

108TH CONGRESS
1ST SESSION

H. R. 1308

To amend the Internal Revenue Code of 1986 to end certain abusive tax practices, to provide tax relief and simplification, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

MARCH 18, 2003

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

A BILL

To amend the Internal Revenue Code of 1986 to end certain abusive tax practices, to provide tax relief and simplification, and for other purposes.

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

3 **SECTION 1. SHORT TITLE; REFERENCES; TABLE OF CON-**
4 **TENTS.**

5 (a) **SHORT TITLE.**—This Act may be cited as the
6 “Tax Relief, Simplification, and Equity Act of 2003”.

7 (b) **AMENDMENT OF 1986 CODE.**—Except as other-
8 wise expressly provided, whenever in this Act an amend-
9 ment or repeal is expressed in terms of an amendment
10 to, or repeal of, a section or other provision, the reference

1 shall be considered to be made to a section or other provi-
 2 sion of the Internal Revenue Code of 1986.

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

Sec. 1. Short title; references; table of contents.

TITLE I—ENDING ABUSIVE TAX PRACTICES

Sec. 101. Individual expatriation to avoid tax.

Sec. 102. Suspension of tax-exempt status of terrorist organizations.

Sec. 103. Expressing the sense of the Congress that tax reform is needed to
 address the issue of corporate expatriation.

TITLE II—RELIEF FOR FOREIGN SERVICE AND ASTRONAUTS

Sec. 201. Special rule for members of Foreign Service in determining exclusion
 of gain from sale of principal residence.

Sec. 202. Tax relief and assistance for families of astronauts who lose their
 lives on a space mission.

TITLE III—HEALTH PROVISIONS

Sec. 301. Vaccine tax to apply to hepatitis A vaccine.

Sec. 302. Expansion of human clinical trials qualifying for orphan drug credit.

TITLE IV—FOREST CONSERVATION ACTIVITIES

Sec. 401. Pilot project for forest conservation activities.

TITLE V—RELIEF AND EQUITY FOR SMALL BUSINESSES

Sec. 501. Simplification of excise tax imposed on bows and arrows.

Sec. 502. Capital gain treatment under section 631(b) to apply to outright
 sales by landowners.

Sec. 503. Repeal of excise tax on fishing tackle boxes.

Sec. 504. Treatment under at-risk rules of publicly traded nonrecourse debt.

TITLE VI—EQUITY FOR FARMERS

Sec. 601. Special rules for livestock sold on account of weather-related condi-
 tions.

Sec. 602. Income averaging for farmers not to increase alternative minimum
 tax.

Sec. 603. Payment of dividends on stock of cooperatives without reducing pa-
 tronage dividends.

TITLE VII—PROTECTION OF SOCIAL SECURITY

Sec. 701. Protection of social security.

1 **TITLE I—ENDING ABUSIVE TAX**
2 **PRACTICES**

3 **SEC. 101. INDIVIDUAL EXPATRIATION TO AVOID TAX.**

4 (a) EXPATRIATION TO AVOID TAX.—

5 (1) IN GENERAL.—Subsection (a) of section
6 877 (relating to treatment of expatriates) is amend-
7 ed to read as follows:

8 “(a) TREATMENT OF EXPATRIATES.—

9 “(1) IN GENERAL.—Every nonresident alien in-
10 dividual to whom this section applies and who, with-
11 in the 10-year period immediately preceding the
12 close of the taxable year, lost United States citizen-
13 ship shall be taxable for such taxable year in the
14 manner provided in subsection (b) if the tax imposed
15 pursuant to such subsection (after any reduction in
16 such tax under the last sentence of such subsection)
17 exceeds the tax which, without regard to this section,
18 is imposed pursuant to section 871.

19 “(2) INDIVIDUALS SUBJECT TO THIS SEC-
20 TION.—This section shall apply to any individual
21 if—

22 “(A) the average annual net income tax
23 (as defined in section 38(c)(1)) of such indi-
24 vidual for the period of 5 taxable years ending

1 before the date of the loss of United States citi-
2 zenship is greater than \$122,000,

3 “(B) the net worth of the individual as of
4 such date is \$2,000,000 or more, or

5 “(C) such individual fails to certify under
6 penalty of perjury that he has met the require-
7 ments of this title for the 5 preceding taxable
8 years or fails to submit such evidence of such
9 compliance as the Secretary may require.

10 In the case of the loss of United States citizenship
11 in any calendar year after 2003, such \$122,000
12 amount shall be increased by an amount equal to
13 such dollar amount multiplied by the cost-of-living
14 adjustment determined under section 1(f)(3) for
15 such calendar year by substituting ‘2002’ for ‘1992’
16 in subparagraph (B) thereof. Any increase under the
17 preceding sentence shall be rounded to the nearest
18 multiple of \$1,000.”.

19 (2) REVISION OF EXCEPTIONS FROM ALTER-
20 NATIVE TAX.—Subsection (c) of section 877 (relat-
21 ing to tax avoidance not presumed in certain cases)
22 is amended to read as follows:

23 “(c) EXCEPTIONS.—

1 “(1) IN GENERAL.—Subparagraphs (A) and
2 (B) of subsection (a)(2) shall not apply to an indi-
3 vidual described in paragraph (2) or (3).

4 “(2) DUAL CITIZENS.—

5 “(A) IN GENERAL.—An individual is de-
6 scribed in this paragraph if—

7 “(i) the individual became at birth a
8 citizen of the United States and a citizen
9 of another country and continues to be a
10 citizen of such other country, and

11 “(ii) the individual has had no sub-
12 stantial contacts with the United States.

13 “(B) SUBSTANTIAL CONTACTS.—An indi-
14 vidual shall be treated as having no substantial
15 contacts with the United States only if the indi-
16 vidual—

17 “(i) was never a resident of the
18 United States (as defined in section
19 7701(b)),

20 “(ii) has never held a United States
21 passport, and

22 “(iii) was not present in the United
23 States for more than 30 days during any
24 calendar year which is 1 of the 10 calendar

1 years preceding the individual's loss of
2 United States citizenship.

3 “(3) CERTAIN MINORS.—An individual is de-
4 scribed in this paragraph if—

5 “(A) the individual became at birth a cit-
6 izen of the United States,

7 “(B) neither parent of such individual was
8 a citizen of the United States at the time of
9 such birth,

10 “(C) the individual's loss of United States
11 citizenship occurs before such individual attains
12 age 18½, and

13 “(D) the individual was not present in the
14 United States for more than 30 days during
15 any calendar year which is 1 of the 10 calendar
16 years preceding the individual's loss of United
17 States citizenship.”.

18 (3) CONFORMING AMENDMENT.—Section
19 2107(a) is amended to read as follows:

20 “(a) TREATMENT OF EXPATRIATES.—A tax com-
21 puted in accordance with the table contained in section
22 2001 is hereby imposed on the transfer of the taxable es-
23 tate, determined as provided in section 2106, of every de-
24 cedent nonresident not a citizen of the United States if
25 the date of death occurs during a taxable year with respect

1 to which the decedent is subject to tax under section
2 877(b).”.

3 (b) SPECIAL RULES FOR DETERMINING WHEN AN
4 INDIVIDUAL IS NO LONGER A UNITED STATES CITIZEN
5 OR LONG-TERM RESIDENT.—Section 7701 (relating to
6 definitions) is amended by redesignating subsection (n) as
7 subsection (o) and by inserting after subsection (m) the
8 following new subsection:

9 “(n) SPECIAL RULES FOR DETERMINING WHEN AN
10 INDIVIDUAL IS NO LONGER A UNITED STATES CITIZEN
11 OR LONG-TERM RESIDENT.—An individual who would not
12 (but for this subsection) be treated as a citizen or resident
13 of the United States shall continue to be treated as a cit-
14 izen or resident of the United States until such indi-
15 vidual—

16 “(1) gives notice of an expatriating act or ter-
17 mination of residency (with the requisite intent to
18 relinquish citizenship or terminate residency) to the
19 Secretary of State or the Secretary of Homeland Se-
20 curity, and

21 “(2) provides a statement in accordance with
22 section 6039G.”.

23 (c) PHYSICAL PRESENCE IN THE UNITED STATES
24 FOR MORE THAN 30 DAYS.—Section 877 (relating to ex-

1 patriation to avoid tax) is amended by adding at the end
2 the following new subsection:

3 “(g) PHYSICAL PRESENCE.—This section shall not
4 apply to any individual for any taxable year during the
5 10-year period referred to in subsection (a) in which such
6 individual is present in the United States for more than
7 30 days in the calendar year ending in such taxable year,
8 and such individual shall be treated for purposes of this
9 title as a citizen or resident of the United States for such
10 taxable year.”.

11 (d) TRANSFERS SUBJECT TO GIFT TAX.—Subsection
12 (a) of section 2501 (relating to taxable transfers) is
13 amended by adding at the end the following:

14 “(6) TRANSFERS OF CERTAIN STOCK.—

15 “(A) IN GENERAL.—Paragraph (3) shall
16 not apply to the transfer of stock described in
17 subparagraph (B) by any individual to whom
18 section 877(b) applies, and section 2511(a)
19 shall be applied without regard to whether such
20 stock is property which is situated within the
21 United States.

22 “(B) VALUATION.—For purposes of sub-
23 paragraph (A), the value of stock shall be deter-
24 mined as provided in section 2103, except
25 that—

1 “(i) if the donor owned (within the
2 meaning of section 958(a)) at the time of
3 such transfer 10 percent or more of the
4 total combined voting power of all classes
5 of stock entitled to vote of a foreign cor-
6 poration, and

7 “(ii) if such donor owned (within the
8 meaning of section 958(a)), or is consid-
9 ered to have owned (by applying the own-
10 ership rules of section 958(b)), at the time
11 of such transfer, more than 50 percent
12 of—

13 “(I) the total combined voting
14 power of all classes of stock entitled
15 to vote of such corporation, or

16 “(II) the total value of the stock
17 of such corporation, then that propor-
18 tion of the fair market value of the
19 stock of such foreign corporation
20 owned (within the meaning of section
21 958(a)) by such donor at the time of
22 such transfer, which the fair market
23 value of any assets owned by such for-
24 eign corporation and situated in the
25 United States, at the time of such

1 transfer, bears to the total fair mar-
2 ket value of all assets owned by such
3 foreign corporation at the time of
4 such transfer, shall be included in the
5 value of such property.

6 For purposes of the preceding sentence, a donor
7 shall be treated as owning stock of a foreign
8 corporation at the time of such transfer if, at
9 such time, by trust or otherwise, within the
10 meaning of sections 2035 to 2038, inclusive, he
11 owned such stock.”.

12 (e) ENHANCED INFORMATION REPORTING FROM IN-
13 DIVIDUALS LOSING UNITED STATES CITIZENSHIP.—

14 (1) IN GENERAL.—Subsection (a) of section
15 6039G is amended to read as follows:

16 “(a) IN GENERAL.—Notwithstanding any other pro-
17 vision of law, any individual to whom section 877(b) ap-
18 plies for any taxable year shall provide a statement for
19 such taxable year which includes the information described
20 in subsection (b).”.

21 (2) INFORMATION TO BE PROVIDED.—Sub-
22 section (b) of section 6039G is amended to read as
23 follows:

24 “(b) INFORMATION TO BE PROVIDED.—Information
25 required under subsection (a) shall include—

1 “(1) the taxpayer’s TIN,

2 “(2) the mailing address of such individual’s
3 principal foreign residence,

4 “(3) the foreign country, in which such indi-
5 vidual is residing,

6 “(4) the foreign country of which such indi-
7 vidual is a citizen,

8 “(5) information detailing the assets and liabil-
9 ities of such individual,

10 “(6) the number of days that the individual was
11 present in the United States during the taxable year,
12 and

13 “(7) such other information as the Secretary
14 may prescribe.”.

15 (3) INCREASE IN PENALTY.—Subsection (d) of
16 section 6039G is amended to read as follows:

17 “(d) PENALTY.—If—

18 “(1) an individual is required to file a state-
19 ment under subsection (a) for any taxable year, and

20 “(2) fails to file such a statement with the Sec-
21 retary on or before the date such statement is re-
22 quired to be filed or fails to include all the informa-
23 tion required to be shown on the statement or in-
24 cludes incorrect information,

1 such individual shall pay a penalty of \$5,000 unless it is
2 shown that such failure is due to reasonable cause and
3 not to willful neglect.”.

4 (4) CONFORMING AMENDMENT.—Section
5 6039G is amended by striking subsections (e), (f),
6 and (g) and by redesignating subsections (d) and (e)
7 as subsection (c) and (d), respectively.

8 (f) EFFECTIVE DATE.—The amendments made by
9 this section shall apply to individuals who expatriate after
10 February 27, 2003.

11 **SEC. 102. SUSPENSION OF TAX-EXEMPT STATUS OF TER-**
12 **RORIST ORGANIZATIONS.**

13 (a) IN GENERAL.—Section 501 (relating to exemp-
14 tion from tax on corporations, certain trusts, etc.) is
15 amended by redesignating subsection (p) as subsection (q)
16 and by inserting after subsection (o) the following new
17 subsection:

18 “(p) SUSPENSION OF TAX-EXEMPT STATUS OF TER-
19 RORIST ORGANIZATIONS.—

20 “(1) IN GENERAL.—The exemption from tax
21 under subsection (a) with respect to any organiza-
22 tion described in paragraph (2), and the eligibility of
23 any organization described in paragraph (2) to apply
24 for recognition of exemption under subsection (a),

1 shall be suspended during the period described in
2 paragraph (3).

3 “(2) TERRORIST ORGANIZATIONS.—An organi-
4 zation is described in this paragraph if such organi-
5 zation is designated or otherwise individually identi-
6 fied—

7 “(A) under section 212(a)(3)(B)(vi)(II) or
8 219 of the Immigration and Nationality Act as
9 a terrorist organization or foreign terrorist or-
10 ganization,

11 “(B) in or pursuant to an Executive order
12 which is related to terrorism and issued under
13 the authority of the International Emergency
14 Economic Powers Act or section 5 of the
15 United Nations Participation Act of 1945 for
16 the purpose of imposing on such organization
17 an economic or other sanction, or

18 “(C) in or pursuant to an Executive order
19 issued under the authority of any Federal law
20 if—

21 “(i) the organization is designated or
22 otherwise individually identified in or pur-
23 suant to such Executive order as sup-
24 porting or engaging in terrorist activity (as
25 defined in section 212(a)(3)(B) of the Im-

1 migration and Nationality Act) or sup-
2 porting terrorism (as defined in section
3 140(d)(2) of the Foreign Relations Author-
4 ization Act, Fiscal Years 1988 and 1989);
5 and

6 “(ii) such Executive order refers to
7 this subsection.

8 “(3) PERIOD OF SUSPENSION.—With respect to
9 any organization described in paragraph (2), the pe-
10 riod of suspension—

11 “(A) begins on the later of—

12 “(i) the date of the first publication of
13 a designation or identification described in
14 paragraph (2) with respect to such organi-
15 zation, or

16 “(ii) the date of the enactment of this
17 subsection, and

18 “(B) ends on the first date that all des-
19 ignations and identifications described in para-
20 graph (2) with respect to such organization are
21 rescinded pursuant to the law or Executive
22 order under which such designation or identi-
23 fication was made.

24 “(4) DENIAL OF DEDUCTION.—No deduction
25 shall be allowed under section 170, 545(b)(2),

1 556(b)(2), 642(c), 2055, 2106(a)(2), or 2522 for
2 any contribution to an organization described in
3 paragraph (2) during the period described in para-
4 graph (3).

5 “(5) DENIAL OF ADMINISTRATIVE OR JUDICIAL
6 CHALLENGE OF SUSPENSION OR DENIAL OF DEDUC-
7 TION.—Notwithstanding section 7428 or any other
8 provision of law, no organization or other person
9 may challenge a suspension under paragraph (1), a
10 designation or identification described in paragraph
11 (2), the period of suspension described in paragraph
12 (3), or a denial of a deduction under paragraph (4)
13 in any administrative or judicial proceeding relating
14 to the Federal tax liability of such organization or
15 other person.

16 “(6) ERRONEOUS DESIGNATION.—

17 “(A) IN GENERAL.—If—

18 “(i) the tax exemption of any organi-
19 zation described in paragraph (2) is sus-
20 pended under paragraph (1),

21 “(ii) each designation and identifica-
22 tion described in paragraph (2) which has
23 been made with respect to such organiza-
24 tion is determined to be erroneous pursu-
25 ant to the law or Executive order under

1 which such designation or identification
2 was made, and

3 “(iii) the erroneous designations and
4 identifications result in an overpayment of
5 income tax for any taxable year by such
6 organization,

7 credit or refund (with interest) with respect to
8 such overpayment shall be made.

9 “(B) WAIVER OF LIMITATIONS.—If the
10 credit or refund of any overpayment of tax de-
11 scribed in subparagraph (A)(iii) is prevented at
12 any time by the operation of any law or rule of
13 law (including *res judicata*), such credit or re-
14 fund may nevertheless be allowed or made if the
15 claim therefor is filed before the close of the 1-
16 year period beginning on the date of the last
17 determination described in subparagraph
18 (A)(ii).

19 “(7) NOTICE OF SUSPENSIONS.—If the tax ex-
20 emption of any organization is suspended under this
21 subsection, the Internal Revenue Service shall up-
22 date the listings of tax-exempt organizations and
23 shall publish appropriate notice to taxpayers of such
24 suspension and of the fact that contributions to such

1 organization are not deductible during the period of
2 such suspension.”.

3 (b) EFFECTIVE DATE.—The amendments made by
4 this section shall apply to designations made before, on,
5 or after the date of the enactment of this Act.

6 **SEC. 103. EXPRESSING THE SENSE OF THE CONGRESS THAT**
7 **TAX REFORM IS NEEDED TO ADDRESS THE**
8 **ISSUE OF CORPORATE EXPATRIATION.**

9 (a) FINDINGS.—The Congress finds that—

10 (1) the tax laws of the United States are overly
11 complex;

12 (2) the tax laws of the United States are among
13 the most burdensome and uncompetitive in the
14 world;

15 (3) the tax laws of the United States make it
16 difficult for domestically-owned United States com-
17 panies to compete abroad and in the United States;

18 (4) a domestically-owned corporation is dis-
19 advantaged compared to a United States subsidiary
20 of a foreign-owned corporation; and

21 (5) international competitiveness is forcing
22 many United States corporations to make a choice
23 they do not want to make—go out of business, sell
24 the business to a foreign competitor, or become a

1 subsidiary of a foreign corporation (i.e., engage in
2 an inversion transaction).

3 (b) SENSE OF CONGRESS.—It is the sense of Con-
4 gress that passage of legislation to fix the underlying prob-
5 lems with our tax laws is essential and should occur as
6 soon as possible, so United States corporations will not
7 face the current pressures to engage in inversion trans-
8 actions.

9 **TITLE II—RELIEF FOR FOREIGN** 10 **SERVICE AND ASTRONAUTS**

11 **SEC. 201. SPECIAL RULE FOR MEMBERS OF FOREIGN SERV-** 12 **ICE IN DETERMINING EXCLUSION OF GAIN** 13 **FROM SALE OF PRINCIPAL RESIDENCE.**

14 (a) IN GENERAL.—Subsection (d) of section 121 (re-
15 lating to exclusion of gain from sale of principal residence)
16 is amended by adding at the end the following new para-
17 graph:

18 “(10) MEMBERS OF FOREIGN SERVICE.—

19 “(A) IN GENERAL.—At the election of an
20 individual with respect to a property, the run-
21 ning of the 5-year period referred to in sub-
22 sections (a) and (c)(1)(B) and paragraph (7) of
23 this subsection with respect to such property
24 shall be suspended during any period that such
25 individual or such individual’s spouse is serving

1 on qualified official extended duty as a member
2 of the Foreign Service.

3 “(B) MAXIMUM PERIOD OF SUSPENSION.—
4 Such 5-year period shall not be extended more
5 than 5 years by reason of subparagraph (A).

6 “(C) QUALIFIED OFFICIAL EXTENDED
7 DUTY.—For purposes of this paragraph—

8 “(i) IN GENERAL.—The term ‘quali-
9 fied official extended duty’ means any ex-
10 tended duty while serving at a duty station
11 which is at least 150 miles from such prop-
12 erty or while residing under Government
13 orders in Government quarters.

14 “(ii) FOREIGN SERVICE.—The term
15 ‘member of the Foreign Service’ has the
16 meaning given the term ‘member of the
17 Service’ by paragraph (1), (2), (3), (4), or
18 (5) of section 103 of the Foreign Service
19 Act of 1980, as in effect on the date of the
20 enactment of this paragraph.

21 “(iii) EXTENDED DUTY.—The term
22 ‘extended duty’ means any period of active
23 duty pursuant to a call or order to such
24 duty for a period in excess of 180 days or
25 for an indefinite period.

1 “(D) SPECIAL RULES RELATING TO ELEC-
2 TION.—

3 “(i) ELECTION LIMITED TO 1 PROP-
4 ERTY AT A TIME.—An election under sub-
5 paragraph (A) with respect to any property
6 may not be made if such an election is in
7 effect with respect to any other property.

8 “(ii) REVOCATION OF ELECTION.—An
9 election under subparagraph (A) may be
10 revoked at any time.”.

11 (b) EFFECTIVE DATE; SPECIAL RULE.—

12 (1) EFFECTIVE DATE.—The amendment made
13 by this section shall take effect as if included in the
14 amendments made by section 312 of the Taxpayer
15 Relief Act of 1997.

16 (2) WAIVER OF LIMITATIONS.—If refund or
17 credit of any overpayment of tax resulting from the
18 amendment made by this section is prevented at any
19 time before the close of the 1-year period beginning
20 on the date of the enactment of this Act by the oper-
21 ation of any law or rule of law (including res judi-
22 cata), such refund or credit may nevertheless be
23 made or allowed if claim therefor is filed before the
24 close of such period.

1 **SEC. 202. TAX RELIEF AND ASSISTANCE FOR FAMILIES OF**
2 **ASTRONAUTS WHO LOSE THEIR LIVES ON A**
3 **SPACE MISSION.**

4 (a) INCOME TAX RELIEF.—

5 (1) IN GENERAL.—Subsection (d) of section
6 692 (relating to income taxes of members of Armed
7 Forces and victims of certain terrorist attacks on
8 death) is amended by adding at the end the fol-
9 lowing new paragraph:

10 “(5) RELIEF WITH RESPECT TO ASTRO-
11 NAUTS.—The provisions of this subsection shall
12 apply to any astronaut whose death occurs while on
13 a space mission, except that paragraph (3)(B) shall
14 be applied by using the date of the death of the as-
15 tronaut rather than September 11, 2001.”.

16 (2) CONFORMING AMENDMENTS.—

17 (A) Section 5(b)(1) is amended by insert-
18 ing “, astronauts,” after “Forces”.

19 (B) Section 6013(f)(2)(B) is amended by
20 inserting “, astronauts,” after “Forces”.

21 (3) CLERICAL AMENDMENTS.—

22 (A) The heading of section 692 is amended
23 by inserting “, **ASTRONAUTS,**” after
24 “**FORCES**”.

25 (B) The item relating to section 692 in the
26 table of sections for part II of subchapter J of

1 chapter 1 is amended by inserting “, astro-
2 nauts,” after “Forces”.

3 (4) EFFECTIVE DATE.—The amendments made
4 by this subsection shall apply with respect to any as-
5 tronaut whose death occurs after December 31,
6 2002.

7 (b) DEATH BENEFIT RELIEF.—

8 (1) IN GENERAL.—Subsection (i) of section 101
9 (relating to certain death benefits) is amended by
10 adding at the end the following new paragraph:

11 “(4) RELIEF WITH RESPECT TO ASTRO-
12 NAUTS.—The provisions of this subsection shall
13 apply to any astronaut whose death occurs while on
14 a space mission.”.

15 (2) CLERICAL AMENDMENT.—The heading for
16 subsection (i) of section 101 is amended by inserting
17 “OR ASTRONAUTS” after “VICTIMS”.

18 (3) EFFECTIVE DATE.—The amendments made
19 by this subsection shall apply to amounts paid after
20 December 31, 2002, with respect to deaths occurring
21 after such date.

22 (c) ESTATE TAX RELIEF.—

23 (1) IN GENERAL.—Subsection (b) of section
24 2201 (defining qualified decedent) is amended by
25 striking “and” at the end of paragraph (1)(B), by

1 striking the period at the end of paragraph (2) and
 2 inserting “, and”, and by adding at the end the fol-
 3 lowing new paragraph:

4 “(3) any astronaut whose death occurs while on
 5 a space mission.”.

6 (2) CLERICAL AMENDMENTS.—

7 (A) The heading of section 2201 is amend-
 8 ed by inserting “, **DEATHS OF ASTRO-**
 9 **NAUTS,**” after “**FORCES**”.

10 (B) The item relating to section 2201 in
 11 the table of sections for subchapter C of chap-
 12 ter 11 is amended by inserting “, deaths of as-
 13 tronauts,” after “Forces”.

14 (3) EFFECTIVE DATE.—The amendments made
 15 by this subsection shall apply to estates of decedents
 16 dying after December 31, 2002.

17 **TITLE III—HEALTH PROVISIONS**

18 **SEC. 301. VACCINE TAX TO APPLY TO HEPATITIS A VAC-** 19 **CINE.**

20 (a) IN GENERAL.—Paragraph (1) of section 4132(a)
 21 (defining taxable vaccine) is amended by redesignating
 22 subparagraphs (I), (J), (K), and (L) as subparagraphs
 23 (J), (K), (L), and (M), respectively, and by inserting after
 24 subparagraph (H) the following new subparagraph:

25 “(I) Any vaccine against hepatitis A.”

1 (b) EFFECTIVE DATE.—

2 (1) SALES, ETC.—The amendments made by
3 subsection (a) shall apply to sales and uses on or
4 after the first day of the first month which begins
5 more than 4 weeks after the date of the enactment
6 of this Act.

7 (2) DELIVERIES.—For purposes of paragraph
8 (1) and section 4131 of the Internal Revenue Code
9 of 1986, in the case of sales on or before the effec-
10 tive date described in such paragraph for which de-
11 livery is made after such date, the delivery date shall
12 be considered the sale date.

13 **SEC. 302. EXPANSION OF HUMAN CLINICAL TRIALS QUALI-**
14 **FYING FOR ORPHAN DRUG CREDIT.**

15 (a) IN GENERAL.—Paragraph (2) of section 45C(b)
16 (relating to qualified clinical testing expenses) is amended
17 by adding at the end the following new subparagraph:

18 “(C) TREATMENT OF CERTAIN EXPENSES
19 INCURRED BEFORE DESIGNATION.—For pur-
20 poses of subparagraph (A)(ii)(I), if a drug is
21 designated under section 526 of the Federal
22 Food, Drug, and Cosmetic Act not later than
23 the due date (including extensions) for filing
24 the return of tax under this subtitle for the tax-
25 able year in which the application for such des-

1 ignation of such drug was filed, such drug shall
 2 be treated as having been designated on the
 3 date that such application was filed. The pre-
 4 ceding sentence shall not apply with respect to
 5 any expense incurred after December 31,
 6 2010.”.

7 (b) EFFECTIVE DATE.—The amendment made by
 8 subsection (a) shall apply to expenses incurred after the
 9 date of the enactment of this Act.

10 **TITLE IV—FOREST**
 11 **CONSERVATION ACTIVITIES**

12 **SEC. 401. PILOT PROJECT FOR FOREST CONSERVATION AC-**
 13 **TIVITIES.**

14 (a) TAX-EXEMPT BOND FINANCING.—

15 (1) IN GENERAL.—For purposes of the Internal
 16 Revenue Code of 1986, any qualified forest con-
 17 servation bond shall be treated as an exempt facility
 18 bond under section 142 of such Code.

19 (2) QUALIFIED FOREST CONSERVATION
 20 BOND.—For purposes of this section, the term
 21 “qualified forest conservation bond” means any bond
 22 issued as part of an issue if—

23 (A) 95 percent or more of the net proceeds
 24 (as defined in section 150(a)(3) of such Code)

1 of such issue are to be used for qualified project
2 costs,

3 (B) such bond is an obligation of the State
4 of Washington or any political subdivision
5 thereof and is issued for the Evergreen Forest
6 Trust, and

7 (C) such bond is issued before October 1,
8 2004.

9 (3) LIMITATION ON AGGREGATE AMOUNT
10 ISSUED.—The maximum aggregate face amount of
11 bonds which may be issued under this section shall
12 not exceed \$250,000,000.

13 (4) QUALIFIED PROJECT COSTS.—For purposes
14 of this subsection, the term “qualified project costs”
15 means the sum of—

16 (A) the cost of acquisition by the Ever-
17 green Forest Trust from an unrelated person of
18 forests and forest land—

19 (i) which are located in the State of
20 Washington, and

21 (ii) which at the time of acquisition or
22 immediately thereafter are subject to a
23 conservation restriction described in sub-
24 section (c)(2),

1 (B) capitalized interest on the qualified
2 forest conservation bonds for the 3-year period
3 beginning on the date of issuance of such
4 bonds, and

5 (C) credit enhancement fees which con-
6 stitute qualified guarantee fees (within the
7 meaning of section 148 of such Code).

8 (5) SPECIAL RULES.—In applying the Internal
9 Revenue Code of 1986 to any qualified forest con-
10 servation bond, the following modifications shall
11 apply:

12 (A) Section 146 of such Code (relating to
13 volume cap) shall not apply.

14 (B) For purposes of section 147(b) of such
15 Code (relating to maturity may not exceed 120
16 percent of economic life), the land and standing
17 timber acquired with proceeds of qualified for-
18 est conservation bonds shall have an economic
19 life of 35 years.

20 (C) Subsections (c) and (d) of section 147
21 of such Code (relating to limitations on acquisi-
22 tion of land and existing property) shall not
23 apply.

1 (D) Section 57(a)(5) of such Code (relat-
2 ing to tax-exempt interest) shall not apply to
3 interest on qualified forest conservation bonds.

4 (6) TREATMENT OF CURRENT REFUNDING
5 BONDS.—Paragraphs (2)(C) and (3) shall not apply
6 to any bond (or series of bonds) issued to refund a
7 qualified forest conservation bond issued before Oc-
8 tober 1, 2004, if—

9 (A) the average maturity date of the issue
10 of which the refunding bond is a part is not
11 later than the average maturity date of the
12 bonds to be refunded by such issue,

13 (B) the amount of the refunding bond does
14 not exceed the outstanding amount of the re-
15 funded bond, and

16 (C) the net proceeds of the refunding bond
17 are used to redeem the refunded bond not later
18 than 90 days after the date of the issuance of
19 the refunding bond.

20 For purposes of subparagraph (A), average maturity
21 shall be determined in accordance with section
22 147(b)(2)(A) of such Code.

23 (7) EFFECTIVE DATE.—This subsection shall
24 apply to obligations issued after the date of the en-
25 actment of this Act.

1 (b) ITEMS FROM QUALIFIED HARVESTING ACTIVI-
2 TIES NOT SUBJECT TO TAX OR TAKEN INTO ACCOUNT.—

3 (1) IN GENERAL.—Income, gains, deductions,
4 losses, or credits from a qualified harvesting activity
5 conducted by the Evergreen Forest Trust shall not
6 be subject to tax or taken into account under sub-
7 title A of the Internal Revenue Code of 1986.

8 (2) QUALIFIED HARVESTING ACTIVITY.—For
9 purposes of paragraph (1)—

10 (A) IN GENERAL.—The term “qualified
11 harvesting activity” means the sale, lease, or
12 harvesting, of standing timber—

13 (i) on land owned by the Evergreen
14 Forest Trust which was acquired with pro-
15 ceeds of qualified forest conservation
16 bonds, and

17 (ii) pursuant to a qualified conserva-
18 tion plan adopted by the Evergreen Forest
19 Trust.

20 (B) EXCEPTIONS.—

21 (i) CESSATION AS QUALIFIED ORGANI-
22 ZATION.—The term “qualified harvesting
23 activity” shall not include any sale, lease,
24 or harvesting during any period that the

1 Evergreen Forest Trust is not a qualified
2 organization.

3 (ii) EXCEEDING LIMITS ON HAR-
4 VESTING.—The term “qualified harvesting
5 activity” shall not include any sale, lease,
6 or harvesting of standing timber on land
7 acquired with proceeds of qualified forest
8 conservation bonds to the extent that—

9 (I) the average annual area of
10 timber harvested from such land ex-
11 ceeds 2.5 percent of the total area of
12 such land, or

13 (II) the quantity of timber re-
14 moved from such land exceeds the
15 quantity which can be removed from
16 such land annually in perpetuity on a
17 sustained-yield basis with respect to
18 such land.

19 The limitations under subclauses (I) and
20 (II) shall not apply to salvage or sanitation
21 harvesting of timber stands which are sub-
22 stantially damaged by fire, windthrow, or
23 other catastrophe, or which are in immi-
24 nent danger from insect or disease attack.

1 (3) TERMINATION.—This subsection shall not
2 apply to any qualified harvesting activity occurring
3 after the date on which there is no outstanding
4 qualified forest conservation bond or any such bond
5 ceases to be a tax-exempt bond.

6 (4) PARTIAL RECAPTURE OF BENEFITS IF HAR-
7 VESTING LIMIT EXCEEDED.—If, as of the date that
8 this subsection ceases to apply under paragraph (3),
9 the average annual area of timber harvested from
10 the land exceeds the requirement of paragraph
11 (2)(B)(ii)(I), the tax imposed by chapter 1 of the In-
12 ternal Revenue Code of 1986 shall be increased,
13 under rules prescribed by the Secretary, by the sum
14 of the tax benefit attributable to such excess and in-
15 terest at the underpayment rate under section 6621
16 for the period of the underpayment.

17 (c) DEFINITIONS.—For purposes of this section—

18 (1) QUALIFIED CONSERVATION PLAN.—The
19 term “qualified conservation plan” means a multiple
20 land use program or plan which—

21 (A) is designed and administered primarily
22 for the purposes of protecting and enhancing
23 wildlife and fish, timber, scenic attributes,
24 recreation, and soil and water quality of the
25 forest and forest land,

1 (B) mandates that conservation of forest
2 and forest land is the single-most significant
3 use of the forest and forest land,

4 (C) requires that timber harvesting be con-
5 sistent with—

6 (i) restoring and maintaining ref-
7 erence conditions for the Westside Douglas
8 Fir forest type,

9 (ii) restoring and maintaining a rep-
10 resentative sample of young, mid, and late
11 successional forest age classes,

12 (iii) maintaining or restoring the re-
13 sources' ecological health for purposes of
14 preventing damage from fire, insect, or dis-
15 ease,

16 (iv) maintaining or enhancing wildlife
17 or fish habitat,

18 (v) enhancing research opportunities
19 in sustainable renewable resource uses, or

20 (vi) preserving or protecting open
21 space.

22 (2) CONSERVATION RESTRICTION.—The con-
23 servation restriction described in this paragraph is a
24 restriction which—

1 (A) is granted in perpetuity to an unre-
2 lated person which is described in section
3 170(h)(3) of such Code and which, in the case
4 of a nongovernmental unit, is organized and op-
5 erated for conservation purposes,

6 (B) meets the requirements of clause (ii)
7 or (iii)(II) of section 170(h)(4)(A) of such
8 Code,

9 (C) obligates the Evergreen Forest Trust
10 to pay the costs incurred by the holder of the
11 conservation restriction in monitoring compli-
12 ance with such restriction, and

13 (D) requires an increasing level of con-
14 servation benefits to be provided whenever cir-
15 cumstances allow it.

16 (3) QUALIFIED ORGANIZATION.—The term
17 “qualified organization” means an organization—

18 (A) which is a nonprofit organization orga-
19 nized and operated exclusively for charitable,
20 scientific, or educational purposes including but
21 not limited to acquiring, protecting, restoring,
22 managing, and developing forest lands and
23 other renewable resources for the long-term
24 charitable, educational, scientific, and public
25 benefit of the State of Washington,

1 (B) more than half of the value of the
2 property of which consists of forests and forest
3 land acquired with the proceeds from qualified
4 forest conservation bonds,

5 (C) which periodically conducts educational
6 programs designed to inform the public of envi-
7 ronmentally sensitive forestry management and
8 conservation techniques,

9 (D) which has a board of directors that at
10 all times is comprised of 9 members—

11 (i) at least 2 of whom represent the
12 holders of the conservation restriction de-
13 scribed in paragraph (2), and

14 (ii) at least 2 of whom are public offi-
15 cials,

16 (E) of which not more than one-third of
17 the members of the board of directors is com-
18 prised of individuals who are or were at any
19 time within 5 years before the beginning of a
20 term of membership on the board, an employee
21 of, independent contractor with respect to, offi-
22 cer of, director of, or held a material financial
23 interest in, a commercial forest products enter-
24 prise with which the Evergreen Forest Trust

1 has a contractual or other financial arrange-
2 ment,

3 (F) the bylaws of which require at least
4 two-thirds of the members of the board of direc-
5 tors to vote affirmatively to approve the quali-
6 fied conservation program and any change
7 thereto, and

8 (G) upon dissolution, is required to dedi-
9 cate its assets to—

10 (i) an organization described in sec-
11 tion 501(c)(3) of such Code which is orga-
12 nized and operated for conservation pur-
13 poses, or

14 (ii) a governmental unit described in
15 section 170(c)(1) of such Code.

16 (4) EVERGREEN FOREST TRUST.—The term
17 “Evergreen Forest Trust” means a nonprofit cor-
18 poration known as the Evergreen Forest Trust
19 which was incorporated on February 25, 2000,
20 under chapter 24.03 of the Revised Code of Wash-
21 ington and which, on May 11, 2001, was recognized
22 as an organization described in section 501(c)(3) of
23 the Internal Revenue Code of 1986.

1 (5) UNRELATED PERSON.—The term “unre-
2 lated person” means a person who is not a related
3 person.

4 (6) RELATED PERSON.—A person shall be
5 treated as related to another person if—

6 (A) such person bears a relationship to
7 such other person described in section 267(b)
8 (determined without regard to paragraph (9)
9 thereof), or 707(b)(1), of such Code, deter-
10 mined by substituting “25 percent” for “50
11 percent” each place it occurs therein, and

12 (B) in the case such other person is a non-
13 profit organization, if such person controls di-
14 rectly or indirectly more than 25 percent of the
15 governing body of such organization.

16 **TITLE V—RELIEF AND EQUITY**
17 **FOR SMALL BUSINESSES**

18 **SEC. 501. SIMPLIFICATION OF EXCISE TAX IMPOSED ON**
19 **BOWS AND ARROWS.**

20 (a) BOWS.—Paragraph (1) of section 4161(b) (relat-
21 ing to bows) is amended to read as follows:

22 “(1) BOWS.—

23 “(A) IN GENERAL.—There is hereby im-
24 posed on the sale by the manufacturer, pro-
25 ducer, or importer of any bow which has a draw

1 weight of 30 pounds or more, a tax equal to 11
2 percent of the price for which so sold.

3 “(B) ARCHERY EQUIPMENT.—There is
4 hereby imposed on the sale by the manufac-
5 turer, producer, or importer—

6 “(i) of any part or accessory suitable
7 for inclusion in or attachment to a bow de-
8 scribed in subparagraph (A), and

9 “(ii) of any quiver or broadhead suit-
10 able for use with an arrow described in
11 paragraph (3),

12 a tax equal to 11 percent of the price for which
13 so sold.”.

14 (b) ARROWS.—Subsection (b) of section 4161 (relat-
15 ing to bows and arrows, etc.) is amended by redesignating
16 paragraph (3) as paragraph (4) and inserting after para-
17 graph (2) the following:

18 “(3) ARROWS.—

19 “(A) IN GENERAL.—There is hereby im-
20 posed on the sale by the manufacturer, pro-
21 ducer, or importer of any arrow, a tax equal to
22 12 percent of the price for which so sold.

23 “(B) EXCEPTION.—The tax imposed by
24 subparagraph (A) on an arrow shall not apply

1 if the arrow contains an arrow shaft sub-
2 ject to the tax imposed by paragraph (2).

3 “(C) ARROW.—For purposes of this para-
4 graph, the term ‘arrow’ means any shaft de-
5 scribed in paragraph (2) to which additional
6 components are attached.”.

7 (c) CONFORMING AMENDMENT.—The heading of sec-
8 tion 4161(b)(2) is amended by striking “ARROWS.—” and
9 inserting “ARROW COMPONENTS.—”.

10 (d) EFFECTIVE DATE.—The amendments made by
11 this section shall apply to articles sold by the manufac-
12 turer, producer, or importer after the 90th day after the
13 date of the enactment of this Act.

14 **SEC. 502. CAPITAL GAIN TREATMENT UNDER SECTION**
15 **631(b) TO APPLY TO OUTRIGHT SALES BY**
16 **LANDOWNERS.**

17 (a) IN GENERAL.—The first sentence of section
18 631(b) (relating to disposal of timber with a retained eco-
19 nomic interest) is amended by striking “retains an eco-
20 nomic interest in such timber” and inserting “either re-
21 tains an economic interest in such timber or makes an
22 outright sale of such timber”.

23 (b) CONFORMING AMENDMENTS.—

24 (1) The third sentence of section 631(b) is
25 amended by striking “The date of disposal” and in-

1 serting “In the case of disposal of timber with a re-
2 tained economic interest, the date of disposal”.

3 (2) The heading for section 631(b) is amended
4 by striking “WITH A RETAINED ECONOMIC INTER-
5 EST”.

6 (c) EFFECTIVE DATE.—The amendments made by
7 this section shall apply to sales after the date of the enact-
8 ment of this Act.

9 **SEC. 503. REPEAL OF EXCISE TAX ON FISHING TACKLE**
10 **BOXES.**

11 (a) REPEAL.—Paragraph (6) of section 4162(a) (de-
12 fining sport fishing equipment) is amended by striking
13 subparagraph (C) and by redesignating subparagraphs
14 (D) through (J) as subparagraphs (C) through (I), respec-
15 tively.

16 (b) EFFECTIVE DATE.—The amendment made by
17 this section shall take effect 30 days after the date of the
18 enactment of this Act.

19 **SEC. 504. TREATMENT UNDER AT-RISK RULES OF PUBLICLY**
20 **TRADED NONRECOURSE DEBT.**

21 (a) IN GENERAL.—Subparagraph (A) of section
22 465(b)(6) (relating to qualified nonrecourse financing
23 treated as amount at risk) is amended by striking “share
24 of” and all that follows and inserting “share of—

1 “(i) any qualified nonrecourse financ-
2 ing which is secured by real property used
3 in such activity, and

4 “(ii) any other financing which—

5 “(I) would (but for subparagraph
6 (B)(ii)) be qualified nonrecourse fi-
7 nancing,

8 “(II) is qualified publicly traded
9 debt, and

10 “(III) is not borrowed by the tax-
11 payer from a person described in sub-
12 clause (I), (II), or (III) of section
13 49(a)(1)(D)(iv).”.

14 (b) QUALIFIED PUBLICLY TRADED DEBT.—Para-
15 graph (6) of section 465(b) is amended by adding at the
16 end the following new subparagraph:

17 “(F) QUALIFIED PUBLICLY TRADED
18 DEBT.—For purposes of subparagraph (A), the
19 term ‘qualified publicly traded debt’ means any
20 debt instrument which is readily tradable on an
21 established securities market. Such term shall
22 not include any debt instrument which has a
23 yield to maturity which equals or exceeds the
24 limitation in section 163(i)(1)(B).”.

1 (c) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to debt instruments issued after
3 the date of the enactment of this Act.

4 **TITLE VI—EQUITY FOR**
5 **FARMERS**

6 **SEC. 601. SPECIAL RULES FOR LIVESTOCK SOLD ON AC-**
7 **COUNT OF WEATHER-RELATED CONDITIONS.**

8 (a) RULES FOR REPLACEMENT OF INVOLUNTARILY
9 CONVERTED LIVESTOCK.—Subsection (e) of section 1033
10 (relating to involuntary conversions) is amended—

11 (1) by striking “CONDITIONS.—For purposes”
12 and inserting “CONDITIONS.—

13 “(1) IN GENERAL.—For purposes”, and

14 (2) by adding at the end the following new
15 paragraph:

16 “(2) EXTENSION OF REPLACEMENT PERIOD.—

17 “(A) IN GENERAL.—In the case of
18 drought, flood, or other weather-related condi-
19 tions described in paragraph (1) which result in
20 the area being designated as eligible for assist-
21 ance by the Federal Government, subsection
22 (a)(2)(B) shall be applied with respect to any
23 converted property by substituting ‘4 years’ for
24 ‘2 years’.

1 “(B) FURTHER EXTENSION BY SEC-
2 RETARY.—The Secretary may extend on a re-
3 gional basis the period for replacement under
4 this section (after the application of subpara-
5 graph (A)) for such additional time as the Sec-
6 retary determines appropriate if the weather-re-
7 lated conditions which resulted in such applica-
8 tion continue for more than 3 years.”.

9 (b) INCOME INCLUSION RULES.—Subsection (e) of
10 section 451 (relating to special rule for proceeds from live-
11 stock sold on account of drought, flood, or other weather-
12 related conditions) is amended by adding at the end the
13 following new paragraph:

14 “(3) SPECIAL ELECTION RULES.—If section
15 1033(e)(2) applies to a sale or exchange of livestock
16 described in paragraph (1), the election under para-
17 graph (1) shall be deemed valid if made during the
18 replacement period described in such section.”.

19 (c) EFFECTIVE DATE.—The amendments made by
20 this section shall apply to any taxable year with respect
21 to which the due date (without regard to extensions) for
22 the return is after December 31, 2002.

1 **SEC. 602. INCOME AVERAGING FOR FARMERS NOT TO IN-**
2 **CREASE ALTERNATIVE MINIMUM TAX.**

3 (a) IN GENERAL.—Subsection (c) of section 55 (de-
4 fining regular tax) is amended by redesignating paragraph
5 (2) as paragraph (3) and by inserting after paragraph (1)
6 the following new paragraph:

7 “(2) COORDINATION WITH INCOME AVERAGING
8 FOR FARMERS.—Solely for purposes of this section,
9 section 1301 (relating to averaging of farm income)
10 shall not apply in computing the regular tax liabil-
11 ity.”.

12 (b) EFFECTIVE DATE.—The amendment made by
13 subsection (a) shall apply to taxable years beginning after
14 December 31, 2002.

15 **SEC. 603. PAYMENT OF DIVIDENDS ON STOCK OF COOPERA-**
16 **TIVES WITHOUT REDUCING PATRONAGE**
17 **DIVIDENDS.**

18 (a) IN GENERAL.—Subsection (a) of section 1388
19 (relating to patronage dividend defined) is amended by
20 adding at the end the following: “For purposes of para-
21 graph (3), net earnings shall not be reduced by amounts
22 paid during the year as dividends on capital stock or other
23 proprietary capital interests of the organization to the ex-
24 tent that the articles of incorporation or bylaws of such
25 organization or other contract with patrons provide that
26 such dividends are in addition to amounts otherwise pay-

1 able to patrons which are derived from business done with
2 or for patrons during the taxable year.”.

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

6 **TITLE VII—PROTECTION OF**
7 **SOCIAL SECURITY**

8 **SEC. 701. PROTECTION OF SOCIAL SECURITY.**

9 The amounts transferred to any trust fund under
10 title II of the Social Security Act shall be determined as
11 if this Act (other than title I, section 301, and this section)
12 had not been enacted.

○