  
25          *group (as defined in section 1504), such company*

1        *shall be treated as meeting the requirements of sub-*  
 2        *section (c)(6) if such group (determined by taking*  
 3        *into account only members of such group which are*  
 4        *engaged in a lending or finance business) meets such*  
 5        *requirements.”.*

6        *(c) EFFECTIVE DATE.—The amendments made by this*  
 7        *section shall apply to taxable years ending after December*  
 8        *31, 1999.*

9        **SEC. 1115. CREDIT FOR MODIFICATIONS TO INTER-CITY**  
 10                **BUSES REQUIRED UNDER THE AMERICANS**  
 11                **WITH DISABILITIES ACT OF 1990.**

12        *(a) IN GENERAL.—Subsection (a) of section 44 (relat-*  
 13        *ing to expenditures to provide access to disabled individ-*  
 14        *uals) is amended to read as follows:*

15        *“(a) GENERAL RULE.—For purposes of section 38, the*  
 16        *amount of the disabled access credit determined under this*  
 17        *section for any taxable year shall be an amount equal to*  
 18        *the sum of—*

19                *“(1) in the case of an eligible small business, 50*  
 20                *percent of so much of the eligible access expenditures*  
 21                *for the taxable year as exceed \$250 but do not exceed*  
 22                *\$10,250, and*

23                *“(2) 50 percent of so much of the eligible bus ac-*  
 24                *cess expenditures for the taxable year with respect to*



1        *each eligible bus as exceed \$250 but do not exceed*  
 2        *\$30,250.”.*

3        *(b) ELIGIBLE BUS ACCESS EXPENDITURES.—Section*  
 4        *44 is amended by redesignating subsections (d) and (e) as*  
 5        *subsections (e) and (f), respectively, and by inserting after*  
 6        *subsection (c) the following new subsection:*

7        *“(d) ELIGIBLE BUS ACCESS EXPENDITURES.—For*  
 8        *purposes of this section—*

9                *“(1) IN GENERAL.—The term ‘eligible bus access*  
 10        *expenditures’ means amounts paid or incurred by the*  
 11        *taxpayer for the purpose of enabling the taxpayer’s el-*  
 12        *igible bus to comply with applicable requirements*  
 13        *under the Americans With Disabilities Act of 1990*  
 14        *(as in effect on the date of the enactment of this sub-*  
 15        *section).*

16                *“(2) CERTAIN EXPENDITURES NOT INCLUDED.—*  
 17        *The amount of eligible bus access expenditures other-*  
 18        *wise taken into account under subsection (a)(2) shall*  
 19        *be reduced to the extent that funds for such expendi-*  
 20        *tures are received under any Federal, State, or local*  
 21        *program.*

22                *“(3) ELIGIBLE BUS.—The term ‘eligible bus’*  
 23        *means any automobile bus eligible for a refund under*  
 24        *section 6427(b) by reason of transportation described*  
 25        *in section 6427(b)(1)(A).”.*

1       (c) *EFFECTIVE DATE.*—*The amendments made by this*  
 2 *section shall apply to taxable years beginning after Decem-*  
 3 *ber 31, 1999, and before January 1, 2012.*

4 **SEC. 1116. INCREASED DEDUCTIBILITY OF BUSINESS MEAL**  
 5 **EXPENSES FOR INDIVIDUALS SUBJECT TO**  
 6 **FEDERAL LIMITATIONS ON HOURS OF SERV-**  
 7 **ICE.**

8       *The table in section 274(n)(3)(B) (relating to special*  
 9 *rule for individuals subject to Federal hours of service) is*  
 10 *amended—*

11               (1) *by striking “or 2007”, and*

12               (2) *by striking “2008” and inserting “2007”.*

13 **SEC. 1117. TAX-EXEMPT FINANCING OF QUALIFIED HIGH-**  
 14 **WAY INFRASTRUCTURE CONSTRUCTION.**

15       (a) *TREATMENT AS EXEMPT FACILITY BOND.*—*A bond*  
 16 *described in subsection (b) shall be treated as described in*  
 17 *section 141(e)(1)(A) of the Internal Revenue Code of 1986,*  
 18 *except that—*

19               (1) *section 146 of such Code shall not apply to*  
 20 *such bond, and*

21               (2) *section 147(c)(1) of such Code shall be ap-*  
 22 *plied by substituting “any portion of” for “25 percent*  
 23 *or more”.*

24       (b) *BOND DESCRIBED.*—

(1) *IN GENERAL.*—A bond is described in this subsection if such bond is issued after December 31, 1999, as part of an issue—

(A) 95 percent or more of the net proceeds of which are to be used to provide a qualified highway infrastructure project, and

(B) to which there has been allocated a portion of the allocation to the project under paragraph (2)(C)(ii) which is equal to the aggregate face amount of bonds to be issued as part of such issue.

(2) *QUALIFIED HIGHWAY INFRASTRUCTURE PROJECTS.*—

(A) *IN GENERAL.*—For purposes of paragraph (1), the term “qualified highway infrastructure project” means a project—

(i) for the construction or reconstruction of a highway, and

(ii) designated under subparagraph (B) as an eligible pilot project.

(B) *ELIGIBLE PILOT PROJECT.*—

(i) *IN GENERAL.*—The Secretary of Transportation, in consultation with the Secretary of the Treasury, shall select not more than 15 highway infrastructure

1            *projects to be pilot projects eligible for tax-*  
2            *exempt financing.*

3            (ii) *ELIGIBILITY CRITERIA.—In deter-*  
4            *mining the criteria necessary for the eligi-*  
5            *bility of pilot projects, the Secretary of*  
6            *Transportation shall include the following:*

7                    (I) *The project must serve the gen-*  
8                    *eral public.*

9                    (II) *The project is necessary to*  
10                  *evaluate the potential of the private*  
11                  *sector's participation in the provision*  
12                  *of the highway infrastructure of the*  
13                  *United States.*

14                  (III) *The project must be located*  
15                  *on publicly-owned rights-of-way.*

16                  (IV) *The project must be publicly*  
17                  *owned or the ownership of the highway*  
18                  *constructed or reconstructed under the*  
19                  *project must revert to the public.*

20                  (V) *The project must be consistent*  
21                  *with a transportation plan developed*  
22                  *pursuant to section 134(g) or 135(e) of*  
23                  *title 23, United States Code.*

24            (C) *AGGREGATE FACE AMOUNT OF TAX-EX-*  
25            *EMPT FINANCING.—*

1           (i) *IN GENERAL.*—*The aggregate face*  
2           *amount of bonds issued pursuant to this*  
3           *section shall not exceed \$15,000,000,000, de-*  
4           *termined without regard to any bond the*  
5           *proceeds of which are used exclusively to re-*  
6           *fund (other than to advance refund) a bond*  
7           *issued pursuant to this section (or a bond*  
8           *which is a part of a series of refundings of*  
9           *a bond so issued) if the amount of the re-*  
10          *funding bond does not exceed the out-*  
11          *standing amount of the refunded bond.*

12          (ii) *ALLOCATION.*—*The Secretary of*  
13          *Transportation, in consultation with the*  
14          *Secretary of the Treasury, shall allocate the*  
15          *amount described in clause (i) among the*  
16          *eligible pilot projects designated under sub-*  
17          *paragraph (B).*

18          (iii) *REALLOCATION.*—*If any portion*  
19          *of an allocation under clause (ii) is unused*  
20          *on the date which is 3 years after such allo-*  
21          *cation, the Secretary of Transportation, in*  
22          *consultation with the Secretary of the*  
23          *Treasury, may reallocate such portion*  
24          *among the remaining eligible pilot projects.*

25          (c) *REPORT.*—

1           (1) *IN GENERAL.*—Not later than the earlier of—

2                   (A) 1 year after either  $\frac{1}{2}$  of the projects au-  
3                   thorized under this section have been identified  
4                   or  $\frac{1}{2}$  of the total bonds allowable for the projects  
5                   under this section have been issued, or

6                   (B) 7 years after the date of the enactment  
7                   of this Act,

8           the Secretary of Transportation, in consultation with  
9           the Secretary of the Treasury, shall submit the report  
10          described in paragraph (2) to the Committees on Fi-  
11          nance and on Environment and Public Works of the  
12          Senate and the Committees on Ways and Means and  
13          on Transportation and Infrastructure of the House of  
14          Representatives.

15          (2) *CONTENTS.*—The report under paragraph (1)  
16          shall evaluate the overall success of the program con-  
17          ducted pursuant to this section, including—

18                   (A) a description of each project under the  
19                   program,

20                   (B) the extent to which the projects used  
21                   new technologies, construction techniques, or in-  
22                   novative cost controls that resulted in savings in  
23                   building the project, and

24                   (C) the use and efficiency of the Federal tax  
25                   subsidy provided by the bond financing.

1 **SEC. 1118. EXPANSION OF DC HOMEBUYER TAX CREDIT.**

2 (a) *EXTENSION*.—Section 1400C(i) (relating to appli-  
3 cation of section) is amended by striking “2001” and insert-  
4 ing “2002”.

5 (b) *EXPANSION OF INCOME LIMITATION*.—Section  
6 1400C(b)(1) (relating to limitation based on modified ad-  
7 justed gross income) is amended—

8 (1) by striking “\$110,000” in subparagraph  
9 (A)(i) and inserting “\$140,000”, and

10 (2) by inserting “(\$40,000 in the case of a joint  
11 return)” after “\$20,000” in subparagraph (B).

12 (c) *EFFECTIVE DATE*.—The amendments made by this  
13 section shall apply to taxable years beginning after Decem-  
14 ber 31, 1999.

15 **SEC. 1119. EXTENSION OF DC ZERO PERCENT CAPITAL**  
16 **GAINS RATE.**

17 (a) *IN GENERAL*.—Section 1400B (relating to zero  
18 percent capital gains rate) is amended by adding at the  
19 end the following new subsection:

20 “(h) *EXTENSION TO ENTIRE DISTRICT OF COLUM-*  
21 *BIA*.—In determining whether any stock or partnership in-  
22 terest which is originally issued after December 31, 1999,  
23 or any tangible property acquired by the taxpayer by pur-  
24 chase after December 31, 1999, is a DC Zone asset, sub-  
25 section (d) shall be applied without regard to paragraph  
26 (2) thereof.”.

1       (b) *EFFECTIVE DATE.*—*The amendment made by this*  
 2 *section shall take effect on January 1, 2000.*

3       **SEC. 1120. NATURAL GAS GATHERING LINES TREATED AS 7-**  
 4               **YEAR PROPERTY.**

5       (a) *IN GENERAL.*—*Subparagraph (C) of section*  
 6 *168(e)(3) (relating to classification of certain property) is*  
 7 *amended by redesignating clause (ii) as clause (iii) and by*  
 8 *inserting after clause (i) the following new clause:*

9                       “(ii) any natural gas gathering line,  
 10                      and”.

11       (b) *NATURAL GAS GATHERING LINE.*—*Subsection (i)*  
 12 *of section 168 is amended by adding at the end the following*  
 13 *new paragraph:*

14               “(15) *NATURAL GAS GATHERING LINE.*—*The*  
 15 *term ‘natural gas gathering line’ means—*

16                       “(A) *the pipe, equipment, and appur-*  
 17 *tenances determined to be a gathering line by the*  
 18 *Federal Energy Regulatory Commission, or*

19                       “(B) *the pipe, equipment, and appur-*  
 20 *tenances used to deliver natural gas from the*  
 21 *wellhead or a common point to the point at*  
 22 *which such gas first reaches—*

23                       “(i) *a gas processing plant,*

24                       “(ii) *an interconnection with a trans-*  
 25 *mission pipeline certificated by the Federal*



1                   *Energy Regulatory Commission as an*  
 2                   *interstate transmission pipeline,*

3                   “(iii) *an interconnection with an*  
 4                   *intrastate transmission pipeline, or*

5                   “(iv) *a direct interconnection with a*  
 6                   *local distribution company, a gas storage*  
 7                   *facility, or an industrial consumer.”.*

8           (c) *EFFECTIVE DATE.*—*The amendments made by this*  
 9           *section shall apply to property placed in service on or after*  
 10           *the date of the enactment of this Act.*

11   ***SEC. 1121. EXEMPTION FROM TICKET TAXES FOR CERTAIN***  
 12                   ***TRANSPORTATION PROVIDED BY SMALL SEA-***  
 13                   ***PLANES.***

14           (a) *IN GENERAL.*—*Section 4281 (relating to small air-*  
 15           *craft on nonestablished lines) is amended to read as follows:*

16   ***“SEC. 4281. SMALL AIRCRAFT.***

17           *“The taxes imposed by sections 4261 and 4271 shall*  
 18           *not apply to—*

19                   “(1) *transportation by an aircraft having a*  
 20                   *maximum certificated takeoff weight of 6,000 pounds*  
 21                   *or less, except when such aircraft is operated on an*  
 22                   *established line, and*

23                   “(2) *transportation by a seaplane having a max-*  
 24                   *imum certificated takeoff weight of 6,000 pounds or*

1        *less with respect to any segment consisting of a take-*  
 2        *off from, and a landing on, water.*

3        *For purposes of the preceding sentence, the term ‘maximum*  
 4        *certificated takeoff weight’ means the maximum such weight*  
 5        *contained in the type certificate or airworthiness certifi-*  
 6        *cate.’.*

7        (b) *CLERICAL AMENDMENT.*—*The table of sections for*  
 8        *part III of subchapter C of chapter 33 is amended by strik-*  
 9        *ing “on nonestablished lines” in the item relating to section*  
 10       *4281.*

11       (c) *EFFECTIVE DATE.*—*The amendments made by this*  
 12       *section shall take effect on the date of the enactment of this*  
 13       *Act but shall not apply to any amount paid on or before*  
 14       *such date with respect to taxes imposed by sections 4261*  
 15       *and 4271 of the Internal Revenue Code of 1986.*

16       **SEC. 1122. NO FEDERAL INCOME TAX ON AMOUNTS AND**  
 17                                **LANDS RECEIVED BY HOLOCAUST VICTIMS**  
 18                                **OR THEIR HEIRS.**

19       (a) *IN GENERAL.*—*For purposes of the Internal Rev-*  
 20       *enue Code of 1986, gross income shall not include—*

21                (1) *any amount received by an individual (or*  
 22        *any heir of the individual)—*

23                        (A) *from the Swiss Humanitarian Fund es-*  
 24        *tablished by the Government of Switzerland or*

1        *from any similar fund established by any foreign*  
 2        *country, or*

3                *(B) as a result of the settlement of the ac-*  
 4        *tion entitled “In re Holocaust Victims’ Asset*  
 5        *Litigation”, (E.D. NY), C.A. No. 96–4849, or as*  
 6        *a result of any similar action; and*

7                *(2) the value of any land (including structures*  
 8        *thereon) recovered by an individual (or any heir of*  
 9        *the individual) from a government of a foreign coun-*  
 10        *try as a result of a settlement of a claim arising out*  
 11        *of the confiscation of such land in connection with the*  
 12        *Holocaust.*

13        *(b) EFFECTIVE DATE.—This section shall apply to*  
 14        *any amount received before, on, or after the date of the en-*  
 15        *actment of this Act.*

16        **SEC. 1123. 2-PERCENT FLOOR ON MISCELLANEOUS**  
 17                **ITEMIZED DEDUCTIONS NOT TO APPLY TO**  
 18                **QUALIFIED PROFESSIONAL DEVELOPMENT**  
 19                **EXPENSES AND QUALIFIED INCIDENTAL EX-**  
 20                **PENSES OF ELEMENTARY AND SECONDARY**  
 21                **SCHOOL TEACHERS.**

22        *(a) QUALIFIED PROFESSIONAL DEVELOPMENT EX-*  
 23        *PENSES DEDUCTION.—*

24                *(1) IN GENERAL.—Section 67(b) (defining mis-*  
 25        *cellaneous itemized deductions) is amended by strik-*

1        *ing “and” at the end of paragraph (11), by striking*  
 2        *the period at the end of paragraph (12) and inserting*  
 3        *“, and”, and by adding at the end the following new*  
 4        *paragraph:*

5                *“(13) any deduction allowable for the qualified*  
 6        *professional development expenses of an eligible teach-*  
 7        *er.”.*

8                *(2) DEFINITIONS.—Section 67 (relating to 2-per-*  
 9        *cent floor on miscellaneous itemized deductions) is*  
 10        *amended by adding at the end the following new sub-*  
 11        *section:*

12                *“(g) QUALIFIED PROFESSIONAL DEVELOPMENT EX-*  
 13        *PENSES OF ELIGIBLE TEACHERS.—For purposes of sub-*  
 14        *section (b)(13)—*

15                *“(1) QUALIFIED PROFESSIONAL DEVELOPMENT*  
 16        *EXPENSES.—*

17                *“(A) IN GENERAL.—The term ‘qualified*  
 18        *professional development expenses’ means*  
 19        *expenses—*

20                *“(i) for tuition, fees, books, supplies,*  
 21        *equipment, and transportation required for*  
 22        *the enrollment or attendance of an indi-*  
 23        *vidual in a qualified course of instruction,*  
 24        *and*

1           “(ii) *with respect to which a deduction*  
2           *is allowable under section 162 (determined*  
3           *without regard to this section).*

4           “(B) *QUALIFIED COURSE OF INSTRU-*  
5           *CTION.—The term ‘qualified course of instruction’*  
6           *means a course of instruction which—*

7           “(i) *is—*

8           “(I) *at an institution of higher*  
9           *education (as defined in section 481 of*  
10           *the Higher Education Act of 1965 (20*  
11           *U.S.C. 1088), as in effect on the date*  
12           *of the enactment of this subsection), or*

13           “(II) *a professional conference,*  
14           *and*

15           “(ii) *is part of a program of profes-*  
16           *sional development which is approved and*  
17           *certified by the appropriate local edu-*  
18           *cational agency as furthering the individ-*  
19           *ual’s teaching skills.*

20           “(C) *LOCAL EDUCATIONAL AGENCY.—The term*  
21           *‘local educational agency’ has the meaning given such*  
22           *term by section 14101 of the Elementary and Sec-*  
23           *ondary Education Act of 1965, as so in effect.*

24           “(2) *ELIGIBLE TEACHER.—*

1           “(A) *IN GENERAL.*—*The term ‘eligible*  
 2           *teacher’ means an individual who is a kinder-*  
 3           *garten through grade 12 classroom teacher, in-*  
 4           *structor, counselor, aide, or principal in an ele-*  
 5           *mentary or secondary school.*

6           “(B) *ELEMENTARY OR SECONDARY*  
 7           *SCHOOL.*—*The terms ‘elementary school’ and*  
 8           *‘secondary school’ have the meanings given such*  
 9           *terms by section 14101 of the Elementary and*  
 10           *Secondary Education Act of 1965 (20 U.S.C.*  
 11           *8801), as so in effect.”.*

12           (3) *EFFECTIVE DATE.*—*The amendments made*  
 13           *by this section shall apply to taxable years beginning*  
 14           *after December 31, 2000, and ending before December*  
 15           *31, 2004.*

16           (b) *QUALIFIED INCIDENTAL EXPENSES.*—

17           (1) *IN GENERAL.*—*Section 67(g)(1)(A), as added*  
 18           *by subsection (a)(2), is amended by striking “and” at*  
 19           *the end of clause (i), by redesignating clause (ii) as*  
 20           *clause (iii), and by inserting after clause (i) the fol-*  
 21           *lowing new clause:*

22                           “(ii) *for qualified incidental expenses,*  
 23                           *and”.*

1           (2) *DEFINITION.*—Section 67(g), as added by  
2           subsection (a)(2), is amended by adding at the end  
3           the following new paragraph:

4           “(3) *QUALIFIED INCIDENTAL EXPENSES.*—

5                   “(A) *IN GENERAL.*—The term ‘qualified in-  
6                   cidental expenses’ means expenses paid or in-  
7                   curred by an eligible teacher in an amount not  
8                   to exceed \$125 for any taxable year for books,  
9                   supplies, and equipment related to instruction,  
10                  teaching, or other educational job-related activi-  
11                  ties of such eligible teacher.

12                  “(B)           *SPECIAL           RULE           FOR*  
13                  *HOMESCHOOLING.*—Such term shall include ex-  
14                  penses described in subparagraph (A) in connec-  
15                  tion with education provided by homeschooling if  
16                  the requirements of any applicable State or local  
17                  law are met with respect to such education.”.

18           (3) *EFFECTIVE DATE.*—The amendments made  
19           by this section shall apply to taxable years beginning  
20           after December 31, 2000, and ending before December  
21           31, 2004.

1 **SEC. 1124. EXPANSION OF DEDUCTION FOR COMPUTER DO-**  
 2 **NATIONS TO SCHOOLS.**

3 (a) *EXTENSION OF AGE OF ELIGIBLE COMPUTERS.*—  
 4 *Section 170(e)(6)(B)(ii) (defining qualified elementary or*  
 5 *secondary educational contribution) is amended—*

6 (1) *by striking “2 years” and inserting “3*  
 7 *years”, and*

8 (2) *by inserting “for the taxpayer’s own use”*  
 9 *after “constructed by the taxpayer”.*

10 (b) *REACQUIRED COMPUTERS ELIGIBLE FOR DONA-*  
 11 *TION.*—

12 (1) *IN GENERAL.*—*Section 170(e)(6)(B)(iii) (de-*  
 13 *fining qualified elementary or secondary educational*  
 14 *contribution) is amended by inserting “, the person*  
 15 *from whom the donor reacquires the property,” after*  
 16 *“the donor”.*

17 (2) *CONFORMING AMENDMENT.*—*Section*  
 18 *170(e)(6)(B)(ii) is amended by inserting “or reac-*  
 19 *quired” after “acquired”.*

20 (c) *EFFECTIVE DATE.*—*The amendments made by this*  
 21 *section shall apply to contributions made in taxable years*  
 22 *ending after the date of the enactment of this Act.*

23 **SEC. 1125. CREDIT FOR COMPUTER DONATIONS TO**  
 24 **SCHOOLS AND SENIOR CENTERS.**

25 (a) *IN GENERAL.*—*Subpart D of part IV of subchapter*  
 26 *A of chapter 1 (relating to business related credits), as*



1 *amended by this Act, is amended by adding at the end the*  
 2 *following:*

3 **“SEC. 45E. CREDIT FOR COMPUTER DONATIONS TO**  
 4 **SCHOOLS AND SENIOR CENTERS.**

5 *“(a) GENERAL RULE.—For purposes of section 38, the*  
 6 *computer donation credit determined under this section is*  
 7 *an amount equal to 30 percent of the qualified computer*  
 8 *contributions made by the taxpayer during the taxable*  
 9 *year.*

10 *“(b) QUALIFIED COMPUTER CONTRIBUTION.—For*  
 11 *purposes of this section, the term ‘qualified computer con-*  
 12 *tribution’ has the meaning given the term ‘qualified elemen-*  
 13 *tary or secondary educational contribution’ by section*  
 14 *170(e)(6)(B), except that—*

15 *“(1) such term shall include the contribution of*  
 16 *a computer (as defined in section 168(i)(2)(B)(ii))*  
 17 *only if computer software (as defined in section*  
 18 *197(e)(3)(B)) that serves as a computer operating sys-*  
 19 *tem has been lawfully installed in such computer, and*

20 *“(2) for purposes of clauses (i) and (iv) of sec-*  
 21 *tion 170(e)(6)(B), such term shall include the con-*  
 22 *tribution of computer technology or equipment to*  
 23 *multipurpose senior centers (as defined in section*  
 24 *102(35) of the Older Americans Act of 1965 (42*  
 25 *U.S.C. 3002(35)) to be used by individuals who have*

1        *attained 60 years of age to improve job skills in com-*  
 2        *puters.*

3        “(c) *INCREASED PERCENTAGE FOR CONTRIBUTIONS TO*  
 4        *ENTITIES IN EMPOWERMENT ZONES, ENTERPRISE COMMU-*  
 5        *NITIES, AND INDIAN RESERVATIONS.*—*In the case of a*  
 6        *qualified computer contribution to an entity located in an*  
 7        *empowerment zone or enterprise community designated*  
 8        *under section 1391 or an Indian reservation (as defined*  
 9        *in section 168(j)(6)), subsection (a) shall be applied by sub-*  
 10       *stituting ‘50 percent’ for ‘30 percent’.*

11       “(d) *CERTAIN RULES MADE APPLICABLE.*—*For pur-*  
 12       *poses of this section, rules similar to the rules of paragraphs*  
 13       *(1) and (2) of section 41(f) and of section 170(e)(6)(A) shall*  
 14       *apply.*

15       “(e) *TERMINATION.*—*This section shall not apply to*  
 16       *taxable years beginning on or after the date which is 3 years*  
 17       *after the date of the enactment of the Taxpayer Refund Act*  
 18       *of 1999.”.*

19       (b) *CURRENT YEAR BUSINESS CREDIT CALCULA-*  
 20       *TION.*—*Section 38(b) (relating to current year business*  
 21       *credit), as amended by this Act, is amended by striking*  
 22       *“plus” at the end of paragraph (12), by striking the period*  
 23       *at the end of paragraph (13) and inserting “, plus”, and*  
 24       *by adding at the end the following:*

1           “(14) the computer donation credit determined  
2           under section 45E(a).”.

3           (c) *DISALLOWANCE OF DEDUCTION BY AMOUNT OF*  
4 *CREDIT.*—Section 280C (relating to certain expenses for  
5 which credits are allowable) is amended by adding at the  
6 end the following:

7           “(d) *CREDIT FOR COMPUTER DONATIONS.*—No deduc-  
8 tion shall be allowed for that portion of the qualified com-  
9 puter contributions (as defined in section 45E(b)) made  
10 during the taxable year that is equal to the amount of credit  
11 determined for the taxable year under section 45E(a). In  
12 the case of a corporation which is a member of a controlled  
13 group of corporations (within the meaning of section 52(a))  
14 or a trade or business which is treated as being under com-  
15 mon control with other trades or businesses (within the  
16 meaning of section 52(b)), this subsection shall be applied  
17 under rules prescribed by the Secretary similar to the rules  
18 applicable under subsections (a) and (b) of section 52.”.

19           (d) *LIMITATION ON CARRYBACK.*—Subsection (d) of  
20 section 39 (relating to carryback and carryforward of un-  
21 used credits) is amended by adding at the end the following:

22           “(9) *NO CARRYBACK OF COMPUTER DONATION*  
23 *CREDIT BEFORE EFFECTIVE DATE.*—No amount of  
24 unused business credit available under section 45E  
25 may be carried back to a taxable year beginning on

1       or before the date of the enactment of this para-  
2       graph.”.

3       (e) *CLERICAL AMENDMENT.*—The table of sections for  
4       subpart D of part IV of subchapter A of chapter 1, as  
5       amended by this Act, is amended by inserting after the item  
6       relating to section 45D the following:

“Sec. 45E. Credit for computer donations to schools and senior cen-  
ters.”.

7       (f) *EFFECTIVE DATES.*—

8               (1) *IN GENERAL.*—Except as provided in para-  
9       graph (2), the amendments made by this section shall  
10       apply to contributions made in taxable years begin-  
11       ning after the date of the enactment of this Act.

12              (2) *CERTAIN CONTRIBUTIONS.*—The amendments  
13       made by this section shall apply to contributions  
14       made to an organization or entity not described in  
15       section 45E(c) of the Internal Revenue Code of 1986,  
16       as added by subsection (a), in taxable years beginning  
17       after the date that is one year after the date of the  
18       enactment of this Act.

19       **SEC. 1126. INCREASE IN MANDATORY SPENDING FOR CHILD**  
20       **CARE AND DEVELOPMENT BLOCK GRANT.**

21       Section 418(a)(3) of the Social Security Act (42 U.S.C.  
22       618(a)(3)) is amended—

23              (1) in subparagraph (E), by striking “and” at  
24       the end;

1           (2) in subparagraph (F), by striking the period  
2           at the end and inserting “; and”; and

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

4                   “(E) \$3,918,000,000 for fiscal year 2002;

5                   “(F) \$3,979,000,000 for fiscal year 2003;

6                   “(G) \$4,010,000,000 for fiscal year 2004;

7                   “(H) \$3,860,000,000 for fiscal year 2005;

8                   “(I) \$3,954,000,000 for fiscal year 2006;

9                   “(J) \$4,004,000,000 for fiscal year 2007;

10                  “(K) \$4,073,000,000 for fiscal year 2008;

11                  and

12                  “(L) \$4,075,000,000 for fiscal year 2009.”.

13   **SEC. 1127. SENSE OF THE SENATE REGARDING SAVINGS IN-**  
14                   **CENTIVES.**

15           *It is the sense of the Senate that before December 31,*  
16   *1999, Congress should pass legislation that creates savings*  
17   *incentives by providing a partial Federal income tax exclu-*  
18   *sion for income derived from interest and dividends of no*  
19   *less than \$400 for married taxpayers and \$200 for single*  
20   *taxpayers.*

1 **SEC. 1128. SENSE OF CONGRESS REGARDING THE NEED**  
2 **FOR ADDITIONAL FEDERAL FUNDING AND**  
3 **TAX INCENTIVES FOR EMPOWERMENT ZONES**  
4 **AND ENTERPRISE COMMUNITIES AUTHOR-**  
5 **IZED AND DESIGNATED PURSUANT TO 1997**  
6 **AND 1998 LAWS.**

7 *(a) FINDINGS.—The Senate finds that—*

8 *(1) providing Federal tax incentives and other*  
9 *incentives to distressed communities across the Nation*  
10 *to help them rebuild and grow was one of the impor-*  
11 *tant goals of the Taxpayer Relief Act of 1997 and the*  
12 *Omnibus Consolidated and Emergency Supplemental*  
13 *Appropriations Act, 1999;*

14 *(2) to help reach that goal, the Taxpayer Relief*  
15 *Act of 1997 authorized 20 additional empowerment*  
16 *zones, 15 urban and 5 rural, followed by 20 new*  
17 *rural enterprise communities authorized in 1998;*

18 *(3) the 1997 law authorizing this second round*  
19 *of empowerment zones (EZs) was also significant and*  
20 *important because it broadened empowerment zone*  
21 *eligibility, for the first time, to Indian tribes and*  
22 *rural regions suffering from massive out-migration;*

23 *(4) many of our urban and rural communities*  
24 *are not sharing in the benefits of the prolonged eco-*  
25 *nomie expansion now enjoyed by many other parts of*  
26 *our country;*

1           (5) a total of more than 250 economically dis-  
2       tressed urban and rural communities competed for the  
3       20 new empowerment zones and 20 new rural enter-  
4       prise communities, and those areas designated as  
5       zones and communities should be provided with the  
6       Federal incentives and encouragement they need to  
7       attract new businesses, and the jobs they provide, in  
8       order to stimulate economic growth and improvement;

9           (6) unfortunately, those areas that are designated  
10      EZs or ECs under the 1997 and 1998 laws or rural  
11      economic area partnerships (REAPs) by the Depart-  
12      ment of Agriculture, are not given the full advantage  
13      of Social Services Block Grant funds, tax credits, and  
14      some other Federal incentives that Congress provided  
15      to the first round of empowerment zones and enter-  
16      prise communities authorized pursuant to 1993 budg-  
17      et legislation;

18          (7) Congress should act swiftly to provide such  
19      designated areas an equal share of tax incentives,  
20      grant benefits, and other Federal support at aggregate  
21      levels of at least that provided by Congress to dis-  
22      tressed urban and rural empowerment zones and en-  
23      terprise communities pursuant to the 1993 omnibus  
24      budget reconciliation bill; and

1           (8) *a fully funded second round of EZs and ECs*  
2           *is estimated to create and retain about 90,000 jobs*  
3           *and stimulate \$10,000,000,000 in private and public*  
4           *investments over the next decade.*

5           (b) *SENSE OF CONGRESS.—It is the sense of Congress*  
6           *that—*

7                   (1) *if Congress and the President agree to a sub-*  
8                   *stantial tax relief measure, it should ensure that such*  
9                   *measure includes full funding for the second round of*  
10                  *empowerment zones and enterprise communities au-*  
11                  *thorized in 1997 and 1998 as well as those areas cur-*  
12                  *rently designated rural economic area partnerships*  
13                  *(REAPs) by the Department of Agriculture; and*

14                   (2) *all such designated distressed areas, rural*  
15                   *and urban, should equally share at least the same ag-*  
16                   *gregate level of funding, tax incentives, and other*  
17                   *Federal support that Congress provided to urban and*  
18                   *rural empowerment zones and enterprise communities*  
19                   *authorized by the 1993 omnibus budget reconciliation*  
20                   *bill.*



1 **SEC. 1129. SENSE OF CONGRESS REGARDING THE NEED TO**  
2 **ENCOURAGE IMPROVEMENTS IN MAIN**  
3 **STREET BUSINESSES BY EXPANDING EXIST-**  
4 **ING SMALL BUSINESS TAX EXPENSING RULES**  
5 **TO INCLUDE INVESTMENTS IN BUILDINGS**  
6 **AND OTHER DEPRECIABLE REAL PROPERTY.**

7 *(a) FINDINGS.—Congress finds that—*

8 *(1) under current tax law, small businesses can*  
9 *immediately deduct, that is, “expense”, up to \$19,000*  
10 *in purchases of equipment and similar assets;*

11 *(2) there is bipartisan support for increasing the*  
12 *amount of this expensing provision because it helps*  
13 *many small businesses make the investments in*  
14 *equipment and machinery they need by allowing*  
15 *them to immediately write off the costs of such invest-*  
16 *ments and bolstering their cash flow;*

17 *(3) this expensing provision, however, is not as*  
18 *helpful as it could be for some small businesses be-*  
19 *cause it does not cover their investments in improving*  
20 *the storefront or the buildings in which they conduct*  
21 *their business;*

22 *(4) in many small towns, the local drug store,*  
23 *shoe store, or grocery store doesn’t have much need for*  
24 *new equipment, but it does need to improve the store-*  
25 *front or the interior;*

1           (5) *although such investments are good for Main*  
2           *Streets across this Nation, our current tax law creates*  
3           *a disincentive to make them by requiring a small*  
4           *business owner to depreciate the costs of the building*  
5           *improvements over 39 years for tax purposes;*

6           (6) *legislation to expand the current expensing*  
7           *provision to cover investments in depreciable real*  
8           *property was recently introduced in the Senate with*  
9           *broad bipartisan cosponsorship, including the leaders*  
10          *of the Republican and Democratic parties;*

11          (7) *this proposal is also strongly supported by*  
12          *small business-oriented trade groups, including the*  
13          *National Federation of Independent Business, the*  
14          *Small Business Legislative Council, and the National*  
15          *Association of Realtors;*

16          (8) *the Department of the Treasury is currently*  
17          *conducting a comprehensive study of all depreciation*  
18          *provisions in our tax laws; and*

19          (9) *Congress should consider expanding the exist-*  
20          *ing expensing provision to cover investments in store-*  
21          *front improvements and other depreciable real prop-*  
22          *erty in any reform legislation that results from this*  
23          *study or, if possible, in any earlier legislation.*

24          (b) *SENSE OF CONGRESS.—It is the sense of Congress*  
25          *that—*

1           (1) many small businesses trying to improve  
 2           their storefronts on Main Street or investing to up-  
 3           grade their property would benefit if Congress ex-  
 4           panded the existing expensing provision to cover in-  
 5           vestments in depreciable real property; and

6           (2) Congress should consider including this pro-  
 7           posal in any future tax legislation.

8 **SEC. 1130. CERTAIN NATIVE AMERICAN HOUSING ASSIST-**  
 9                   **ANCE DISREGARDED IN DETERMINING**  
 10                   **WHETHER BUILDING IS FEDERALLY SUB-**  
 11                   **SIDIZED FOR PURPOSES OF THE LOW-INCOME**  
 12                   **HOUSING CREDIT.**

13       (a) *IN GENERAL.*—Subparagraph (E) of section  
 14 42(i)(2) of the Internal Revenue Code of 1986 (relating to  
 15 determination of whether building is federally subsidized)  
 16 is amended—

17           (1) in clause (i), by inserting “or the Native  
 18       American Housing Assistance and Self-Determination  
 19       Act of 1996 (25 U.S.C. 4101 et seq.) (as in effect on  
 20       October 1, 1997)” after “this subparagraph”, and

21           (2) in the subparagraph heading, by inserting  
 22       “OR NATIVE AMERICAN HOUSING ASSISTANCE” after  
 23       “HOME ASSISTANCE”.

1       (b) *EFFECTIVE DATE.*—*The amendments made by sub-*  
 2 *section (a) shall apply to periods after the date of the enact-*  
 3 *ment of this Act.*

4 **SEC. 1131. DISCLOSURE OF TAX INFORMATION TO FACILI-**  
 5 **TATE COMBINED EMPLOYMENT TAX REPORT-**  
 6 **ING.**

7       *Section 6103(d)(5) of the Internal Revenue Code of*  
 8 *1986 is amended to read as follows:*

9               “(5) *DISCLOSURE FOR COMBINED EMPLOYMENT*  
 10 *TAX REPORTING.*—*The Secretary may disclose tax-*  
 11 *payer identity information and signatures to any*  
 12 *agency, body, or commission of any State for the pur-*  
 13 *pose of carrying out with such agency, body, or com-*  
 14 *mission a combined Federal and State employment*  
 15 *tax reporting program approved by the Secretary.*  
 16 *Subsections (a)(2) and (p)(4) and sections 7213 and*  
 17 *7213A shall not apply with respect to disclosures or*  
 18 *inspections made pursuant to this paragraph.”.*

19 **SEC. 1132. TREATMENT OF MAPLE SYRUP PRODUCTION.**

20       *Line 3 of subsection (k) of section 3306 of the Internal*  
 21 *Revenue Code of 1986 is amended by inserting after “chap-*  
 22 *ter” the following: “agricultural labor includes labor con-*  
 23 *nected to the harvesting or production of maple sap into*  
 24 *maple syrup or sugar, and”.*

1 **SEC. 1133. TREATMENT OF BONDS ISSUED TO ACQUIRE RE-**  
 2 **NEWABLE RESOURCES ON LAND SUBJECT TO**  
 3 **CONSERVATION EASEMENT.**

4 (a) *IN GENERAL.*—Section 145 (defining qualified  
 5 501(c)(3) bond) is amended by redesignating subsection (e)  
 6 as subsection (f) and by inserting after subsection (d) the  
 7 following new subsection:

8 “(e) *BONDS ISSUED TO ACQUIRE RENEWABLE RE-*  
 9 *SOURCES ON LAND SUBJECT TO CONSERVATION EASE-*  
 10 *MENT.*—

11 “(1) *IN GENERAL.*—If—

12 “(A) *the proceeds of any bond are used to*  
 13 *acquire land (or a long-term lease thereof) to-*  
 14 *gether with any renewable resource associated*  
 15 *with the land (including standing timber, agri-*  
 16 *cultural crops, or water rights) from an unaffili-*  
 17 *ated person,*

18 “(B) *the land is subject to a conservation*  
 19 *restriction—*

20 “(i) *which is granted in perpetuity to*  
 21 *an unaffiliated person that is—*

22 “(I) *a 501(c)(3) organization, or*

23 “(II) *a Federal, State, or local*  
 24 *government conservation organization,*

1           “(ii) which meets the requirements of  
2           clauses (ii) and (iii)(II) of section  
3           170(h)(4)(A),

4           “(iii) which exceeds the requirements of  
5           relevant environmental and land use stat-  
6           utes and regulations, and

7           “(iv) which obligates the owner of the  
8           land to pay the costs incurred by the holder  
9           of the conservation restriction in moni-  
10          toring compliance with such restriction,

11          “(C) a management plan which meets the  
12          requirements of the statutes and regulations re-  
13          ferred to in subparagraph (B)(iii) is developed  
14          for the conservation of the renewable resources,  
15          and

16          “(D) such bond would be a qualified  
17          501(c)(3) bond (after the application of para-  
18          graph (2)) but for the failure to use revenues de-  
19          rived by the 501(c)(3) organization from the sale,  
20          lease, or other use of such resource as otherwise  
21          required by this part,

22          such bond shall not fail to be a qualified 501(c)(3)  
23          bond by reason of the failure to so use such revenues  
24          if the revenues which are not used as otherwise re-  
25          quired by this part are used in a manner consistent

1       *with the stated charitable purposes of the 501(c)(3)*  
2       *organization.*

3           “(2) *TREATMENT OF TIMBER, ETC.—*

4               “(A) *IN GENERAL.—For purposes of sub-*  
5       *section (a), the cost of any renewable resource ac-*  
6       *quired with proceeds of any bond described in*  
7       *paragraph (1) shall be treated as a cost of ac-*  
8       *quiring the land associated with the renewable*  
9       *resource and such land shall not be treated as*  
10       *used for a private business use because of the sale*  
11       *or leasing of the renewable resource to, or other*  
12       *use of the renewable resource by, an unaffiliated*  
13       *person to the extent that such sale, leasing, or*  
14       *other use does not constitute an unrelated trade*  
15       *or business, determined by applying section*  
16       *513(a).*

17               “(B) *APPLICATION OF BOND MATURITY LIM-*  
18       *ITATION.—For purposes of section 147(b), the*  
19       *cost of any land or renewable resource acquired*  
20       *with proceeds of any bond described in para-*  
21       *graph (1) shall have an economic life commensu-*  
22       *rate with the economic and ecological feasibility*  
23       *of the financing of such land or renewable re-*  
24       *source.*

1           “(C) *UNAFFILIATED PERSON*.—For pur-  
 2           poses of this subsection, the term ‘unaffiliated  
 3           person’ means any person who controls not more  
 4           than 20 percent of the governing body of another  
 5           person.”.

6           (b) *EFFECTIVE DATE*.—The amendment made by sub-  
 7           section (a) shall apply to obligations issued after the date  
 8           of the enactment of this Act.

9           **SEC. 1134. MODIFICATION OF ALTERNATIVE MINIMUM TAX**  
 10           **FOR INDIVIDUALS.**

11           Section 56(b)(1)(E), as amended by section 206, is  
 12           amended by striking “\$250” and inserting “\$300”.

13           **SEC. 1135. EXCLUSION FROM INCOME OF SEVERANCE PAY-**  
 14           **MENT AMOUNTS.**

15           (a) *IN GENERAL*.—Part III of subchapter B of chapter  
 16           1 (relating to items specifically excluded from gross income)  
 17           is amended by redesignating section 139 as section 140 and  
 18           by inserting after section 138 the following new section:

19           **“SEC. 139. SEVERANCE PAYMENTS.**

20           “(a) *IN GENERAL*.—In the case of an individual, gross  
 21           income shall not include any qualified severance payment.

22           “(b) *LIMITATION*.—The amount to which the exclusion  
 23           under subsection (a) applies shall not exceed \$2,000 with  
 24           respect to any separation from employment.



1       “(c) *QUALIFIED SEVERANCE PAYMENT.*—For purposes  
2 of this section—

3               “(1) *IN GENERAL.*—The term ‘qualified severance  
4 payment’ means any payment received by an indi-  
5 vidual if—

6                       “(A) such payment was paid by such indi-  
7 vidual’s employer on account of such individ-  
8 ual’s separation from employment,

9                       “(B) such separation was in connection  
10 with a reduction in the work force of the em-  
11 ployer, and

12                      “(C) such individual does not attain em-  
13 ployment within 6 months of the date of such  
14 separation in which the amount of compensation  
15 is equal to or greater than 95 percent of the  
16 amount of compensation for the employment that  
17 is related to such payment.

18               “(2) *LIMITATION.*—Such term shall not include  
19 any payment received by an individual if the aggre-  
20 gate payments received with respect to the separation  
21 from employment exceed \$75,000.”.

22       (b) *CLERICAL AMENDMENT.*—The table of sections for  
23 part III of subchapter B of chapter 1 is amended by striking  
24 the item relating to section 139 and inserting the following  
25 new items:

*“Sec. 139. Severance payments.*

*“Sec. 140. Cross references to other Acts.”.*

1       (c) *EFFECTIVE DATE.*—*The amendments made by sub-*  
 2 *sections (a) and (b) shall apply to taxable years beginning*  
 3 *after December 31, 2000, and before January 1, 2002.*

4       **SEC. 1136. CAPITAL GAIN TREATMENT UNDER SECTION**  
 5                       **631(b) TO APPLY TO OUTRIGHT SALES BY**  
 6                       **LAND OWNER.**

7       (a) *IN GENERAL.*—*Subsection (b) of section 631 (relat-*  
 8 *ing to disposal of timber with a retained economic interest)*  
 9 *is amended—*

10               (1) *by inserting “AND OUTRIGHT SALES OF TIM-*  
 11 *BER” after “ECONOMIC INTEREST” in the subsection*  
 12 *heading, and*

13               (2) *by adding before the last sentence the fol-*  
 14 *lowing new sentence: “The requirement in the first*  
 15 *sentence of this subsection to retain an economic in-*  
 16 *terest in timber shall not apply to an outright sale of*  
 17 *such timber by the owner thereof if such owner owned*  
 18 *the land (at the time of such sale) from which the*  
 19 *timber is cut.”.*

20       (b) *EFFECTIVE DATE.*—*The amendments made by this*  
 21 *section shall apply to sales after the date of the enactment*  
 22 *of this Act.*

1 **SEC. 1137. CREDIT FOR CLINICAL TESTING RESEARCH EX-**  
 2 **PENSES ATTRIBUTABLE TO CERTAIN QUALI-**  
 3 **FIED ACADEMIC INSTITUTIONS INCLUDING**  
 4 **TEACHING HOSPITALS.**

5 (a) *IN GENERAL.*—Subpart D of part IV of subchapter  
 6 A of chapter 1 (relating to business related credits) is  
 7 amended by inserting after section 41 the following:

8 **“SEC. 41A. CREDIT FOR MEDICAL INNOVATION EXPENSES.**

9 “(a) *GENERAL RULE.*—For purposes of section 38, the  
 10 medical innovation credit determined under this section for  
 11 the taxable year shall be an amount equal to 40 percent  
 12 of the excess (if any) of—

13 “(1) the qualified medical innovation expenses  
 14 for the taxable year, over

15 “(2) the medical innovation base period amount.

16 “(b) *QUALIFIED MEDICAL INNOVATION EXPENSES.*—  
 17 For purposes of this section—

18 “(1) *IN GENERAL.*—The term ‘qualified medical  
 19 innovation expenses’ means the amounts which are  
 20 paid or incurred by the taxpayer during the taxable  
 21 year directly or indirectly to any qualified academic  
 22 institution for clinical testing research activities.

23 “(2) *CLINICAL TESTING RESEARCH ACTIVI-*  
 24 *TIES.*—

25 “(A) *IN GENERAL.*—The term ‘clinical test-  
 26 ing research activities’ means human clinical

1       *testing conducted at any qualified academic in-*  
2       *stitution in the development of any product,*  
3       *which occurs before—*

4               “(i) *the date on which an application*  
5               *with respect to such product is approved*  
6               *under section 505(b), 506, or 507 of the*  
7               *Federal Food, Drug, and Cosmetic Act (as*  
8               *in effect on the date of the enactment of this*  
9               *section),*

10              “(ii) *the date on which a license for*  
11              *such product is issued under section 351 of*  
12              *the Public Health Service Act (as so in ef-*  
13              *fect), or*

14              “(iii) *the date classification or ap-*  
15              *proval of such product which is a device in-*  
16              *tended for human use is given under section*  
17              *513, 514, or 515 of the Federal Food, Drug,*  
18              *and Cosmetic Act (as so in effect).*

19              “(B) *PRODUCT.—The term ‘product’ means*  
20              *any drug, biologic, or medical device.*

21              “(3) *QUALIFIED ACADEMIC INSTITUTION.—The*  
22              *term ‘qualified academic institution’ means any of*  
23              *the following institutions:*

24                   “(A) *EDUCATIONAL INSTITUTION.—A quali-*  
25                   *fied organization described in section*

1           170(b)(1)(A)(iii) which is owned by, or affiliated  
 2           with, an institution of higher education (as de-  
 3           fined in section 3304(f)).

4           “(B) *TEACHING HOSPITAL*.—A teaching  
 5           hospital which—

6                     “(i) is publicly supported or owned by  
 7                     an organization described in section  
 8                     501(c)(3), and

9                     “(ii) is affiliated with an organization  
 10                    meeting the requirements of subparagraph  
 11                    (A).

12           “(C) *FOUNDATION*.—A medical research or-  
 13           ganization described in section 501(c)(3) (other  
 14           than a private foundation) which is affiliated  
 15           with, or owned by—

16                    “(i) an organization meeting the re-  
 17                    quirements of subparagraph (A), or

18                    “(ii) a teaching hospital meeting the  
 19                    requirements of subparagraph (B).

20           “(D) *CHARITABLE RESEARCH HOSPITAL*.—  
 21           A hospital that is designated as a cancer center  
 22           by the National Cancer Institute.

23           “(4) *EXCLUSION FOR AMOUNTS FUNDED BY*  
 24           *GRANTS, ETC.*—The term ‘qualified medical innova-  
 25           tion expenses’ shall not include any amount to the ex-

1        *tent such amount is funded by any grant, contract,*  
 2        *or otherwise by another person (or any governmental*  
 3        *entity).*

4        “(c) *MEDICAL INNOVATION BASE PERIOD AMOUNT.—*  
 5        *For purposes of this section, the term ‘medical innovation*  
 6        *base period amount’ means the average annual qualified*  
 7        *medical innovation expenses paid by the taxpayer during*  
 8        *the 3-taxable year period ending with the taxable year im-*  
 9        *mediately preceding the first taxable year of the taxpayer*  
 10       *beginning after December 31, 1998.*

11       “(d) *SPECIAL RULES.—*

12                “(1) *LIMITATION ON FOREIGN TESTING.—No*  
 13        *credit shall be allowed under this section with respect*  
 14        *to any clinical testing research activities conducted*  
 15        *outside the United States.*

16                “(2) *CERTAIN RULES MADE APPLICABLE.—Rules*  
 17        *similar to the rules of subsections (f) and (g) of sec-*  
 18        *tion 41 shall apply for purposes of this section.*

19                “(3) *ELECTION.—This section shall apply to any*  
 20        *taxpayer for any taxable year only if such taxpayer*  
 21        *elects to have this section apply for such taxable year.*

22                “(4) *COORDINATION WITH CREDIT FOR INCREAS-*  
 23        *ING RESEARCH EXPENDITURES AND WITH CREDIT*  
 24        *FOR CLINICAL TESTING EXPENSES FOR CERTAIN*  
 25        *DRUGS FOR RARE DISEASES.—Any qualified medical*

1     *innovation expense for a taxable year to which an*  
 2     *election under this section applies shall not be taken*  
 3     *into account for purposes of determining the credit al-*  
 4     *lowable under section 41 or 45C for such taxable*  
 5     *year.”.*

6     **(b) CREDIT TO BE PART OF GENERAL BUSINESS**  
 7     **CREDIT.—**

8             **(1) IN GENERAL.—***Section 38(b) (relating to cur-*  
 9     *rent year business credits), as amended by this Act,*  
 10    *is amended by striking “plus” at the end of para-*  
 11    *graph (14), by striking the period at the end of para-*  
 12    *graph (15) and inserting “, plus”, and by adding at*  
 13    *the end the following:*

14             *“(16) the medical innovation expenses credit de-*  
 15    *termined under section 41A(a).”.*

16             **(2) TRANSITION RULE.—***Section 39(d), as*  
 17    *amended by this Act, is amended by adding at the*  
 18    *end the following new paragraph:*

19             **“(11) NO CARRYBACK OF SECTION 41A CREDIT**  
 20    **BEFORE ENACTMENT.—***No portion of the unused busi-*  
 21    *ness credit for any taxable year which is attributable*  
 22    *to the medical innovation credit determined under*  
 23    *section 41A may be carried back to a taxable year be-*  
 24    *ginning before January 1, 1999.”.*

1       (c) *DENIAL OF DOUBLE BENEFIT.*—Section 280C, as  
 2       amended by this Act, is amended by adding at the end the  
 3       following new subsection:

4       “(e) *CREDIT FOR INCREASING MEDICAL INNOVATION*  
 5       *EXPENSES.*—

6               “(1) *IN GENERAL.*—No deduction shall be al-  
 7       lowed for that portion of the qualified medical inno-  
 8       vation expenses (as defined in section 41A(b)) other-  
 9       wise allowable as a deduction for the taxable year  
 10      which is equal to the amount of the credit determined  
 11      for such taxable year under section 41A(a).

12              “(2) *CERTAIN RULES TO APPLY.*—Rules similar  
 13      to the rules of paragraphs (2), (3), and (4) of sub-  
 14      section (c) shall apply for purposes of this sub-  
 15      section.”.

16      (d) *DEDUCTION FOR UNUSED PORTION OF CREDIT.*—  
 17      Section 196(c) (defining qualified business credits) is  
 18      amended by redesignating paragraphs (5) through (8) as  
 19      paragraphs (6) through (9), respectively, and by inserting  
 20      after paragraph (4) the following new paragraph:

21              “(5) the medical innovation expenses credit de-  
 22      termined under section 41A(a) (other than such credit  
 23      determined under the rules of section 280C(d)(2)),”.

24      (e) *CLERICAL AMENDMENT.*—The table of sections for  
 25      subpart D of part IV of subchapter A of chapter 1 is amend-



1 *ed by adding after the item relating to section 41 the fol-*  
 2 *lowing:*

*“Sec. 41A. Credit for medical innovation expenses.”.*

3 (f) *EFFECTIVE DATE.*—*The amendments made by this*  
 4 *section shall apply to taxable years beginning after Decem-*  
 5 *ber 31, 1998.*

6 ***TITLE XII—EXTENSION OF EX-***  
 7 ***PIRED AND EXPIRING PROVI-***  
 8 ***SIONS***

9 ***SEC. 1201. PERMANENT EXTENSION AND MODIFICATION OF***  
 10 ***RESEARCH CREDIT.***

11 (a) *PERMANENT EXTENSION.*—

12 (1) *IN GENERAL.*—*Section 41 (relating to credit*  
 13 *for increasing research activities) is amended by*  
 14 *striking subsection (h).*

15 (2) *CONFORMING AMENDMENT.*—*Paragraph (1)*  
 16 *of section 45C(b) is amended by striking subpara-*  
 17 *graph (D).*

18 (3) *EFFECTIVE DATE.*—*The amendments made*  
 19 *by this subsection shall apply to amounts paid or in-*  
 20 *curred after June 30, 1999.*

21 (b) *INCREASE IN PERCENTAGES UNDER ALTERNATIVE*  
 22 *INCREMENTAL CREDIT.*—

23 (1) *IN GENERAL.*—*Subparagraph (A) of section*  
 24 *41(c)(4) is amended—*

1           (A) by striking “1.65 percent” and insert-  
2           ing “2.65 percent”,

3           (B) by striking “2.2 percent” and inserting  
4           “3.2 percent”, and

5           (C) by striking “2.75 percent” and insert-  
6           ing “3.75 percent”.

7           (2) *EFFECTIVE DATE.*—The amendments made  
8           by this subsection shall apply to taxable years begin-  
9           ning after June 30, 1999.

10 **SEC. 1202. SUBPART F EXEMPTION FOR ACTIVE FINANCING**  
11 **INCOME.**

12           (a) *IN GENERAL.*—Sections 953(e)(10) and 954(h)(9)  
13           are each amended—

14                 (1) by striking “the first taxable year” and in-  
15                 serting “taxable years”, and

16                 (2) by striking “January 1, 2000” and inserting  
17                 “January 1, 2005”.

18           (b) *EFFECTIVE DATE.*—The amendment made by this  
19           section shall apply to taxable years beginning after Decem-  
20           ber 31, 1999.

21 **SEC. 1203. TAXABLE INCOME LIMIT ON PERCENTAGE DE-**  
22 **PLETION FOR MARGINAL PRODUCTION.**

23           (a) *IN GENERAL.*—Subparagraph (H) of section  
24           613A(c)(6) is amended by striking “January 1, 2000” and  
25           inserting “January 1, 2005”.

1       (b) *EFFECTIVE DATE.*—*The amendment made by this*  
 2 *section shall apply to taxable years beginning after Decem-*  
 3 *ber 31, 1999.*

4       **SEC. 1204. WORK OPPORTUNITY CREDIT AND WELFARE-TO-**  
 5                               **WORK CREDIT.**

6       (a) *TEMPORARY EXTENSION.*—*Sections 51(c)(4)(B)*  
 7 *and 51A(f) (relating to termination) are each amended by*  
 8 *striking “June 30, 1999” and inserting “June 30, 2004”.*

9       (b) *CLARIFICATION OF FIRST YEAR OF EMPLOY-*  
 10 *MENT.*—*Paragraph (2) of section 51(i) is amended by strik-*  
 11 *ing “during which he was not a member of a targeted*  
 12 *group”.*

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

16       **SEC. 1205. EXTENSION AND MODIFICATION OF CREDIT FOR**  
 17                               **PRODUCING ELECTRICITY FROM CERTAIN RE-**  
 18                               **NEWABLE RESOURCES.**

19       (a) *EXTENSION AND MODIFICATION OF PLACED-IN-*  
 20 *SERVICE RULES.*—*Paragraph (3) of section 45(c) is*  
 21 *amended to read as follows:*

22                       “(3) *QUALIFIED FACILITY.*—

23                               “(A) *WIND FACILITY.*—*In the case of a fa-*  
 24 *cility using wind to produce electricity, the term*  
 25 *‘qualified facility’ means any facility owned by*

1        *the taxpayer which is originally placed in serv-*  
2        *ice after December 31, 1993, and before July 1,*  
3        *2004.*

4                “(B) *CLOSED-LOOP BIOMASS FACILITY.*—*In*  
5        *the case of a facility using closed-loop biomass to*  
6        *produce electricity, the term ‘qualified facility’*  
7        *means any facility owned by the taxpayer which*  
8        *is originally placed in service after December 31,*  
9        *1992, and before July 1, 2004.*

10              “(C) *BIOMASS FACILITY.*—*In the case of a*  
11        *facility using biomass (other than closed-loop*  
12        *biomass) to produce electricity, the term ‘quali-*  
13        *fied facility’ means any facility owned by the*  
14        *taxpayer which is originally placed in service be-*  
15        *fore January 1, 2003.*

16              “(D) *LANDFILL GAS OR POULTRY WASTE*  
17        *FACILITY.*—

18                      “(i) *IN GENERAL.*—*In the case of a fa-*  
19        *cility using landfill gas or poultry waste to*  
20        *produce electricity, the term ‘qualified facil-*  
21        *ity’ means any facility of the taxpayer*  
22        *which is originally placed in service after*  
23        *December 31, 1999, and before July 1, 2004.*

24                      “(ii) *LANDFILL GAS.*—*In the case of a*  
25        *facility using landfill gas, such term shall*

1           include equipment and housing (not includ-  
 2           ing wells and related systems required to  
 3           collect and transmit gas to the production  
 4           facility) required to generate electricity  
 5           which are owned by the taxpayer and so  
 6           placed in service.

7           “(E) *SPECIAL RULE.*—In the case of a  
 8           qualified facility described in subparagraph (C),  
 9           the 10-year period referred to in subsection (a)  
 10          shall be treated as beginning no earlier than  
 11          January 1, 2000.”.

12          (b) *EXPANSION OF QUALIFIED ENERGY RE-*  
 13          *SOURCES.*—

14               (1) *IN GENERAL.*—Section 45(c)(1) (defining  
 15          qualified energy resources) is amended by striking  
 16          “and” at the end of subparagraph (A), by striking the  
 17          period at the end of subparagraph (B) and inserting  
 18          a comma, and by adding at the end the following new  
 19          subparagraphs:

20                       “(C) biomass (other than closed-loop bio-  
 21                       mass),

22                       “(B) landfill gas, and

23                       “(C) poultry waste.”.

24               (2) *DEFINITIONS.*—Section 45(c) is amended by  
 25          redesignating paragraph (3) as paragraph (6) and

1        *inserting after paragraph (2) the following new para-*  
2        *graphs:*

3                *“(3) BIOMASS.—The term ‘biomass’ means any*  
4        *solid, nonhazardous, cellulosic waste material which*  
5        *is segregated from other waste materials and which is*  
6        *derived from—*

7                *“(A) any of the following forest-related re-*  
8        *sources: mill residues, precommercial thinnings,*  
9        *slash, and brush, but not including old-growth*  
10       *timber,*

11               *“(B) urban sources, including waste pallets,*  
12       *crates, and dunnage, manufacturing and con-*  
13       *struction wood wastes, and landscape or right-of-*  
14       *way tree trimmings, but not including unsegre-*  
15       *gated municipal solid waste (garbage) or paper*  
16       *that is commonly recycled, or*

17               *“(C) agriculture sources, including orchard*  
18       *tree crops, vineyard, grain, legumes, sugar, and*  
19       *other crop by-products or residues.*

20               *“(4) LANDFILL GAS.—The term ‘landfill gas’*  
21       *means gas from the decomposition of any household*  
22       *solid waste, commercial solid waste, and industrial*  
23       *solid waste disposed of in a municipal solid waste*  
24       *landfill unit (as such terms are defined in regulations*

1       *promulgated under subtitle D of the Solid Waste Dis-*  
2       *posal Act (42 U.S.C. 6941 et seq.)).*

3               “(5) *POULTRY WASTE*.—*The term ‘poultry waste’*  
4       *means poultry manure and litter, including wood*  
5       *shavings, straw, rice hulls, and other bedding mate-*  
6       *rial for the disposition of manure.”.*

7       *(c) SPECIAL RULES*.—*Section 45(d) (relating to defi-*  
8       *nitions and special rules) is amended by adding at the end*  
9       *the following new paragraphs:*

10              “(6) *CREDIT ELIGIBILITY IN THE CASE OF GOV-*  
11       *ERNMENT-OWNED FACILITIES USING POULTRY*  
12       *WASTE*.—*In the case of a facility using poultry waste*  
13       *to produce electricity and owned by a governmental*  
14       *unit, the person eligible for the credit under sub-*  
15       *section (a) is the lessor or the operator of such facil-*  
16       *ity.*

17              “(7) *PROPORTIONAL CREDIT FOR FACILITY*  
18       *USING COAL TO CO-FIRE WITH CERTAIN BIOMASS*.—*In*  
19       *the case of a qualified facility as defined in subsection*  
20       *(c)(3)(C) using coal to co-fire with biomass (other*  
21       *than closed-loop biomass), the amount of the credit*  
22       *determined under subsection (a) for the taxable year*  
23       *shall be reduced by the percentage coal comprises (on*  
24       *a Btu basis) of the average fuel input of the facility*  
25       *for the taxable year.”.*

1       (d) *EFFECTIVE DATE.*—*The amendments made by this*  
 2 *section shall take effect on the date of the enactment of this*  
 3 *Act.*

4       **SEC. 1206. ALASKA EXEMPTION FROM DYEING REQUIRE-**  
 5                                   **MENTS.**

6       (a) *EXCEPTION TO DYEING REQUIREMENTS FOR EX-*  
 7 *EMPT DIESEL FUEL AND KEROSENE.*—*Paragraph (1) of*  
 8 *section 4082(c) (relating to exception to dyeing require-*  
 9 *ments) is amended to read as follows:*

10               “(1) *removed, entered, or sold in the State of*  
 11 *Alaska for ultimate sale or use in such State, and*”.

12       (b) *EFFECTIVE DATE.*—*The amendment made by this*  
 13 *section applies with respect to fuel removed, entered, or sold*  
 14 *on or after the date of the enactment of this Act.*

15       **SEC. 1207. EXTENSION OF EXPENSING OF ENVIRONMENTAL**  
 16                                   **REMEDIATION COSTS.**

17       (a) *EXTENSION OF TERMINATION DATE.*—*Subsection*  
 18 *(h) of section 198 is amended by striking “December 31,*  
 19 *2000” and inserting “June 30, 2004”.*

20       (b) *EXPANSION OF QUALIFIED CONTAMINATED*  
 21 *SITE.*—*Section 198(c) is amended to read as follows:*

22               “(c) *QUALIFIED CONTAMINATED SITE.*—*For purposes*  
 23 *of this section—*

24                       “(1) *IN GENERAL.*—*The term ‘qualified contami-*  
 25 *nated site’ means any area—*



1           “(A) which is held by the taxpayer for use  
2           in a trade or business or for the production of  
3           income, or which is property described in section  
4           1221(1) in the hands of the taxpayer, and

5           “(B) at or on which there has been a release  
6           (or threat of release) or disposal of any haz-  
7           ardous substance.

8           “(2) NATIONAL PRIORITIES LISTED SITES NOT  
9           INCLUDED.—Such term shall not include any site  
10          which is on, or proposed for, the national priorities  
11          list under section 105(a)(8)(B) of the Comprehensive  
12          Environmental Response, Compensation, and Liabil-  
13          ity Act of 1980 (as in effect on the date of the enact-  
14          ment of this section).

15          “(3) TAXPAYER MUST RECEIVE STATEMENT  
16          FROM STATE ENVIRONMENTAL AGENCY.—An area  
17          shall be treated as a qualified contaminated site with  
18          respect to expenditures paid or incurred during any  
19          taxable year only if the taxpayer receives a statement  
20          from the appropriate agency of the State in which  
21          such area is located that such area meets the require-  
22          ment of paragraph (1)(B).

23          “(4) APPROPRIATE STATE AGENCY.—For pur-  
24          poses of paragraph (2), the chief executive officer of  
25          each State may, in consultation with the Adminis-

1        *trator of the Environmental Protection Agency, des-*  
 2        *ignate the appropriate State environmental agency*  
 3        *within 60 days of the date of the enactment of this*  
 4        *section. If the chief executive officer of a State has not*  
 5        *designated an appropriate State environmental agen-*  
 6        *cy within such 60-day period, the appropriate envi-*  
 7        *ronmental agency for such State shall be designated*  
 8        *by the Administrator of the Environmental Protection*  
 9        *Agency.”.*

10        *(c) EFFECTIVE DATE.—The amendments made by this*  
 11        *section shall apply to expenditures paid or incurred after*  
 12        *December 31, 1999.*

## 13        ***TITLE XIII—REVENUE OFFSETS***

### 14        ***Subtitle A—General Provisions***

#### 15        ***SEC. 1301. MODIFICATION TO FOREIGN TAX CREDIT***

##### 16                    ***CARRYBACK AND CARRYOVER PERIODS.***

17        *(a) IN GENERAL.—Section 904(c) (relating to limita-*  
 18        *tion on credit) is amended—*

19                *(1) by striking “in the second preceding taxable*  
 20        *year,” and*

21                *(2) by striking “or fifth” and inserting “fifth,*  
 22        *sixth, or seventh”.*

23        *(b) EFFECTIVE DATE.—The amendment made by sub-*  
 24        *section (a) shall apply to credits arising in taxable years*  
 25        *beginning after December 31, 1999.*

1 **SEC. 1302. RETURNS RELATING TO CANCELLATIONS OF IN-**  
2 **DEBTEDNESS BY ORGANIZATIONS LENDING**  
3 **MONEY.**

4 (a) *IN GENERAL.*—Paragraph (2) of section 6050P(c)  
5 (relating to definitions and special rules) is amended by  
6 striking “and” at the end of subparagraph (B), by striking  
7 the period at the end of subparagraph (C) and inserting  
8 “, and”, and by inserting after subparagraph (C) the fol-  
9 lowing new subparagraph:

10 “(D) any organization a significant trade  
11 or business of which is the lending of money.”.

12 (b) *EFFECTIVE DATE.*—The amendment made by sub-  
13 section (a) shall apply to discharges of indebtedness after  
14 December 31, 1999.

15 **SEC. 1303. INCREASE IN ELECTIVE WITHHOLDING RATE**  
16 **FOR NONPERIODIC DISTRIBUTIONS FROM**  
17 **DEFERRED COMPENSATION PLANS.**

18 (a) *IN GENERAL.*—Section 3405(b)(1) (relating to  
19 withholding) is amended by striking “10 percent” and in-  
20 serting “15 percent”.

21 (b) *EFFECTIVE DATE.*—The amendment made by sub-  
22 section (a) shall apply to distributions after December 31,  
23 2000.

1 **SEC. 1304. EXTENSION OF INTERNAL REVENUE SERVICE**

2 **USER FEES.**

3 (a) *IN GENERAL.*—Chapter 77 (relating to miscella-  
4 neous provisions) is amended by adding at the end the fol-  
5 lowing new section:

6 **“SEC. 7527. INTERNAL REVENUE SERVICE USER FEES.**

7 “(a) *GENERAL RULE.*—The Secretary shall establish  
8 a program requiring the payment of user fees for—

9 “(1) requests to the Internal Revenue Service for  
10 ruling letters, opinion letters, and determination let-  
11 ters, and

12 “(2) other similar requests.

13 “(b) *PROGRAM CRITERIA.*—

14 “(1) *IN GENERAL.*—The fees charged under the  
15 program required by subsection (a)—

16 “(A) shall vary according to categories (or  
17 subcategories) established by the Secretary,

18 “(B) shall be determined after taking into  
19 account the average time for (and difficulty of)  
20 complying with requests in each category (and  
21 subcategory), and

22 “(C) shall be payable in advance.

23 “(2) *EXEMPTIONS, ETC.*—The Secretary shall  
24 provide for such exemptions (and reduced fees) under  
25 such program as the Secretary determines to be ap-  
26 propriate.

1           “(3) *AVERAGE FEE REQUIREMENT.*—*The average*  
 2           *fee charged under the program required by subsection*  
 3           *(a) shall not be less than the amount determined*  
 4           *under the following table:*

<b>“Category</b>	<b>Average Fee</b>
<i>Employee plan ruling and opinion .....</i>	<i>\$250</i>
<i>Exempt organization ruling .....</i>	<i>\$350</i>
<i>Employee plan determination .....</i>	<i>\$300</i>
<i>Exempt organization determination .....</i>	<i>\$275</i>
<i>Chief counsel ruling .....</i>	<i>\$200.</i>

5           “(c) *TERMINATION.*—*No fee shall be imposed under*  
 6           *this section with respect to requests made after September*  
 7           *30, 2009.”.*

8           (b) *CONFORMING AMENDMENTS.*—

9           (1) *The table of sections for chapter 77 is amend-*  
 10          *ed by adding at the end the following new item:*

                  “Sec. 7527. *Internal Revenue Service user fees.*”.

11          (2) *Section 10511 of the Revenue Act of 1987 is*  
 12          *repealed.*

13          (c) *EFFECTIVE DATE.*—*The amendments made by this*  
 14          *section shall apply to requests made after the date of the*  
 15          *enactment of this Act.*

16   **SEC. 1305. TRANSFER OF EXCESS DEFINED BENEFIT PLAN**  
 17                   **ASSETS FOR RETIREE HEALTH BENEFITS.**

18          (a) *EXTENSION.*—

19          (1) *IN GENERAL.*—*Paragraph (5) of section*  
 20          *420(b) (relating to expiration) is amended by striking*

21          *“in any taxable year beginning after December 31,*

1       2000” and inserting “made after September 30,  
2       2009”.

3               (2) *CONFORMING AMENDMENTS.*—

4               (A) *Section 101(e)(3) of the Employee Re-*  
5       *tirement Income Security Act of 1974 (29 U.S.C.*  
6       *1021(e)(3)) is amended by striking “1995” and*  
7       *inserting “2001”.*

8               (B) *Section 403(c)(1) of such Act (29*  
9       *U.S.C. 1103(c)(1)) is amended by striking*  
10       *“1995” and inserting “2001”.*

11              (C) *Paragraph (13) of section 408(b) of*  
12       *such Act (29 U.S.C. 1108(b)(13)) is amended—*

13                   (i) *by striking “in a taxable year be-*  
14       *ginning before January 1, 2001” and in-*  
15       *serting “made before October 1, 2009”, and*

16                   (ii) *by striking “1995” and inserting*  
17       *“2001”.*

18       (b) *APPLICATION OF MINIMUM COST REQUIRE-*  
19       *MENTS.*—

20              (1) *IN GENERAL.*—*Paragraph (3) of section*  
21       *420(c) is amended to read as follows:*

22                   “(3) *MINIMUM COST REQUIREMENTS.*—

23                           “(A) *IN GENERAL.*—*The requirements of*  
24       *this paragraph are met if each group health plan*  
25       *or arrangement under which applicable health*

benefits are provided provides that the applicable employer cost for each taxable year during the cost maintenance period shall not be less than the higher of the applicable employer costs for each of the 2 taxable years immediately preceding the taxable year of the qualified transfer.

“(B) *APPLICABLE EMPLOYER COST.*—For purposes of this paragraph, the term ‘applicable employer cost’ means, with respect to any taxable year, the amount determined by dividing—

“(i) the qualified current retiree health liabilities of the employer for such taxable year determined—

“(I) without regard to any reduction under subsection (e)(1)(B), and

“(II) in the case of a taxable year in which there was no qualified transfer, in the same manner as if there had been such a transfer at the end of the taxable year, by

“(ii) the number of individuals to whom coverage for applicable health benefits was provided during such taxable year.

“(C) *ELECTION TO COMPUTE COST SEPARATELY.*—An employer may elect to have this

paragraph applied separately with respect to individuals eligible for benefits under title XVIII of the Social Security Act at any time during the taxable year and with respect to individuals not so eligible.

“(D) *COST MAINTENANCE PERIOD.*—For purposes of this paragraph, the term ‘cost maintenance period’ means the period of 5 taxable years beginning with the taxable year in which the qualified transfer occurs. If a taxable year is in 2 or more overlapping cost maintenance periods, this paragraph shall be applied by taking into account the highest applicable employer cost required to be provided under subparagraph (A) for such taxable year.”.

(2) *CONFORMING AMENDMENTS.*—

(A) Clause (iii) of section 420(b)(1)(C) is amended by striking “benefits” and inserting “cost”.

(B) Subparagraph (D) of section 420(e)(1) is amended by striking “and shall not be subject to the minimum benefit requirements of subsection (c)(3)” and inserting “or in calculating applicable employer cost under subsection (c)(3)(B)”.



1       (c) *EFFECTIVE DATES.*—

2               (1) *IN GENERAL.*—*The amendments made by*  
 3       *this section shall apply to qualified transfers occur-*  
 4       *ring after the date of the enactment of this Act.*

5               (2) *TRANSITION RULE.*—*If the cost maintenance*  
 6       *period for any qualified transfer after the date of the*  
 7       *enactment of this Act includes any portion of a ben-*  
 8       *efit maintenance period for any qualified transfer on*  
 9       *or before such date, the amendments made by sub-*  
 10       *section (b) shall not apply to such portion of the cost*  
 11       *maintenance period (and such portion shall be treated*  
 12       *as a benefit maintenance period).*

13   **SEC. 1306. TAX TREATMENT OF INCOME AND LOSS ON DE-**  
 14               **RIVATIVES.**

15       (a) *IN GENERAL.*—*Section 1221 (defining capital as-*  
 16       *sets) is amended—*

17               (1) *by striking “For purposes” and inserting the*  
 18       *following:*

19       “*(a) IN GENERAL.—For purposes,*

20               (2) *by striking the period at the end of para-*  
 21       *graph (5) and inserting a semicolon, and*

22               (3) *by adding at the end the following:*

23       “*(6) any commodities derivative financial in-*  
 24       *strument held by a commodities derivatives dealer,*  
 25       *unless—*

1           “(A) it is established to the satisfaction of  
 2           the Secretary that such instrument has no con-  
 3           nection to the activities of such dealer as a deal-  
 4           er, and

5           “(B) such instrument is clearly identified  
 6           in such dealer’s records as being described in  
 7           subparagraph (A) before the close of the day on  
 8           which it was acquired, originated, or entered  
 9           into (or such other time as the Secretary may by  
 10          regulations prescribe);

11          “(7) any hedging transaction which is clearly  
 12          identified as such before the close of the day on which  
 13          it was acquired, originated, or entered into (or such  
 14          other time as the Secretary may by regulations pre-  
 15          scribe); or

16          “(8) supplies of a type regularly used or con-  
 17          sumed by the taxpayer in the ordinary course of a  
 18          trade or business of the taxpayer.

19          “(b) *DEFINITIONS AND SPECIAL RULES.*—

20                 “(1) *COMMODITIES DERIVATIVE FINANCIAL IN-*  
 21                 *STRUMENTS.*—For purposes of subsection (a)(6)—

22                         “(A) *COMMODITIES DERIVATIVES DEAL-*  
 23                         *ER.*—The term ‘commodities derivatives dealer’  
 24                         means a person which regularly offers to enter  
 25                         into, assume, offset, assign, or terminate posi-

tions in commodities derivative financial instruments with customers in the ordinary course of a trade or business.

“(B) *COMMODITIES DERIVATIVE FINANCIAL INSTRUMENT.*—

“(i) *IN GENERAL.*—The term ‘commodities derivative financial instrument’ means any contract or financial instrument with respect to commodities (other than a share of stock in a corporation, a beneficial interest in a partnership or trust, a note, bond, debenture, or other evidence of indebtedness, or a section 1256 contract (as defined in section 1256(b)), the value or settlement price of which is calculated by or determined by reference to a specified index.

“(ii) *SPECIFIED INDEX.*—The term ‘specified index’ means any one or more or any combination of—

“(I) a fixed rate, price, or amount, or

“(II) a variable rate, price, or amount,

which is based on any current, objectively determinable financial or economic infor-

1            *mation with respect to commodities which*  
 2            *is not within the control of any of the par-*  
 3            *ties to the contract or instrument and is not*  
 4            *unique to any of the parties' circumstances.*

5            *“(2) HEDGING TRANSACTION.—*

6            *“(A) IN GENERAL.—For purposes of this*  
 7            *section, the term ‘hedging transaction’ means*  
 8            *any transaction entered into by the taxpayer in*  
 9            *the normal course of the taxpayer’s trade or busi-*  
 10           *ness primarily—*

11           *“(i) to manage risk of price changes or*  
 12           *currency fluctuations with respect to ordi-*  
 13           *nary property which is held or to be held by*  
 14           *the taxpayer,*

15           *“(ii) to manage risk of interest rate or*  
 16           *price changes or currency fluctuations with*  
 17           *respect to borrowings made or to be made,*  
 18           *or ordinary obligations incurred or to be*  
 19           *incurred, by the taxpayer, or*

20           *“(iii) to manage such other risks as the*  
 21           *Secretary may prescribe in regulations.*

22           *“(B) TREATMENT OF NONIDENTIFICATION*  
 23           *OR IMPROPER IDENTIFICATION OF HEDGING*  
 24           *TRANSACTIONS.—Notwithstanding subsection*  
 25           *(a)(7), the Secretary shall prescribe regulations*

1           to properly characterize any income, gain, ex-  
2           pense, or loss arising from a transaction—

3                   “(i) which is a hedging transaction but  
4                   which was not identified as such in accord-  
5                   ance with subsection (a)(7), or

6                   “(ii) which was so identified but is not  
7                   a hedging transaction.

8           “(3) *REGULATIONS.*—The Secretary shall pre-  
9           scribe such regulations as are appropriate to carry  
10          out the purposes of paragraph (6) and (7) of sub-  
11          section (a) in the case of transactions involving re-  
12          lated parties.”.

13          (b) *MANAGEMENT OF RISK.*—

14                  (1) Section 475(c)(3) is amended by striking “re-  
15                  duces” and inserting “manages”.

16                  (2) Section 871(h)(4)(C)(iv) is amended by strik-  
17                  ing “to reduce” and inserting “to manage”.

18                  (3) Clauses (i) and (ii) of section 988(d)(2)(A)  
19                  are each amended by striking “to reduce” and insert-  
20                  ing “to manage”.

21                  (4) Paragraph (2) of section 1256(e) is amended  
22                  to read as follows:

23                          “(2) *DEFINITION OF HEDGING TRANSACTION.*—  
24                          For purposes of this subsection, the term ‘hedging  
25                          transaction’ means any hedging transaction (as de-

1     *fined in section 1221(b)(2)(A)) if, before the close of*  
 2     *the day on which such transaction was entered into*  
 3     *(or such earlier time as the Secretary may prescribe*  
 4     *by regulations), the taxpayer clearly identifies such*  
 5     *transaction as being a hedging transaction.”.*

6     *(c) CONFORMING AMENDMENTS.—*

7             *(1) Each of the following sections are amended*  
 8     *by striking “section 1221” and inserting “section*  
 9     *1221(a)”:*

10                 *(A) Section 170(e)(3)(A).*

11                 *(B) Section 170(e)(4)(B).*

12                 *(C) Section 367(a)(3)(B)(i).*

13                 *(D) Section 818(c)(3).*

14                 *(E) Section 865(i)(1).*

15                 *(F) Section 1092(a)(3)(B)(ii)(II).*

16                 *(G) Subparagraphs (C) and (D) of section*  
 17     *1231(b)(1).*

18                 *(H) Section 1234(a)(3)(A).*

19             *(2) Each of the following sections are amended*  
 20     *by striking “section 1221(1)” and inserting “section*  
 21     *1221(a)(1)”:*

22                 *(A) Section 198(c)(1)(A)(i).*

23                 *(B) Section 263A(b)(2)(A).*

24                 *(C) Clauses (i) and (iii) of section*  
 25     *267(f)(3)(B).*

1                   (D) Section 341(d)(3).

2                   (E) Section 543(a)(1)(D)(i).

3                   (F) Section 751(d)(1).

4                   (G) Section 775(c).

5                   (H) Section 856(c)(2)(D).

6                   (I) Section 856(c)(3)(C).

7                   (J) Section 856(e)(1).

8                   (K) Section 856(j)(2)(B).

9                   (L) Section 857(b)(4)(B)(i).

10                  (M) Section 857(b)(6)(B)(iii).

11                  (N) Section 864(c)(4)(B)(iii).

12                  (O) Section 864(d)(3)(A).

13                  (P) Section 864(d)(6)(A).

14                  (Q) Section 954(c)(1)(B)(iii).

15                  (R) Section 995(b)(1)(C).

16                  (S) Section 1017(b)(3)(E)(i).

17                  (T) Section 1362(d)(3)(C)(ii).

18                  (U) Section 4662(c)(2)(C).

19                  (V) Section 7704(c)(3).

20                  (W) Section 7704(d)(1)(D).

21                  (X) Section 7704(d)(1)(G).

22                  (Y) Section 7704(d)(5).

23                   (3) Section 818(b)(2) is amended by striking

24                   “section 1221(2)” and inserting “section 1221(a)(2)”.

1           (4) *Section 1397B(e)(2) is amended by striking*  
 2           *“section 1221(4)” and inserting “section 1221(a)(4)”.*

3           (d) *EFFECTIVE DATE.—The amendments made by this*  
 4           *section shall apply to any instrument held, acquired, or en-*  
 5           *tered into, any transaction entered into, and supplies held*  
 6           *or acquired on or after the date of enactment of this Act.*

7           ***Subtitle B—Loophole Closers***

8           ***SEC. 1311. LIMITATION ON USE OF NON-ACCRUAL EXPERI-***  
 9           ***ENCE METHOD OF ACCOUNTING.***

10          (a) *IN GENERAL.—Section 448(d)(5) (relating to spe-*  
 11          *cial rule for services) is amended—*

12               (1) *by inserting “in fields described in para-*  
 13               *graph (2)(A)” after “services by such person”, and*

14               (2) *by inserting “CERTAIN PERSONAL” before*  
 15               *“SERVICES” in the heading.*

16          (b) *EFFECTIVE DATE.—*

17               (1) *IN GENERAL.—The amendments made by*  
 18               *this section shall apply to taxable years ending after*  
 19               *the date of the enactment of this Act.*

20               (2) *CHANGE IN METHOD OF ACCOUNTING.—In*  
 21               *the case of any taxpayer required by the amendments*  
 22               *made by this section to change its method of account-*  
 23               *ing for its first taxable year ending after the date of*  
 24               *the enactment of this Act—*



1           (A) such change shall be treated as initiated  
2           by the taxpayer,

3           (B) such change shall be treated as made  
4           with the consent of the Secretary of the Treasury,  
5           and

6           (C) the net amount of the adjustments re-  
7           quired to be taken into account by the taxpayer  
8           under section 481 of the Internal Revenue Code  
9           of 1986 shall be taken into account over a period  
10          (not greater than 4 taxable years) beginning  
11          with such first taxable year.

12 **SEC. 1312. LIMITATIONS ON WELFARE BENEFIT FUNDS OF**  
13 **10 OR MORE EMPLOYER PLANS.**

14          (a) *BENEFITS TO WHICH EXCEPTION APPLIES.*—Sec-  
15          tion 419A(f)(6)(A) (relating to exception for 10 or more em-  
16          ployer plans) is amended to read as follows:

17               “(A) *IN GENERAL.*—This subpart shall not  
18               apply to a welfare benefit fund which is part of  
19               a 10 or more employer plan if the only benefits  
20               provided through the fund are 1 or more of the  
21               following:

22                       “(i) Medical benefits.

23                       “(ii) Disability benefits.

24                       “(iii) Group term life insurance bene-  
25                       fits which do not provide directly or indi-

1                   rectly for any cash surrender value or other  
 2                   money that can be paid, assigned, borrowed,  
 3                   or pledged for collateral for a loan.

4                   The preceding sentence shall not apply to any  
 5                   plan which maintains experience-rating arrange-  
 6                   ments with respect to individual employers.”.

7           (b) *LIMITATION ON USE OF AMOUNTS FOR OTHER*  
 8 *PURPOSES.*—Section 4976(b) (defining disqualified benefit)  
 9 is amended by adding at the end the following new para-  
 10 graph:

11                   “(5) *SPECIAL RULE FOR 10 OR MORE EMPLOYER*  
 12 *PLANS EXEMPTED FROM PREFUNDING LIMITS.*—For  
 13 purposes of paragraph (1)(C), if—

14                   “(A) subpart D of part I of subchapter D  
 15 of chapter 1 does not apply by reason of section  
 16 419A(f)(6) to contributions to provide 1 or more  
 17 welfare benefits through a welfare benefit fund  
 18 under a 10 or more employer plan, and

19                   “(B) any portion of the welfare benefit fund  
 20 attributable to such contributions is used for a  
 21 purpose other than that for which the contribu-  
 22 tions were made,  
 23 then such portion shall be treated as reverting to the  
 24 benefit of the employers maintaining the fund.”.

1       (c) *EFFECTIVE DATE.*—*The amendments made by this*  
 2 *section shall apply to contributions paid or accrued after*  
 3 *June 9, 1999, in taxable years ending after such date.*

4       **SEC. 1313. MODIFICATION OF INSTALLMENT METHOD AND**  
 5                       **REPEAL OF INSTALLMENT METHOD FOR AC-**  
 6                       **CRUAL METHOD TAXPAYERS.**

7       (a) *REPEAL OF INSTALLMENT METHOD FOR ACCRUAL*  
 8 *BASIS TAXPAYERS.*—

9               (1) *IN GENERAL.*—*Subsection (a) of section 453*  
 10 *(relating to installment method) is amended to read*  
 11 *as follows:*

12       “(a) *USE OF INSTALLMENT METHOD.*—

13               “(1) *IN GENERAL.*—*Except as otherwise provided*  
 14 *in this section, income from an installment sale shall*  
 15 *be taken into account for purposes of this title under*  
 16 *the installment method.*

17               “(2) *ACCRUAL METHOD TAXPAYER.*—*The install-*  
 18 *ment method shall not apply to income from an in-*  
 19 *stallment sale if such income would be reported under*  
 20 *an accrual method of accounting without regard to*  
 21 *this section. The preceding sentence shall not apply to*  
 22 *a disposition described in subparagraph (A) or (B) of*  
 23 *subsection (l)(2).”.*

24       (2) *CONFORMING AMENDMENTS.*—*Sections*  
 25 *453(d)(1), 453(i)(1), and 453(k) are each amended by*

1       striking “(a)” each place it appears and inserting  
2       “(a)(1)”.

3       (b) *MODIFICATION OF PLEDGE RULES.*—Paragraph  
4       (4) of section 453A(d) (relating to pledges, etc., of install-  
5       ment obligations) is amended by adding at the end the fol-  
6       lowing: “A payment shall be treated as directly secured by  
7       an interest in an installment obligation to the extent an  
8       arrangement allows the taxpayer to satisfy all or a portion  
9       of the indebtedness with the installment obligation.”.

10       (c) *EFFECTIVE DATE.*—The amendments made by this  
11       section shall apply to sales or other dispositions occurring  
12       on or after the date of the enactment of this Act.

13       **SEC. 1314. TREATMENT OF GAIN FROM CONSTRUCTIVE**  
14       **OWNERSHIP TRANSACTIONS.**

15       (a) *IN GENERAL.*—Part IV of subchapter P of chapter  
16       1 (relating to special rules for determining capital gains  
17       and losses) is amended by inserting after section 1259 the  
18       following new section:

19       **“SEC. 1260. GAINS FROM CONSTRUCTIVE OWNERSHIP**  
20       **TRANSACTIONS.**

21       “(a) *IN GENERAL.*—If the taxpayer has gain from a  
22       constructive ownership transaction with respect to any fi-  
23       nancial asset and such gain would (without regard to this  
24       section) be treated as a long-term capital gain—

1           “(1) such gain shall be treated as ordinary in-  
 2           come to the extent that such gain exceeds the net un-  
 3           derlying long-term capital gain, and

4           “(2) to the extent such gain is treated as a long-  
 5           term capital gain after the application of paragraph  
 6           (1), the determination of the capital gain rate (or  
 7           rates) applicable to such gain under section 1(h) shall  
 8           be determined on the basis of the respective rate (or  
 9           rates) that would have been applicable to the net un-  
 10          derlying long-term capital gain.

11          “(b) *INTEREST CHARGE ON DEFERRAL OF GAIN REC-*  
 12          *OGNITION.*—

13           “(1) *IN GENERAL.*—If any gain is treated as or-  
 14          dinary income for any taxable year by reason of sub-  
 15          section (a)(1), the tax imposed by this chapter for  
 16          such taxable year shall be increased by the amount of  
 17          interest determined under paragraph (2) with respect  
 18          to each prior taxable year during any portion of  
 19          which the constructive ownership transaction was  
 20          open. Any amount payable under this paragraph  
 21          shall be taken into account in computing the amount  
 22          of any deduction allowable to the taxpayer for interest  
 23          paid or accrued during such taxable year.

24           “(2) *AMOUNT OF INTEREST.*—The amount of in-  
 25          terest determined under this paragraph with respect

1       to a prior taxable year is the amount of interest  
2       which would have been imposed under section 6601  
3       on the underpayment of tax for such year which  
4       would have resulted if the gain (which is treated as  
5       ordinary income by reason of subsection (a)(1)) had  
6       been included in gross income in the taxable years in  
7       which it accrued (determined by treating the income  
8       as accruing at a constant rate equal to the applicable  
9       Federal rate as in effect on the day the transaction  
10      closed). The period during which such interest shall  
11      accrue shall end on the due date (without extensions)  
12      for the return of tax imposed by this chapter for the  
13      taxable year in which such transaction closed.

14               “(3) *APPLICABLE FEDERAL RATE.*—For purposes  
15      of paragraph (2), the applicable Federal rate is the  
16      applicable Federal rate determined under 1274(d)  
17      (compounded semiannually) which would apply to a  
18      debt instrument with a term equal to the period the  
19      transaction was open.

20               “(4) *NO CREDITS AGAINST INCREASE IN TAX.*—  
21      Any increase in tax under paragraph (1) shall not be  
22      treated as tax imposed by this chapter for purposes  
23      of determining—

24                       “(A) the amount of any credit allowable  
25                      under this chapter, or

1                   “(B) the amount of the tax imposed by sec-  
2                   tion 55.

3           “(c) *FINANCIAL ASSET*.—For purposes of this  
4 section—

5                   “(1) *IN GENERAL*.—The term ‘financial asset’  
6                   means—

7                   “(A) any equity interest in any pass-thru  
8                   entity, and

9                   “(B) to the extent provided in regulations—

10                   “(i) any debt instrument, and

11                   “(ii) any stock in a corporation which  
12                   is not a pass-thru entity.

13                   “(2) *PASS-THRU ENTITY*.—For purposes of para-  
14 graph (1), the term ‘pass-thru entity’ means—

15                   “(A) a regulated investment company,

16                   “(B) a real estate investment trust,

17                   “(C) an S corporation,

18                   “(D) a partnership,

19                   “(E) a trust,

20                   “(F) a common trust fund,

21                   “(G) a passive foreign investment company  
22 (as defined in section 1297 without regard to  
23 subsection (e) thereof),

24                   “(H) a foreign personal holding company,

1           “(I) a foreign investment company (as de-  
2           fined in section 1246(b)), and

3           “(J) a REMIC.

4           “(d) CONSTRUCTIVE OWNERSHIP TRANSACTION.—For  
5           purposes of this section—

6           “(1) IN GENERAL.—The taxpayer shall be treated  
7           as having entered into a constructive ownership  
8           transaction with respect to any financial asset if the  
9           taxpayer—

10           “(A) holds a long position under a notional  
11           principal contract with respect to the financial  
12           asset,

13           “(B) enters into a forward or futures con-  
14           tract to acquire the financial asset,

15           “(C) is the holder of a call option, and is  
16           the grantor of a put option, with respect to the  
17           financial asset and such options have substan-  
18           tially equal strike prices and substantially con-  
19           temporaneous maturity dates, or

20           “(D) to the extent provided in regulations  
21           prescribed by the Secretary, enters into 1 or  
22           more other transactions (or acquires 1 or more  
23           positions) that have substantially the same effect  
24           as a transaction described in any of the pre-  
25           ceding subparagraphs.



1           “(2) *EXCEPTION FOR POSITIONS WHICH ARE*  
 2           *MARKED TO MARKET.*—*This section shall not apply to*  
 3           *any constructive ownership transaction if all of the*  
 4           *positions which are part of such transaction are*  
 5           *marked to market under any provision of this title or*  
 6           *the regulations thereunder.*

7           “(3) *LONG POSITION UNDER NOTIONAL PRIN-*  
 8           *CIPAL CONTRACT.*—*A person shall be treated as hold-*  
 9           *ing a long position under a notional principal con-*  
 10           *tract with respect to any financial asset if such*  
 11           *person—*

12                   “(A) *has the right to be paid (or receive*  
 13                   *credit for) all or substantially all of the invest-*  
 14                   *ment yield (including appreciation) on such fi-*  
 15                   *nancial asset for a specified period, and*

16                   “(B) *is obligated to reimburse (or provide*  
 17                   *credit for) all or substantially all of any decline*  
 18                   *in the value of such financial asset.*

19           “(4) *FORWARD CONTRACT.*—*The term ‘forward*  
 20           *contract’ means any contract to acquire in the future*  
 21           *(or provide or receive credit for the future value of)*  
 22           *any financial asset.*

23           “(e) *NET UNDERLYING LONG-TERM CAPITAL GAIN.*—  
 24           *For purposes of this section, in the case of any constructive*  
 25           *ownership transaction with respect to any financial asset,*

1 the term ‘net underlying long-term capital gain’ means the  
2 aggregate net capital gain that the taxpayer would have  
3 had if—

4 “(1) the financial asset had been acquired for  
5 fair market value on the date such transaction was  
6 opened and sold for fair market value on the date  
7 such transaction was closed, and

8 “(2) only gains and losses that would have re-  
9 sulted from the deemed ownership under paragraph  
10 (1) were taken into account.

11 The amount of the net underlying long-term capital gain  
12 with respect to any financial asset shall be treated as zero  
13 unless the amount thereof is established by clear and con-  
14 vincing evidence.

15 “(f) SPECIAL RULE WHERE TAXPAYER TAKES DELIV-  
16 ERY.—Except as provided in regulations prescribed by the  
17 Secretary, if a constructive ownership transaction is closed  
18 by reason of taking delivery, this section shall be applied  
19 as if the taxpayer had sold all the contracts, options, or  
20 other positions which are part of such transaction for fair  
21 market value on the closing date. The amount of gain recog-  
22 nized under the preceding sentence shall not exceed the  
23 amount of gain treated as ordinary income under sub-  
24 section (a). Proper adjustments shall be made in the  
25 amount of any gain or loss subsequently realized for gain

1 *recognized and treated as ordinary income under this sub-*  
 2 *section.*

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

7 “(1) *to permit taxpayers to mark to market con-*  
 8 *structive ownership transactions in lieu of applying*  
 9 *this section, and*

10 “(2) *to exclude certain forward contracts which*  
 11 *do not convey substantially all of the economic return*  
 12 *with respect to a financial asset.”.*

13 (b) *CLERICAL AMENDMENT.*—*The table of sections for*  
 14 *part IV of subchapter P of chapter 1 is amended by adding*  
 15 *at the end the following new item:*

“*Sec. 1260. Gains from constructive ownership transactions.*”.

16 (c) *EFFECTIVE DATE.*—*The amendments made by this*  
 17 *section shall apply to transactions entered into after July*  
 18 *11, 1999.*

19 **SEC. 1315. CHARITABLE SPLIT-DOLLAR LIFE INSURANCE,**  
 20 **ANNUITY, AND ENDOWMENT CONTRACTS.**

21 (a) *IN GENERAL.*—*Subsection (f) of section 170 (relat-*  
 22 *ing to disallowance of deduction in certain cases and spe-*  
 23 *cial rules), as amended by section 807, is amended by add-*  
 24 *ing at the end the following new paragraph:*

1           “(11) *SPLIT-DOLLAR LIFE INSURANCE, ANNUITY,*  
2           *AND ENDOWMENT CONTRACTS.*—

3           “(A) *IN GENERAL.*—*Nothing in this section*  
4           *or in section 545(b)(2), 556(b)(2), 642(c), 2055,*  
5           *2106(a)(2), or 2522 shall be construed to allow*  
6           *a deduction, and no deduction shall be allowed,*  
7           *for any transfer to or for the use of an organiza-*  
8           *tion described in subsection (c) if in connection*  
9           *with such transfer—*

10           “(i) *the organization directly or indi-*  
11           *rectly pays, or has previously paid, any*  
12           *premium on any personal benefit contract*  
13           *with respect to the transferor, or*

14           “(ii) *there is an understanding or ex-*  
15           *pectation that any person will directly or*  
16           *indirectly pay any premium on any per-*  
17           *sonal benefit contract with respect to the*  
18           *transferor.*

19           “(B) *PERSONAL BENEFIT CONTRACT.*—*For*  
20           *purposes of subparagraph (A), the term ‘personal*  
21           *benefit contract’ means, with respect to the*  
22           *transferor, any life insurance, annuity, or en-*  
23           *dowment contract if any direct or indirect bene-*  
24           *ficiary under such contract is the transferor, any*  
25           *member of the transferor’s family, or any other*

1        *person (other than an organization described in*  
2        *subsection (c)) designated by the transferor.*

3                *“(C) APPLICATION TO CHARITABLE REMAIN-*  
4        *DER TRUSTS.—In the case of a transfer to a*  
5        *trust referred to in subparagraph (E), references*  
6        *in subparagraphs (A) and (F) to an organiza-*  
7        *tion described in subsection (c) shall be treated*  
8        *as a reference to such trust.*

9                *“(D) EXCEPTION FOR CERTAIN ANNUITY*  
10       *CONTRACTS.—If, in connection with a transfer to*  
11       *or for the use of an organization described in*  
12       *subsection (c), such organization incurs an obli-*  
13       *gation to pay a charitable gift annuity (as de-*  
14       *finied in section 501(m)) and such organization*  
15       *purchases any annuity contract to fund such ob-*  
16       *ligation, persons receiving payments under the*  
17       *charitable gift annuity shall not be treated for*  
18       *purposes of subparagraph (B) as indirect bene-*  
19       *ficiaries under such contract if—*

20                *“(i) such organization possesses all of*  
21                *the incidents of ownership under such con-*  
22                *tract,*

23                *“(ii) such organization is entitled to*  
24                *all the payments under such contract, and*

1           “(iii) *the timing and amount of pay-*  
 2           *ments under such contract are substantially*  
 3           *the same as the timing and amount of pay-*  
 4           *ments to each such person under such obli-*  
 5           *gation (as such obligation is in effect at the*  
 6           *time of such transfer).*

7           “(E) *EXCEPTION FOR CERTAIN CONTRACTS*  
 8           *HELD BY CHARITABLE REMAINDER TRUSTS.—A*  
 9           *person shall not be treated for purposes of sub-*  
 10           *paragraph (B) as an indirect beneficiary under*  
 11           *any life insurance, annuity, or endowment con-*  
 12           *tract held by a charitable remainder annuity*  
 13           *trust or a charitable remainder unitrust (as de-*  
 14           *finied in section 664(d)) solely by reason of being*  
 15           *entitled to any payment referred to in para-*  
 16           *graph (1)(A) or (2)(A) of section 664(d) if—*

17                   “(i) *such trust possesses all of the inci-*  
 18                   *dents of ownership under such contract, and*

19                   “(ii) *such trust is entitled to all the*  
 20                   *payments under such contract.*

21           “(F) *EXCISE TAX ON PREMIUMS PAID.—*

22                   “(i) *IN GENERAL.—There is hereby im-*  
 23                   *posed on any organization described in sub-*  
 24                   *section (c) an excise tax equal to the pre-*  
 25                   *miums paid by such organization on any*

1           *life insurance, annuity, or endowment con-*  
2           *tract if the payment of premiums on such*  
3           *contract is in connection with a transfer for*  
4           *which a deduction is not allowable under*  
5           *subparagraph (A), determined without re-*  
6           *gard to when such transfer is made.*

7           “(ii) *PAYMENTS BY OTHER PER-*  
8           *SONS.—For purposes of clause (i), pay-*  
9           *ments made by any other person pursuant*  
10          *to an understanding or expectation referred*  
11          *to in subparagraph (A) shall be treated as*  
12          *made by the organization.*

13          “(iii) *REPORTING.—Any organization*  
14          *on which tax is imposed by clause (i) with*  
15          *respect to any premium shall file an annual*  
16          *return which includes—*

17                 “(I) *the amount of such premium*  
18                 *paid during the year and the name*  
19                 *and TIN of each beneficiary under the*  
20                 *contract to which the premium relates,*  
21                 *and*

22                 “(II) *such other information as*  
23                 *the Secretary may require.*

24          *The penalties applicable to returns required*  
25          *under section 6033 shall apply to returns*

1           *required under this clause. Returns required*  
2           *under this clause shall be furnished at such*  
3           *time and in such manner as the Secretary*  
4           *shall by forms or regulations require.*

5           “(iv) *CERTAIN RULES TO APPLY.—The*  
6           *tax imposed by this subparagraph shall be*  
7           *treated as imposed by chapter 42 for pur-*  
8           *poses of this title other than subchapter B*  
9           *of chapter 42.*

10          “(G) *SPECIAL RULE WHERE STATE RE-*  
11          *QUIRES SPECIFICATION OF CHARITABLE GIFT AN-*  
12          *NUITANT IN CONTRACT.—In the case of an obli-*  
13          *gation to pay a charitable gift annuity referred*  
14          *to in subparagraph (D) which is entered into*  
15          *under the laws of a State which requires, in*  
16          *order for the charitable gift annuity to be exempt*  
17          *from insurance regulation by such State, that*  
18          *each beneficiary under the charitable gift annu-*  
19          *ity be named as a beneficiary under an annuity*  
20          *contract issued by an insurance company au-*  
21          *thorized to transact business in such State, the*  
22          *requirements of clauses (i) and (ii) of subpara-*  
23          *graph (D) shall be treated as met if—*

24                “(i) *such State law requirement was in*  
25                *effect on February 8, 1999,*



1           “(ii) each such beneficiary under the  
2           charitable gift annuity is a bona fide resi-  
3           dent of such State at the time the obligation  
4           to pay a charitable gift annuity is entered  
5           into, and

6           “(iii) the only persons entitled to pay-  
7           ments under such contract are persons enti-  
8           tled to payments as beneficiaries under such  
9           obligation on the date such obligation is en-  
10          tered into.

11          “(H) MEMBER OF FAMILY.—For purposes  
12          of this paragraph, an individual’s family con-  
13          sists of the individual’s grandparents, the grand-  
14          parents of such individual’s spouse, the lineal de-  
15          scendants of such grandparents, and any spouse  
16          of such a lineal descendant.

17          “(I) REGULATIONS.—The Secretary shall  
18          prescribe such regulations as may be necessary  
19          or appropriate to carry out the purposes of this  
20          paragraph, including regulations to prevent the  
21          avoidance of such purposes.”.

22          (b) EFFECTIVE DATE.—

23                (1) IN GENERAL.—Except as otherwise provided  
24                in this section, the amendment made by this section  
25                shall apply to transfers made after February 8, 1999.

1           (2) *EXCISE TAX.*—*Except as provided in para-*  
 2           *graph (3) of this subsection, section 170(f)(11)(F) of*  
 3           *the Internal Revenue Code of 1986 (as added by this*  
 4           *section) shall apply to premiums paid after the date*  
 5           *of the enactment of this Act.*

6           (3) *REPORTING.*—*Clause (iii) of such section*  
 7           *170(f)(11)(F) shall apply to premiums paid after*  
 8           *February 8, 1999 (determined as if the tax imposed*  
 9           *by such section applies to premiums paid after such*  
 10          *date).*

11 **SEC. 1316. RESTRICTION ON USE OF REAL ESTATE INVEST-**  
 12                           **MENT TRUSTS TO AVOID ESTIMATED TAX**  
 13                           **PAYMENT REQUIREMENTS.**

14          (a) *IN GENERAL.*—*Subsection (e) of section 6655 (re-*  
 15          *lating to estimated tax by corporations) is amended by add-*  
 16          *ing at the end the following new paragraph:*

17                   “(5) *TREATMENT OF CERTAIN REIT DIVI-*  
 18                   *DENDS.*—

19                   “(A) *IN GENERAL.*—*Any dividend received*  
 20                   *from a closely held real estate investment trust*  
 21                   *by any person which owns (after application of*  
 22                   *subsections (d)(5) and (l)(3)(B) of section 856)*  
 23                   *10 percent or more (by vote or value) of the stock*  
 24                   *or beneficial interests in the trust shall be taken*  
 25                   *into account in computing annualized income*

1           installments under paragraph (2) in a manner  
 2           similar to the manner under which partnership  
 3           income inclusions are taken into account.

4           “(B) *CLOSELY HELD REIT.*—For purposes  
 5           of subparagraph (A), the term ‘closely held real  
 6           estate investment trust’ means a real estate in-  
 7           vestment trust with respect to which 5 or fewer  
 8           persons own (after application of subsections  
 9           (d)(5) and (l)(3)(B) of section 856) 50 percent or  
 10          more (by vote or value) of the stock or beneficial  
 11          interests in the trust.”.

12          (b) *EFFECTIVE DATE.*—The amendment made by sub-  
 13          section (a) shall apply to estimated tax payments due on  
 14          or after September 15, 1999.

15   **SEC. 1317. PROHIBITED ALLOCATIONS OF S CORPORATION**

16                   **STOCK HELD BY AN ESOP.**

17          (a) *IN GENERAL.*—Section 409 (relating to qualifica-  
 18          tions for tax credit employee stock ownership plans) is  
 19          amended by redesignating subsection (p) as subsection (q)  
 20          and by inserting after subsection (o) the following new sub-  
 21          section:

22               “(p) *PROHIBITED ALLOCATION OF SECURITIES IN AN*  
 23          *S CORPORATION.*—

24               “(1) *IN GENERAL.*—An employee stock ownership  
 25          plan holding employer securities consisting of stock in

1        *an S corporation shall provide that no portion of the*  
2        *assets of the plan attributable to (or allocable in lieu*  
3        *of) such employer securities may, during a nonalloca-*  
4        *tion year, accrue (or be allocated directly or indi-*  
5        *rectly under any plan of the employer meeting the re-*  
6        *quirements of section 401(a)) for the benefit of any*  
7        *disqualified individual.*

8                *“(2) FAILURE TO MEET REQUIREMENTS.—If a*  
9        *plan fails to meet the requirements of paragraph*  
10       *(1)—*

11                *“(A) the plan shall be treated as having dis-*  
12        *tributed to any disqualified individual the*  
13        *amount allocated to the account of such indi-*  
14        *vidual in violation of paragraph (1) at the time*  
15        *of such allocation,*

16                *“(B) the provisions of section 4979A shall*  
17        *apply, and*

18                *“(C) the statutory period for the assessment*  
19        *of any tax imposed by section 4979A shall not*  
20        *expire before the date which is 3 years from the*  
21        *later of—*

22                *“(i) the allocation of employer securi-*  
23        *ties resulting in the failure under para-*  
24        *graph (1) giving rise to such tax, or*

1                   “(ii) the date on which the Secretary is  
2                   notified of such failure.

3                   “(3) NONALLOCATION YEAR.—For purposes of  
4                   this subsection—

5                   “(A) IN GENERAL.—The term ‘nonalloca-  
6                   tion year’ means any plan year of an employee  
7                   stock ownership plan if, at any time during such  
8                   plan year—

9                   “(i) such plan holds employer securi-  
10                  ties consisting of stock in an S corporation,  
11                  and

12                  “(ii) disqualified individuals own at  
13                  least 50 percent of the number of out-  
14                  standing shares of stock in such S corpora-  
15                  tion.

16                  “(B) ATTRIBUTION RULES.—For purposes  
17                  of subparagraph (A)—

18                  “(i) IN GENERAL.—The rules of section  
19                  318(a) shall apply for purposes of deter-  
20                  mining ownership, except that—

21                  “(I) in applying paragraph (1)  
22                  thereof, the members of an individual’s  
23                  family shall include members of the  
24                  family described in paragraph (4)(D),  
25                  and

1                   “(II) paragraph (4) thereof shall  
2                   not apply.

3                   “(ii) *DEEMED-OWNED SHARES*.—Not-  
4                   withstanding the employee trust exception  
5                   in section 318(a)(2)(B)(i), disqualified indi-  
6                   viduals shall be treated as owning deemed-  
7                   owned shares.

8                   “(4) *DISQUALIFIED INDIVIDUAL*.—For purposes  
9                   of this subsection—

10                   “(A) *IN GENERAL*.—The term ‘disqualified  
11                   individual’ means any individual who is a par-  
12                   ticipant or beneficiary under the employee stock  
13                   ownership plan if—

14                   “(i) the aggregate number of deemed-  
15                   owned shares of such individual and the  
16                   members of the individual’s family is at  
17                   least 20 percent of the number of out-  
18                   standing shares of stock in the S corpora-  
19                   tion constituting employer securities of such  
20                   plan, or

21                   “(ii) if such individual is not described  
22                   in clause (i), the number of deemed-owned  
23                   shares of such individual is at least 10 per-  
24                   cent of the number of outstanding shares of  
25                   stock in such corporation.

1           “(B) *TREATMENT OF FAMILY MEMBERS.*—

2           *In the case of a disqualified individual described*  
 3           *in subparagraph (A)(i), any member of the indi-*  
 4           *vidual’s family with deemed-owned shares shall*  
 5           *be treated as a disqualified individual if not oth-*  
 6           *erwise a disqualified individual under subpara-*  
 7           *graph (A).*

8           “(C) *DEEMED-OWNED SHARES.*—*For pur-*  
 9           *poses of this paragraph—*

10           “(i) *IN GENERAL.*—*The term ‘deemed-*  
 11           *owned shares’ means, with respect to any*  
 12           *participant or beneficiary under the em-*  
 13           *ployee stock ownership plan—*

14           “(I) *the stock in the S corporation*  
 15           *constituting employer securities of such*  
 16           *plan which is allocated to such partici-*  
 17           *part or beneficiary under the plan,*  
 18           *and*

19           “(II) *such participant’s or bene-*  
 20           *ficiary’s share of the stock in such cor-*  
 21           *poration which is held by such trust*  
 22           *but which is not allocated under the*  
 23           *plan to employees.*

24           “(ii) *INDIVIDUAL’S SHARE OF*  
 25           *UNALLOCATED STOCK.*—*For purposes of*

1           *clause (i)(II), an individual's share of*  
2           *unallocated S corporation stock held by the*  
3           *trust is the amount of the unallocated stock*  
4           *which would be allocated to such individual*  
5           *if the unallocated stock were allocated to in-*  
6           *dividuals in the same proportions as the*  
7           *most recent stock allocation under the plan.*

8           “(D) *MEMBER OF FAMILY.*—*For purposes of*  
9           *this paragraph, the term ‘member of the family’*  
10          *means, with respect to any individual—*

11               “(i) *the spouse of the individual,*

12               “(ii) *an ancestor or lineal descendant*  
13               *of the individual or the individual's spouse,*

14               “(iii) *a brother or sister of the indi-*  
15               *vidual or the individual's spouse and any*  
16               *lineal descendant of the brother or sister,*  
17               *and*

18               “(iv) *the spouse of any person de-*  
19               *scribed in clause (ii) or (iii).*

20          “(5) *DEFINITIONS.*—*For purposes of this*  
21          *subsection—*

22               “(A) *EMPLOYEE STOCK OWNERSHIP*  
23               *PLAN.*—*The term ‘employee stock ownership*  
24               *plan’ has the meaning given such term by sec-*  
25               *tion 4975(e)(7).*



1           “(B) *EMPLOYER SECURITIES*.—The term  
2           ‘employer security’ has the meaning given such  
3           term by section 409(l).

4           “(6) *REGULATIONS*.—The Secretary shall pre-  
5           scribe such regulations as may be necessary to carry  
6           out the purposes of this subsection, including regula-  
7           tions providing for the treatment of any stock option,  
8           restricted stock, stock appreciation right, phantom  
9           stock unit, performance unit, or similar instrument  
10          granted by an S corporation as stock or not stock.”.

11       (b) *EXCISE TAX*.—

12           (1) *IN GENERAL*.—Section 4979A(b) (defining  
13           prohibited allocation) is amended by striking “and”  
14           at the end of paragraph (1), by striking the period at  
15           the end of paragraph (2) and inserting “, and”, and  
16           by adding at the end the following new paragraph:

17           “(3) any allocation of employer securities which  
18           violates the provisions of section 409(p).”.

19           (2) *LIABILITY*.—Section 4979A(c) (defining li-  
20           ability for tax) is amended by adding at the end the  
21           following new sentence: “In the case of a prohibited  
22           allocation described in subsection (b)(3), such tax  
23           shall be paid by the S corporation the stock in which  
24           was allocated in violation of section 409(p).”.

25       (c) *EFFECTIVE DATES*.—

1           (1) *IN GENERAL.*—*The amendments made by*  
 2           *this section shall apply to plan years beginning after*  
 3           *December 31, 2000.*

4           (2) *EXCEPTION FOR CERTAIN PLANS.*—*In the*  
 5           *case of any—*

6                     (A) *employee stock ownership plan estab-*  
 7                     *lished after July 14, 1999, or*

8                     (B) *employee stock ownership plan estab-*  
 9                     *lished on or before such date if employer securi-*  
 10                    *ties held by the plan consist of stock in a cor-*  
 11                    *poration with respect to which an election under*  
 12                    *section 1362(a) of the Internal Revenue Code of*  
 13                    *1986 is not in effect on such date,*

14           *the amendments made by this section shall apply to*  
 15           *plan years ending after July 14, 1999.*

16 **SEC. 1318. MODIFICATION OF ANTI-ABUSE RULES RELATED**  
 17 **TO ASSUMPTION OF LIABILITY.**

18           (a) *IN GENERAL.*—*Section 357(b)(1) (relating to tax*  
 19           *avoidance purpose) is amended—*

20                     (1) *by striking “the principal purpose” and in-*  
 21                     *serting “a principal purpose”, and*

22                     (2) *by striking “on the exchange” in subpara-*  
 23                     *graph (A).*

1       (b) *EFFECTIVE DATE.*—*The amendments made by this*  
 2 *section shall apply to assumptions of liability after July*  
 3 *14, 1999.*

4       **SEC. 1319. ALLOCATION OF BASIS ON TRANSFERS OF IN-**  
 5                               **TANGIBLES IN CERTAIN NONRECOGNITION**  
 6                               **TRANSACTIONS.**

7       (a) *TRANSFERS TO CORPORATIONS.*—*Section 351 (re-*  
 8 *lating to transfer to corporation controlled by transferor)*  
 9 *is amended by redesignating subsection (h) as subsection*  
 10 *(i) and by inserting after subsection (g) the following new*  
 11 *subsection:*

12       “(h) *TREATMENT OF TRANSFERS OF INTANGIBLE*  
 13 *PROPERTY.*—

14               “(1) *TRANSFERS OF LESS THAN ALL SUBSTAN-*  
 15 *TIAL RIGHTS.*

16                       “(A) *IN GENERAL.*—*A transfer of an inter-*  
 17 *est in intangible property (as defined in section*  
 18 *936(h)(3)(B)) shall be treated under this section*  
 19 *as a transfer of property even if the transfer is*  
 20 *of less than all of the substantial rights of the*  
 21 *transferor in the property.*

22                       “(B) *ALLOCATION OF BASIS.*—*In the case of*  
 23 *a transfer of less than all of the substantial*  
 24 *rights of the transferor in the intangible prop-*  
 25 *erty, the transferor’s basis immediately before the*

1           *transfer shall be allocated among the rights re-*  
 2           *tained by the transferor and the rights trans-*  
 3           *ferred on the basis of their respective fair market*  
 4           *values.*

5           “(2) *NONRECOGNITION NOT TO APPLY TO INTAN-*  
 6           *GIBLE PROPERTY DEVELOPED FOR TRANSFEREE.—*  
 7           *This section shall not apply to a transfer of intan-*  
 8           *gible property developed by the transferor or any re-*  
 9           *lated person if such development was pursuant to an*  
 10          *arrangement with the transferee.”.*

11          *(b) TRANSFERS TO PARTNERSHIPS.—Subsection (d) of*  
 12          *section 721 is amended to read as follows:*

13          “(d) *TRANSFERS OF INTANGIBLE PROPERTY.—*

14               “(1) *IN GENERAL.—Rules similar to the rules of*  
 15               *section 351(h) shall apply for purposes of this section.*

16               “(2) *TRANSFERS TO FOREIGN PARTNERSHIPS.—*  
 17               *For regulatory authority to treat intangibles trans-*  
 18               *ferred to a partnership as sold, see section*  
 19               *367(d)(3).”.*

20          *(c) EFFECTIVE DATE.—The amendments made by this*  
 21          *section shall apply to transfers on or after the date of the*  
 22          *enactment of this Act.*

1 **SEC. 1320. CONTROLLED ENTITIES INELIGIBLE FOR REIT**  
 2 **STATUS.**

3 (a) *IN GENERAL.*—Subsection (a) of section 856 (relat-  
 4 ing to definition of real estate investment trust) is amended  
 5 by striking “and” at the end of paragraph (6), by redesign-  
 6 ating paragraph (7) as paragraph (8), and by inserting  
 7 after paragraph (6) the following new paragraph:

8 “(7) which is not a controlled entity (as defined  
 9 in subsection (l)); and”.

10 (b) *CONTROLLED ENTITY.*—Section 856 is amended by  
 11 adding at the end the following new subsection:

12 “(l) *CONTROLLED ENTITY.*—

13 “(1) *IN GENERAL.*—For purposes of subsection  
 14 (a)(7), an entity is a controlled entity if, at any time  
 15 during the taxable year, one person (other than a  
 16 qualified entity)—

17 “(A) in the case of a corporation, owns  
 18 stock—

19 “(i) possessing at least 50 percent of  
 20 the total voting power of the stock of such  
 21 corporation, or

22 “(ii) having a value equal to at least  
 23 50 percent of the total value of the stock of  
 24 such corporation, or

25 “(B) in the case of a trust, owns beneficial  
 26 interests in the trust which would meet the re-

1            *quirements of subparagraph (A) if such interests*  
 2            *were stock.*

3            “(2) *QUALIFIED ENTITY.*—*For purposes of para-*  
 4            *graph (1), the term ‘qualified entity’ means—*

5                    “(A) *any real estate investment trust, and*

6                    “(B) *any partnership in which one real es-*  
 7                    *tate investment trust owns at least 50 percent of*  
 8                    *the capital and profits interests in the partner-*  
 9                    *ship.*

10           “(3) *ATTRIBUTION RULES.*—*For purposes of this*  
 11           *paragraphs (1) and (2)—*

12                    “(A) *IN GENERAL.*—*Rules similar to the*  
 13                    *rules of subsections (d)(5) and (h)(3) shall apply.*

14                    “(B) *STAPLED ENTITIES.*—*A group of enti-*  
 15                    *ties which are stapled entities (as defined in sec-*  
 16                    *tion 269B(c)(2)) shall be treated as 1 person.*

17           “(4) *EXCEPTION FOR CERTAIN NEW REITS.*—

18                    “(A) *IN GENERAL.*—*The term ‘controlled en-*  
 19                    *tity’ shall not include an incubator REIT.*

20                    “(B) *INCUBATOR REIT.*—*A corporation*  
 21                    *shall be treated as an incubator REIT for any*  
 22                    *taxable year during the eligibility period if it*  
 23                    *meets all the following requirements for such*  
 24                    *year:*

1           “(i) *The corporation elects to be treated*  
2           *as an incubator REIT.*

3           “(ii) *The corporation has only voting*  
4           *common stock outstanding.*

5           “(iii) *Not more than 50 percent of the*  
6           *corporation’s real estate assets consist of*  
7           *mortgages.*

8           “(iv) *From not later than the begin-*  
9           *ning of the last half of the second taxable*  
10          *year, at least 10 percent of the corporation’s*  
11          *capital is provided by lenders or equity in-*  
12          *vestors who are unrelated to the corpora-*  
13          *tion’s largest shareholder.*

14          “(v) *The corporation annually in-*  
15          *creases the value of its real estate assets by*  
16          *at least 10 percent.*

17          “(vi) *The directors of the corporation*  
18          *adopt a resolution setting forth an intent to*  
19          *engage in a going public transaction.*

20          *No election may be made with respect to any*  
21          *REIT if an election under this subsection was in*  
22          *effect for any predecessor of such REIT.*

23          “(C) *ELIGIBILITY PERIOD.—*

24                 “(i) *IN GENERAL.—The eligibility pe-*  
25                 *riod (for which an incubator REIT election*

1           *can be made) begins with the REIT's second*  
2           *taxable year and ends at the close of the*  
3           *REIT's third taxable year, except that the*  
4           *REIT may, subject to clauses (ii), (iii), and*  
5           *(iv), elect to extend such period for an addi-*  
6           *tional 2 taxable years.*

7           “(ii) *GOING PUBLIC TRANSACTION.*—A  
8           *REIT may not elect to extend the eligibility*  
9           *period under clause (i) unless it enters into*  
10           *an agreement with the Secretary that if it*  
11           *does not engage in a going public trans-*  
12           *action by the end of the extended eligibility*  
13           *period, it shall pay Federal income taxes*  
14           *for the 2 years of the extended eligibility pe-*  
15           *riod as if it had not made an incubator*  
16           *REIT election and had ceased to qualify as*  
17           *a REIT for those 2 taxable years.*

18           “(iii) *RETURNS, INTEREST, AND NO-*  
19           *TICE.*—

20           “(I) *RETURNS.*—In the event the  
21           *corporation ceases to be treated as a*  
22           *REIT by operation of clause (ii), the*  
23           *corporation shall file any appropriate*  
24           *amended returns reflecting the change*



1 *in status within 3 months of the close*  
2 *of the extended eligibility period.*

3 “(II) *INTEREST.*—*Interest shall be*  
4 *payable on any tax imposed by reason*  
5 *of clause (ii) for any taxable year but,*  
6 *unless there was a finding under sub-*  
7 *paragraph (D), no substantial under-*  
8 *payment penalties shall be imposed.*

9 “(III) *NOTICE.*—*The corporation*  
10 *shall, at the same time it files its re-*  
11 *turns under subclause (I), notify its*  
12 *shareholders and any other persons*  
13 *whose tax position is, or may reason-*  
14 *ably be expected to be, affected by the*  
15 *change in status so they also may file*  
16 *any appropriate amended returns to*  
17 *conform their tax treatment consistent*  
18 *with the corporation’s loss of REIT*  
19 *status.*

20 “(IV) *REGULATIONS.*—*The Sec-*  
21 *retary shall provide appropriate regu-*  
22 *lations setting forth transferee liability*  
23 *and other provisions to ensure collec-*  
24 *tion of tax and the proper administra-*  
25 *tion of this provision.*

1           “(iv) *Clauses (ii) and (iii) shall not*  
2           *apply if the corporation allows its incu-*  
3           *bator REIT status to lapse at the end of the*  
4           *initial 2-year eligibility period without en-*  
5           *gaging in a going public transaction if the*  
6           *corporation is not a controlled entity as of*  
7           *the beginning of its fourth taxable year. In*  
8           *such a case, the corporation’s directors may*  
9           *still be liable for the penalties described in*  
10          *subparagraph (D) during the eligibility pe-*  
11          *riod.*

12          “(D) *SPECIAL PENALTIES.—If the Secretary*  
13          *determines that an incubator REIT election was*  
14          *filed for a principal purpose other than as part*  
15          *of a reasonable plan to undertake a going public*  
16          *transaction, an excise tax of \$20,000 shall be im-*  
17          *posed on each of the corporation’s directors for*  
18          *each taxable year for which an election was in*  
19          *effect.*

20          “(E) *GOING PUBLIC TRANSACTION.—For*  
21          *purposes of this paragraph, a going public trans-*  
22          *action means—*

23                 “(i) *a public offering of shares of the*  
24                 *stock of the incubator REIT;*

1                   “(ii) a transaction, or series of trans-  
 2                   actions, that results in the stock of the incu-  
 3                   bator REIT being regularly traded on an  
 4                   established securities market and that re-  
 5                   sults in at least 50 percent of such stock  
 6                   being held by shareholders who are unre-  
 7                   lated to persons who held such stock before  
 8                   it began to be so regularly traded; or

9                   “(iii) any transaction resulting in  
 10                  ownership of the REIT by 200 or more per-  
 11                  sons (excluding the largest single share-  
 12                  holder) who in the aggregate own at least 50  
 13                  percent of the stock of the REIT.

14               For the purposes of this subparagraph, the rules  
 15               of paragraph (3) shall apply in determining the  
 16               ownership of stock.

17               “(F) DEFINITIONS.—The term ‘established  
 18               securities market’ shall have the meaning set  
 19               forth in the regulations under section 897.”.

20               (c) CONFORMING AMENDMENT.—Paragraph (2) of sec-  
 21               tion 856(h) is amended by striking “and (6)” each place  
 22               it appears and inserting “, (6), and (7)”.

23               (d) EFFECTIVE DATE.—

1           (1) *IN GENERAL.*—*The amendments made by*  
2           *this section shall apply to taxable years ending after*  
3           *July 14, 1999.*

4           (2) *EXCEPTION FOR EXISTING CONTROLLED EN-*  
5           *TITIES.*—*The amendments made by this section shall*  
6           *not apply to any entity which is a controlled entity*  
7           *(as defined in section 856(l) of the Internal Revenue*  
8           *Code of 1986, as added by this section) as of July 14,*  
9           *1999, which is a real estate investment trust for the*  
10          *taxable year which includes such date, and which has*  
11          *significant business assets or activities as of such*  
12          *date. For purposes of the preceding sentence, an enti-*  
13          *ty shall be treated as such a controlled entity on July*  
14          *14, 1999, if it becomes such an entity after such date*  
15          *in a transaction—*

16                 (A) *made pursuant to a written agreement*  
17                 *which was binding on such date and at all times*  
18                 *thereafter, or*

19                 (B) *described on or before such date in a fil-*  
20                 *ing with the Securities and Exchange Commis-*  
21                 *sion required solely by reason of the transaction.*

1 **SEC. 1321. DISTRIBUTIONS TO A CORPORATE PARTNER OF**  
 2 **STOCK IN ANOTHER CORPORATION.**

3 (a) *IN GENERAL.*—Section 732 (relating to basis of  
 4 distributed property other than money) is amended by add-  
 5 ing at the end the following new subsection:

6 “(f) *CORRESPONDING ADJUSTMENT TO BASIS OF AS-*  
 7 *SETS OF A DISTRIBUTED CORPORATION CONTROLLED BY*  
 8 *A CORPORATE PARTNER.*—

9 “(1) *IN GENERAL.*—If—

10 “(A) a corporation (hereafter in this sub-  
 11 section referred to as the ‘corporate partner’) re-  
 12 ceives a distribution from a partnership of stock  
 13 in another corporation (hereafter in this sub-  
 14 section referred to as the ‘distributed corpora-  
 15 tion’),

16 “(B) the corporate partner has control of  
 17 the distributed corporation immediately after the  
 18 distribution or at any time thereafter, and

19 “(C) the partnership’s adjusted basis in  
 20 such stock immediately before the distribution ex-  
 21 ceeded the corporate partner’s adjusted basis in  
 22 such stock immediately after the distribution,

23 then an amount equal to such excess shall be applied  
 24 to reduce (in accordance with subsection (c)) the basis  
 25 of property held by the distributed corporation at  
 26 such time (or, if the corporate partner does not con-

1        *trol the distributed corporation at such time, at the*  
 2        *time the corporate partner first has such control).*

3            “(2) *EXCEPTION FOR CERTAIN DISTRIBUTIONS*  
 4        *BEFORE CONTROL ACQUIRED.*—Paragraph (1) shall  
 5        *not apply to any distribution of stock in the distrib-*  
 6        *uted corporation if—*

7            “(A) *the corporate partner does not have*  
 8        *control of such corporation immediately after*  
 9        *such distribution, and*

10          “(B) *the corporate partner establishes to the*  
 11        *satisfaction of the Secretary that such distribu-*  
 12        *tion was not part of a plan or arrangement to*  
 13        *acquire control of the distributed corporation.*

14          “(3) *LIMITATIONS ON BASIS REDUCTION.*—

15          “(A) *IN GENERAL.*—The amount of the re-  
 16        *duction under paragraph (1) shall not exceed the*  
 17        *amount by which the sum of the aggregate ad-*  
 18        *justed bases of the property and the amount of*  
 19        *money of the distributed corporation exceeds the*  
 20        *corporate partner’s adjusted basis in the stock of*  
 21        *the distributed corporation.*

22          “(B) *REDUCTION NOT TO EXCEED AD-*  
 23        *JUSTED BASIS OF PROPERTY.*—No reduction  
 24        *under paragraph (1) in the basis of any prop-*  
 25        *erty shall exceed the adjusted basis of such prop-*

erty (determined without regard to such reduction).

“(4) *GAIN RECOGNITION WHERE REDUCTION LIMITED.*—If the amount of any reduction under paragraph (1) (determined after the application of paragraph (3)(A)) exceeds the aggregate adjusted bases of the property of the distributed corporation—

“(A) such excess shall be recognized by the corporate partner as long-term capital gain, and

“(B) the corporate partner’s adjusted basis in the stock of the distributed corporation shall be increased by such excess.

“(5) *CONTROL.*—For purposes of this subsection, the term ‘control’ means ownership of stock meeting the requirements of section 1504(a)(2).

“(6) *INDIRECT DISTRIBUTIONS.*—For purposes of paragraph (1), if a corporation acquires (other than in a distribution from a partnership) stock the basis of which is determined in whole or in part by reference to subsection (a)(2) or (b), the corporation shall be treated as receiving a distribution of such stock from a partnership.

“(7) *SPECIAL RULE FOR STOCK IN CONTROLLED CORPORATION.*—If the property held by a distributed corporation is stock in a corporation which the dis-

1       tributed corporation controls, this subsection shall be  
 2       applied to reduce the basis of the property of such  
 3       controlled corporation. This subsection shall be re-  
 4       applied to any property of any controlled corporation  
 5       which is stock in a corporation which it controls.

6               “(8) *REGULATIONS.*—The Secretary shall pre-  
 7       scribe such regulations as may be necessary to carry  
 8       out the purposes of this subsection, including regula-  
 9       tions to avoid double counting and to prevent the  
 10      abuse of such purposes.”.

11      (b) *EFFECTIVE DATE.*—The amendment made by this  
 12      section shall apply to distributions made after July 14,  
 13      1999.

## 14       **TITLE XIV—TECHNICAL** 15       **CORRECTIONS**

### 16      **SEC. 1401. AMENDMENTS RELATED TO TAX AND TRADE RE-** 17       **LIEF EXTENSION ACT OF 1998.**

18      (a) *AMENDMENT RELATED TO SECTION 1004(b) OF*  
 19      *THE ACT.*—Subsection (d) of section 6104 is amended by  
 20      adding at the end the following new paragraph:

21               “(6) *APPLICATION TO NONEXEMPT CHARITABLE*  
 22       *TRUSTS AND NONEXEMPT PRIVATE FOUNDATIONS.*—  
 23       The organizations referred to in paragraphs (1) and  
 24       (2) of section 6033(d) shall comply with the require-  
 25       ments of this subsection relating to annual returns



1       *filed under section 6033 in the same manner as the*  
 2       *organizations referred to in paragraph (1).”.*

3       **(b) AMENDMENT RELATED TO SECTION 4003 OF THE**  
 4 *ACT.—Subsection (b) of section 4003 of the Tax and Trade*  
 5 *Relief Extension Act of 1998 is amended by inserting*  
 6 *“(7)(A)(i)(II),” after “(5)(A)(ii)(I),”.*

7       **(c) EFFECTIVE DATE.—***The amendments made by this*  
 8 *section shall take effect as if included in the provisions of*  
 9 *the Tax and Trade Relief Extension Act of 1998 to which*  
 10 *they relate.*

11 **SEC. 1402. AMENDMENTS RELATED TO INTERNAL REVENUE**  
 12 **SERVICE RESTRUCTURING AND REFORM ACT**  
 13 **OF 1998.**

14       **(a) AMENDMENT RELATED TO 1103 OF THE ACT.—**  
 15 *Paragraph (6) of section 6103(k) is amended—*

16               *(1) by inserting “and an officer or employee of*  
 17 *the Office of Treasury Inspector General for Tax Ad-*  
 18 *ministration” after “internal revenue officer or em-*  
 19 *ployee”, and*

20               *(2) by striking “INTERNAL REVENUE” in the*  
 21 *heading and inserting “CERTAIN”.*

22       **(b) AMENDMENT RELATED TO SECTION 3509 OF THE**  
 23 *ACT.—Subparagraph (A) of section 6110(g)(5) is amended*  
 24 *by inserting “, any Chief Counsel advice,” after “technical*  
 25 *advice memorandum”.*

1       (c) *EFFECTIVE DATE.*—*The amendments made by this*  
 2 *section shall take effect as if included in the provisions of*  
 3 *the Internal Revenue Service Restructuring and Reform Act*  
 4 *of 1998 to which they relate.*

5       **SEC. 1403. AMENDMENTS RELATED TO TAXPAYER RELIEF**  
 6                               **ACT OF 1997.**

7       (a) *AMENDMENT RELATED TO SECTION 302 OF THE*  
 8 *ACT.*—*The last sentence of section 3405(e)(1)(B) is amend-*  
 9 *ed by inserting “(other than a Roth IRA)” after “indi-*  
 10 *vidual retirement plan”.*

11       (b) *AMENDMENTS RELATED TO SECTION 1072 OF THE*  
 12 *ACT.*—

13               (1) *Clause (ii) of section 415(c)(3)(D) and sub-*  
 14 *paragraph (B) of section 403(b)(3) are each amended*  
 15 *by striking “section 125 or” and inserting “section*  
 16 *125, 132(f)(4), or”.*

17               (2) *Paragraph (2) of section 414(s) is amended*  
 18 *by striking “section 125, 402(e)(3)” and inserting*  
 19 *“section 125, 132(f)(4), 402(e)(3)”.*

20       (c) *AMENDMENT RELATED TO SECTION 1454 OF THE*  
 21 *ACT.*—*Subsection (a) of section 7436 is amended by insert-*  
 22 *ing before the period at the end of the first sentence “and*  
 23 *the proper amount of employment tax under such deter-*  
 24 *mination”.*

1       (d) *EFFECTIVE DATE.*—*The amendments made by this*  
 2 *section shall take effect as if included in the provisions of*  
 3 *the Taxpayer Relief of 1997 to which they relate.*

4 **SEC. 1404. OTHER TECHNICAL CORRECTIONS.**

5       (a) *AFFILIATED CORPORATIONS IN CONTEXT OF*  
 6 *WORTHLESS SECURITIES.*—

7           (1) *Subparagraph (A) of section 165(g)(3) is*  
 8 *amended to read as follows:*

9                   “(A) *the taxpayer owns directly stock in*  
 10 *such corporation meeting the requirements of sec-*  
 11 *tion 1504(a)(2), and”.*

12           (2) *Paragraph (3) of section 165(g) is amended*  
 13 *by striking the last sentence.*

14           (3) *The amendments made by this subsection*  
 15 *shall apply to taxable years beginning after December*  
 16 *31, 1984.*

17       (b) *REFERENCE TO CERTAIN STATE PLANS.*—

18           (1) *Subparagraph (B) of section 51(d)(2) is*  
 19 *amended—*

20                   (A) *by striking “plan approved” and insert-*  
 21 *ing “program funded”, and*

22                   (B) *by striking “(relating to assistance for*  
 23 *needy families with minor children)”.*

24           (2) *The amendment made by paragraph (1) shall*  
 25 *take effect as if included in the amendments made by*

1       *section 1201 of the Small Business Job Protection Act*  
2       *of 1996.*

3       (c) *AMOUNT OF IRA CONTRIBUTION OF LESSER EARN-*  
4       *ING SPOUSE.—*

5           (1) *Clause (ii) of section 219(c)(1)(B) is amend-*  
6       *ed by striking “and” at the end of subclause (I), by*  
7       *redesignating subclause (II) as subclause (III), and*  
8       *by inserting after subclause (I) the following new sub-*  
9       *clause:*

10                       *“(II) the amount of any des-*  
11                       *ignated nondeductible contribution (as*  
12                       *defined in section 408(o)) on behalf of*  
13                       *such spouse for such taxable year,*  
14                       *and”.*

15           (2) *The amendment made by paragraph (1) shall*  
16       *take effect as if included in section 1427 of the Small*  
17       *Business Job Protection Act of 1996.*

18       (d) *MODIFIED ENDOWMENT CONTRACTS.—*

19           (1) *Paragraph (2) of section 7702A(a) is amend-*  
20       *ed by inserting “or this paragraph” before the period.*

21           (2) *Clause (ii) of section 7702A(c)(3)(A) is*  
22       *amended by striking “under the contract” and insert-*  
23       *ing “under the old contract”.*

24           (3) *The amendments made by this subsection*  
25       *shall take effect as if included in the amendments*

1       *made by section 5012 of the Technical and Miscella-*  
 2       *neous Revenue Act of 1988.*

3       *(e) LUMP-SUM DISTRIBUTIONS.—*

4               *(1) Clause (ii) of section 401(k)(10)(B) is*  
 5       *amended by adding at the end the following new sen-*  
 6       *tence: “Such term includes a distribution of an annu-*  
 7       *ity contract from—*

8                       *“(I) a trust which forms a part of*  
 9                       *a plan described in section 401(a) and*  
 10                      *which is exempt from tax under section*  
 11                      *501(a), or*

12                     *“(II) an annuity plan described*  
 13                     *in section 403(a).”.*

14               *(2) The amendment made by paragraph (1) shall*  
 15       *take effect as if included in section 1401 of the Small*  
 16       *Business Job Protection Act of 1996.*

17       *(f) TENTATIVE CARRYBACK ADJUSTMENTS OF LOSSES*  
 18       *FROM SECTION 1256 CONTRACTS.—*

19               *(1) Subsection (a) of section 6411 is amended by*  
 20       *striking “section 1212(a)(1)” and inserting “sub-*  
 21       *section (a)(1) or (c) of section 1212”.*

22               *(2) The amendment made by paragraph (1) shall*  
 23       *take effect as if included in the amendments made by*  
 24       *section 504 of the Economic Recovery Tax Act of*  
 25       *1981.*

1 **SEC. 1405. CLERICAL CHANGES.**

2           (1) *Subsection (f) of section 67 is amended by*  
3           *striking “the last sentence” and inserting “the second*  
4           *sentence”.*

5           (2) *The heading for paragraph (5) of section*  
6           *408(d) is amended to read as follows:*

7           *“(5) DISTRIBUTIONS OF EXCESS CONTRIBUTIONS*  
8           *AFTER DUE DATE FOR TAXABLE YEAR AND CERTAIN*  
9           *EXCESS ROLLOVER CONTRIBUTIONS.—”.*

10          (3) *The heading for subparagraph (B) of section*  
11          *529(e)(3) is amended by striking “UNDER GUARAN-*  
12          *TEED PLANS”.*

13          (4)(A) *Subsection (e) of section 678 is amended*  
14          *by striking “an electing small business corporation”*  
15          *and inserting “an S corporation”.*

16          (B) *Clause (v) of section 6103(e)(1)(D) is*  
17          *amended to read as follows:*

18                 *“(v) if the corporation was an S cor-*  
19                 *poration, any person who was a shareholder*  
20                 *during any part of the period covered by*  
21                 *such return during which an election under*  
22                 *section 1362(a) was in effect, or”.*

23          (5) *Subparagraph (B) of section 995(b)(3) is*  
24          *amended by striking “the Military Security Act of*  
25          *1954 (22 U.S.C. 1934)” and inserting “section 38 of*

1       *the International Security Assistance and Arms Ex-*  
 2       *port Control Act of 1976 (22 U.S.C. 2778)”.*

3               *(6) Subparagraph (B) of section 4946(c)(3) is*  
 4       *amended by striking “the lowest rate of compensation*  
 5       *prescribed for GS–16 of the General Schedule under*  
 6       *section 5332” and inserting “the lowest rate of basic*  
 7       *pay for the Senior Executive Service under section*  
 8       *5382”.*

9       **SEC. 1406. TECHNICAL CORRECTIONS TO SAVER ACT.**

10       *Section 517 of the Employee Retirement Income Secu-*  
 11       *rity Act of 1974 (29 U.S.C. 1147) is amended—*

12               *(1) in subsection (a), by striking “2001 and*  
 13       *2005 on or after September 1 of each year involved”*  
 14       *and inserting “2001, 2005, and 2009 in the month of*  
 15       *September of each year involved”;*

16               *(2) in subsection (b), by adding at the end the*  
 17       *following new sentence: “To effectuate the purposes of*  
 18       *this paragraph, the Secretary may enter into a coop-*  
 19       *erative agreement, pursuant to the Federal Grant and*  
 20       *Cooperative Agreement Act of 1977 (31 U.S.C. 6301*  
 21       *et seq.), with the American Savings Education Coun-*  
 22       *cil.”;*

23               *(3) in subsection (e)(2)—*

24                       *(A) by striking “Committee on Labor and*  
 25       *Human Resources” in subparagraph (B) and in-*

serting “Committee on Health, Education,  
Labor, and Pensions”;

(B) by striking subparagraph (D) and inserting the following:

“(D) the Chairman and Ranking Member of the Subcommittee on Labor, Health and Human Services, and Education of the Committee on Appropriations of the House of Representatives and the Chairman and Ranking Member of the Subcommittee on Labor, Health and Human Services, and Education of the Committee on Appropriations of the Senate;”;

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

(D) by inserting after subparagraph (F) the following new subparagraphs:

“(G) the Chairman and Ranking Member of the Committee on Finance of the Senate;

“(H) the Chairman and Ranking Member of the Committee on Ways and Means of the House of Representatives;

“(I) the Chairman and Ranking Member of the Subcommittee on Employer-Employee Relations of the Committee on Education and the Workforce of the House of Representatives; and”;



1           (4) in subsection (e)(3)(A)—

2                   (A) by striking “There shall be no more  
3           than 200 additional participants.” and inserting  
4           “The participants in the National Summit shall  
5           also include additional participants appointed  
6           under this subparagraph.”;

7                   (B) by striking “one-half shall be appointed  
8           by the President,” in clause (i) and inserting  
9           “not more than 100 participants shall be ap-  
10          pointed under this clause by the President,” and  
11          by striking “and” at the end of clause (i);

12                  (C) by striking “one-half shall be appointed  
13          by the elected leaders of Congress” in clause (ii)  
14          and inserting “not more than 100 participants  
15          shall be appointed under this clause by the elect-  
16          ed leaders of Congress”, and by striking the pe-  
17          riod at the end of clause (ii) and inserting “;  
18          and”; and

19                  (D) by adding at the end the following new  
20          clause:

21                       “(iii) The President, in consultation  
22                       with the elected leaders of Congress referred  
23                       to in subsection (a), may appoint under  
24                       this clause additional participants to the  
25                       National Summit. The number of such ad-

1           ditional participants appointed under this  
2           clause may not exceed the lesser of 3 percent  
3           of the total number of all additional par-  
4           ticipants appointed under this paragraph,  
5           or 10. Such additional participants shall be  
6           appointed from persons nominated by the  
7           organization referred to in subsection (b)(2)  
8           which is made up of private sector busi-  
9           nesses and associations partnered with Gov-  
10          ernment entities to promote long term fi-  
11          nancial security in retirement through sav-  
12          ings and with which the Secretary is re-  
13          quired thereunder to consult and cooperate  
14          and shall not be Federal, State, or local gov-  
15          ernment employees.”;

16           (5) in subsection (e)(3)(B), by striking “January  
17          31, 1998” in subparagraph (B) and inserting “May  
18          1, 2001, May 1, 2005, and May 1, 2009, for each of  
19          the subsequent summits, respectively”;

20           (6) in subsection (f)(1)(C), by inserting “, no  
21          later than 90 days prior to the date of the commence-  
22          ment of the National Summit,” after “comment” in  
23          paragraph (1)(C);

1           (7) in subsection (g), by inserting “, in consulta-  
2           tion with the congressional leaders specified in sub-  
3           section (e)(2),” after “report”;

4           (8) in subsection (i)—

5                 (A) by striking “beginning on or after Octo-  
6                 ber 1, 1997” in paragraph (1) and inserting  
7                 “2001, 2005, and 2009”; and

8                 (B) by adding at the end the following new  
9                 paragraph:

10                 “(3) *RECEPTION AND REPRESENTATION AUTHOR-*  
11                 *ITY.—The Secretary is hereby granted reception and*  
12                 *representation authority limited specifically to the*  
13                 *events at the National Summit. The Secretary shall*  
14                 *use any private contributions received in connection*  
15                 *with the National Summit prior to using funds ap-*  
16                 *propriated for purposes of the National Summit pur-*  
17                 *suant to this paragraph.*”; and

18           (9) in subsection (k)—

19                 (A) by striking “shall enter into a contract  
20                 on a sole-source basis” and inserting “may enter  
21                 into a contract on a sole-source basis”; and

22                 (B) by striking “fiscal year 1998” and in-  
23                 serting “fiscal years 2001, 2005, and 2009”.

1     ***TITLE XV—COMPLIANCE WITH***  
2     ***CONGRESSIONAL BUDGET ACT***

3     ***SEC. 1501. SUNSET OF PROVISIONS OF ACT.***

4         *All provisions of, and amendments made by, this Act*  
5     *which are in effect on September 30, 2009, shall cease to*  
6     *apply as of the close of September 30, 2009.*

Attest:

*Secretary.*

106<sup>TH</sup> CONGRESS  
1<sup>ST</sup> SESSION

**H. R. 2488**

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**AMENDMENT**

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