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106TH CONGRESS
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S. 1429

[Report No. 106-120]

IN THE SENATE OF THE UNITED STATES

JULY 26 (legislative day, July 26), 1999

Mr. ROTH, from the Committee on Finance, reported the following original bill; which was read twice and placed on the calendar

A BILL

To provide for reconciliation pursuant to section 104 of the concurrent resolution on the budget for fiscal year 2000.

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

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

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

6 (b) AMENDMENT OF 1986 CODE.—Except as other-
7 wise expressly provided, whenever in this Act an amend-
8 ment or repeal is expressed in terms of an amendment

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

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

8 (d) TABLE OF CONTENTS.—The table of contents for
9 this Act is as follows:

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.

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

3

- 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.

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.

4

Subtitle H—Plan Amendments

Sec. 371. 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. Permanent 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.

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 not to increase alternative minimum tax liability.
- Sec. 605. Farm and Ranch Risk Management Accounts.

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

5

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.

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

6

- 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.

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
- 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.

TITLE XV—COMPLIANCE WITH CONGRESSIONAL BUDGET ACT

- Sec. 1501. Sunset of provisions of Act.
- Sec. 1502. Restoration 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
6 1 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
10 to taxable years beginning in a calendar year after
11 2000, the rate applicable to the lowest income brack-
12 et 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
19 paragraph (8) in the rate of tax” before the period.

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

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

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

8 (6) Section 3402(p)(2) is amended by striking
9 “15 percent” and inserting “14 percent”.

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

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

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

18 (1) in paragraph (2)—

19 (A) by redesignating subparagraphs (B)
20 and (C) as subparagraphs (C) and (D),

21 (B) by inserting after subparagraph (A)
22 the following:

23 “(B) in the case of the tables contained in
24 subsections (a), (b), (c), and (d), by increasing
25 (after adjustment under paragraph (8)) the

1 maximum taxable income level for the 14 per-
 2 cent rate bracket and the minimum taxable in-
 3 come level for the 28 percent rate bracket oth-
 4 erwise determined under subparagraph (A) for
 5 taxable years beginning in any calendar year
 6 after 2004 by the applicable dollar amount for
 7 such calendar year,” and

8 (C) by striking “subparagraph (A)” in
 9 subparagraph (C) (as so redesignated) and in-
 10 serting “subparagraphs (A) and (B)”, and

11 (2) by adding at the end the following:

12 “(9) APPLICABLE DOLLAR AMOUNT.—For pur-
 13 poses of paragraph (2)(B)—

14 “(A) IN GENERAL.—The applicable dollar
 15 amount for any calendar year shall be deter-
 16 mined as follows:

17 “(i) JOINT RETURNS AND SURVIVING
 18 SPOUSES.—In the case of the table con-
 19 tained in subsection (a)—

“Calendar year:	Applicable dollar amount:
2005 or 2006	\$4,000
2007 and thereafter	\$5,000.

20 “(ii) OTHER TABLES.—In the case of
 21 the table contained in subsection (b), (c),
 22 or (d)—

“Calendar year:	Applicable dollar amount:
2005 or 2006	\$2,000
2007 and thereafter	\$2,500.

1 “(B) COST-OF-LIVING ADJUSTMENT.—In
2 the case of any taxable year beginning in any
3 calendar year after 2007, the applicable dollar
4 amount shall be increased by an amount equal
5 to—

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

13 (b) ROUNDING.—Section 1(f)(6)(A) is amended by
14 inserting “(after being increased under paragraph
15 (2)(B))” after “paragraph (2)(A)”.

16 **TITLE II—FAMILY TAX RELIEF**
17 **PROVISIONS**

18 **SEC. 201. COMBINED RETURN TO WHICH UNMARRIED**
19 **RATES APPLY.**

20 (a) IN GENERAL.—Subpart B of part II of sub-
21 chapter A of chapter 61 (relating to income tax returns)
22 is amended by inserting after section 6013 the following
23 new section:

1 **“SEC. 6013A. COMBINED RETURN WITH SEPARATE RATES.**

2 “(a) GENERAL RULE.—A husband and wife may
3 make a combined return of income taxes under subtitle
4 A under which—

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

8 “(2) the tax imposed by section 1 is the aggre-
9 gate amount resulting from applying the separate
10 rates set forth in section 1(c) to each such taxable
11 income.

12 “(b) TREATMENT OF INCOME.—For purposes of this
13 section—

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

19 “(2) income from property shall be divided be-
20 tween the spouses in accordance with their respec-
21 tive ownership rights in such property (equally in
22 the case of property held jointly by the spouses).

23 “(c) TREATMENT OF DEDUCTIONS.—For purposes of
24 this section—

25 “(1) except as otherwise provided in this sub-
26 section, the deductions described in section 62(a)

1 shall be allowed to the spouse treated as having the
2 income to which such deductions relate,

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

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

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

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

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

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

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

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

5 Any fraction determined under paragraph (7) shall be
6 rounded to the nearest percentage point.

7 “(d) TREATMENT OF CREDITS.—Credits shall be de-
8 termined (and applied against the joint liability of the cou-
9 ple for tax determined under this section) as if the spouses
10 had filed a joint return.

11 “(e) TREATMENT AS JOINT RETURN.—Except as
12 otherwise provided in this section or in the regulations
13 prescribed hereunder, for purposes of this title (other than
14 sections 1 and 63(c)) a combined return under this section
15 shall be treated as a joint return.

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

19 (b) UNMARRIED RATE MADE APPLICABLE.—So
20 much of subsection (c) of section 1 as precedes the table
21 is amended to read as follows:

22 “(c) SEPARATE OR UNMARRIED RETURN RATE.—
23 There is hereby imposed on the taxable income of every
24 individual (other than a married individual (as defined in
25 section 7703) filing a return which is not a combined re-

1 turn under section 6013A, a surviving spouse as defined
2 in section 2(a), or a head of household as defined in sec-
3 tion 2(b)) a tax determined in accordance with the follow-
4 ing table:”.

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

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

10 “(i) a married individual filing a re-
11 turn which is not a combined return under
12 section 6013A,

13 “(ii) a surviving spouse, or

14 “(iii) a head of household, or”.

15 (d) CLERICAL AMENDMENT.—The table of sections
16 for subpart B of part II of subchapter A of chapter 61
17 is amended by inserting after the item relating to section
18 6013 the following:

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

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

22 **SEC. 202. MARRIAGE PENALTY RELIEF FOR EARNED IN-**
23 **COME CREDIT.**

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

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

3 “(A) IN GENERAL.—Subject to subpara-
4 graph (B), the earned”, and

5 (2) by adding at the end the following new sub-
6 paragraph:

7 “(B) JOINT RETURNS.—In the case of a
8 joint return, the phaseout amount determined
9 under subparagraph (A) shall be increased by
10 \$2,000.”

11 (b) INFLATION ADJUSTMENT.—Paragraph (1)(B) of
12 section 32(j) (relating to inflation adjustments) is amend-
13 ed to read as follows:

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

18 “(i) in the case of amounts in sub-
19 sections (b)(1)(A) and (i)(1), by substitut-
20 ing ‘calendar year 1995’ for ‘calendar year
21 1992’ in subparagraph (B) thereof, and

22 “(ii) in the case of the \$2,000 amount
23 in subsection (b)(1)(B), by substituting
24 ‘calendar year 2004’ for ‘calendar year

1 1992' in subparagraph (B) of such section
2 1.”

3 (c) ROUNDING.—Section 32(j)(2)(A) (relating to
4 rounding) is amended by striking “subsection (b)(2)” and
5 inserting “subsection (b)(2)(A) (after being increased
6 under subparagraph (B) thereof)”.

7 (d) EFFECTIVE DATE.—The amendments made by
8 this section shall apply to taxable years beginning after
9 December 31, 2004.

10 **SEC. 203. EXCLUSION FOR FOSTER CARE PAYMENTS TO**
11 **APPLY TO PAYMENTS BY QUALIFIED PLACE-**
12 **MENT AGENCIES.**

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

16 “(1) IN GENERAL.—The term ‘qualified foster
17 care payment’ means any payment made pursuant to
18 a foster care program of a State or political subdivi-
19 sion thereof—

20 “(A) which is paid by—

21 “(i) the State or political subdivision
22 thereof, or

23 “(ii) a qualified foster care placement
24 agency of such State or political subdivi-
25 sion, and”.

1 (b) QUALIFIED FOSTER INDIVIDUALS TO INCLUDE
2 INDIVIDUALS PLACED BY QUALIFIED PLACEMENT AGEN-
3 CIES.—Subparagraph (B) of section 131(b)(2) (defining
4 qualified foster individual) is amended to read as follows:

5 “(B) a qualified foster care placement
6 agency.”

7 (c) QUALIFIED FOSTER CARE PLACEMENT AGENCY
8 DEFINED.—Subsection (b) of section 131 is amended by
9 redesignating paragraph (3) as paragraph (4) and by in-
10 serting after paragraph (2) the following new paragraph:

11 “(3) QUALIFIED FOSTER CARE PLACEMENT
12 AGENCY.—The term ‘qualified foster care placement
13 agency’ means any placement agency which is li-
14 censed or certified by—

15 “(A) a State or political subdivision there-
16 of, or

17 “(B) an entity designated by a State or
18 political subdivision thereof,

19 to make foster care payments under the foster care
20 program of such State or political subdivision to pro-
21 viders of foster care.”

22 (d) EFFECTIVE DATE.—The amendments made by
23 this section shall apply to taxable years beginning after
24 December 31, 1999.

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

2 (a) INCREASE IN PERCENTAGE OF EMPLOYMENT-
3 RELATED EXPENSES TAKEN INTO ACCOUNT.—Sub-
4 section (a)(2) of section 21 (relating to expenses for
5 household and dependent care services necessary for gain-
6 ful employment) is amended—

7 (1) by striking “30 percent” and inserting “50
8 percent”,

9 (2) by striking “\$2,000” and inserting
10 “\$1,000”, and

11 (3) by striking “\$10,000” and inserting
12 “\$30,000”.

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

16 “(c) DOLLAR LIMIT ON AMOUNT CREDITABLE.—

17 “(1) IN GENERAL.—The amount of the employ-
18 ment-related expenses incurred during any taxable
19 year which may be taken into account under sub-
20 section (a) shall not exceed—

21 “(A) an amount equal to 50 percent of the
22 amount determined under subparagraph (B) if
23 there is 1 qualifying individual with respect to
24 the taxpayer for such taxable year, or

1 “(B) \$4,800 if there are 2 or more qualify-
2 ing individuals with respect to the taxpayer for
3 such taxable year.

4 The amount determined under subparagraph (A) or
5 (B) (whichever is applicable) shall be reduced by the
6 aggregate amount excludable from gross income
7 under section 129 for the taxable year.

8 “(2) COST-OF-LIVING ADJUSTMENT.—

9 “(A) IN GENERAL.—In the case of a tax-
10 able year beginning after 2000, the \$4,800
11 amount under paragraph (1)(B) shall be in-
12 creased by an amount equal to—

13 “(i) such dollar amount, multiplied by

14 “(ii) the cost-of-living adjustment de-
15 termined under section 1(f)(3) for the cal-
16 endar year in which the taxable year be-
17 gins, determined by substituting ‘calendar
18 year 1999’ for ‘calendar year 1992’ in sub-
19 paragraph (B) thereof.

20 “(B) ROUNDING RULES.—If any amount
21 after adjustment under subparagraph (A) is not
22 a multiple of \$50, such amount shall be round-
23 ed to the next lower multiple of \$50.”

1 (c) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to taxable years beginning after
3 December 31, 2000.

4 **SEC. 205. ALLOWANCE OF CREDIT FOR EMPLOYER EX-**
5 **PENSES FOR CHILD CARE ASSISTANCE.**

6 (a) IN GENERAL.—Subpart D of part IV of sub-
7 chapter A of chapter 1 (relating to business related cred-
8 its) is amended by adding at the end the following new
9 section:

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

11 “(a) ALLOWANCE OF CREDIT.—For purposes of sec-
12 tion 38, the employer-provided child care credit deter-
13 mined under this section for the taxable year is an amount
14 equal to the sum of—

15 “(1) 25 percent of the qualified child care ex-
16 penditures, and

17 “(2) 10 percent of the qualified child care re-
18 source and referral expenditures,

19 of the taxpayer for such taxable year.

20 “(b) DOLLAR LIMITATION.—The credit allowable
21 under subsection (a) for any taxable year shall not exceed
22 \$150,000.

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

24 “(1) QUALIFIED CHILD CARE EXPENDITURE.—

1 “(A) IN GENERAL.—The term ‘qualified
2 child care expenditure’ means any amount paid
3 or incurred—

4 “(i) to acquire, construct, rehabilitate,
5 or expand property—

6 “(I) which is to be used as part
7 of an eligible qualified child care facil-
8 ity of the taxpayer,

9 “(II) with respect to which a de-
10 duction for depreciation (or amortiza-
11 tion in lieu of depreciation) is allow-
12 able, and

13 “(III) which does not constitute
14 part of the principal residence (within
15 the meaning of section 121) of the
16 taxpayer or any employee of the tax-
17 payer,

18 “(ii) for the operating costs of an eli-
19 gible qualified child care facility of the tax-
20 payer, including costs related to the train-
21 ing of employees of the child care facility,
22 to scholarship programs, to the providing
23 of differential compensation to employees
24 based on level of child care training, and to

1 expenses associated with achieving accredi-
2 tation, or

3 “(iii) under a contract with a qualified
4 child care facility to provide child care
5 services to employees of the taxpayer.

6 “(B) EXCLUSION FOR AMOUNTS FUNDED
7 BY GRANTS, ETC.—The term ‘qualified child
8 care expenditure’ shall not include any amount
9 to the extent such amount is funded by any
10 grant, contract, or otherwise by another person
11 (or any governmental entity).

12 “(C) NONDISCRIMINATION.—The term
13 ‘qualified child care expenditure’ shall not in-
14 clude any amount expended in relation to any
15 child care services unless the providing of such
16 services to employees of the taxpayer does not
17 discriminate in favor of highly compensated em-
18 ployees (within the meaning of section 404(q)).

19 “(2) QUALIFIED CHILD CARE FACILITY.—

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

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

24 “(ii) which meets the requirements of
25 all applicable laws and regulations of the

1 State or local government in which it is lo-
2 cated, including, but not limited to, the li-
3 censing of the facility as a child care facil-
4 ity.

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

8 “(B) ELIGIBLE QUALIFIED CHILD CARE
9 FACILITY.—A qualified child care facility shall
10 be treated as an eligible qualified child care fa-
11 cility with respect to the taxpayer if—

12 “(i) enrollment in the facility is open
13 to employees of the taxpayer during the
14 taxable year,

15 “(ii) the facility is not the principal
16 trade or business of the taxpayer, and

17 “(iii) at least 30 percent of the enroll-
18 ees of such facility are dependents of em-
19 ployees of the taxpayer.

20 “(C) APPLICATION OF SUBPARAGRAPH
21 (B).—In the case of a new facility, the facility
22 shall be treated as meeting the requirement of
23 subparagraph (B)(iii) if not later than 2 years
24 after placing such facility in service at least 30

1 percent of the enrollees of such facility are de-
2 pendents of employees of the taxpayer.

3 “(3) QUALIFIED CHILD CARE RESOURCE AND
4 REFERRAL EXPENDITURE.—

5 “(A) IN GENERAL.—The term ‘qualified
6 child care resource and referral expenditure’
7 means any amount paid or incurred under a
8 contract to provide child care resource and re-
9 ferral services to employees of the taxpayer.

10 “(B) EXCLUSION FOR AMOUNTS FUNDED
11 BY GRANTS, ETC.—The term ‘qualified child
12 care resource and referral expenditure’ shall not
13 include any amount to the extent such amount
14 is funded by any grant, contract, or otherwise
15 by another person (or any governmental entity).

16 “(C) NONDISCRIMINATION.—The term
17 ‘qualified child care resource and referral ex-
18 penditure’ shall not include any amount ex-
19 pended in relation to any child care resource
20 and referral services unless the providing of
21 such services to employees of the taxpayer does
22 not discriminate in favor of highly compensated
23 employees (within the meaning of section
24 404(q)).

1 “(d) RECAPTURE OF ACQUISITION AND CONSTRUC-
2 TION CREDIT.—

3 “(1) IN GENERAL.—If, as of the close of any
4 taxable year, there is a recapture event with respect
5 to any eligible qualified child care facility of the tax-
6 payer, then the tax of the taxpayer under this chap-
7 ter for such taxable year shall be increased by an
8 amount equal to the product of—

9 “(A) the applicable recapture percentage,
10 and

11 “(B) the aggregate decrease in the credits
12 allowed under section 38 for all prior taxable
13 years which would have resulted if the qualified
14 child care expenditures of the taxpayer de-
15 scribed in subsection (c)(1)(A) with respect to
16 such facility had been zero.

17 “(2) APPLICABLE RECAPTURE PERCENTAGE.—

18 “(A) IN GENERAL.—For purposes of this
19 subsection, the applicable recapture percentage
20 shall be determined from the following table:

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

1 “(B) YEARS.—For purposes of subpara-
2 graph (A), year 1 shall begin on the first day
3 of the taxable year in which the eligible quali-
4 fied child care facility is placed in service by the
5 taxpayer.

6 “(3) RECAPTURE EVENT DEFINED.—For pur-
7 poses of this subsection, the term ‘recapture event’
8 means—

9 “(A) CESSATION OF OPERATION.—The
10 cessation of the operation of the facility as an
11 eligible qualified child care facility.

12 “(B) CHANGE IN OWNERSHIP.—

13 “(i) IN GENERAL.—Except as pro-
14 vided in clause (ii), the disposition of a
15 taxpayer’s interest in an eligible qualified
16 child care facility with respect to which the
17 credit described in subsection (a) was al-
18 lowable.

19 “(ii) AGREEMENT TO ASSUME RECAP-
20 TURE LIABILITY.—Clause (i) shall not
21 apply if the person acquiring such interest
22 in the facility agrees in writing to assume
23 the recapture liability of the person dispos-
24 ing of such interest in effect immediately
25 before such disposition. In the event of

1 such an assumption, the person acquiring
2 the interest in the facility shall be treated
3 as the taxpayer for purposes of assessing
4 any recapture liability (computed as if
5 there had been no change in ownership).

6 “(4) SPECIAL RULES.—

7 “(A) TAX BENEFIT RULE.—The tax for
8 the taxable year shall be increased under para-
9 graph (1) only with respect to credits allowed
10 by reason of this section which were used to re-
11 duce tax liability. In the case of credits not so
12 used to reduce tax liability, the carryforwards
13 and carrybacks under section 39 shall be appro-
14 priately adjusted.

15 “(B) NO CREDITS AGAINST TAX.—Any in-
16 crease in tax under this subsection shall not be
17 treated as a tax imposed by this chapter for
18 purposes of determining the amount of any
19 credit under subpart A, B, or D of this part.

20 “(C) NO RECAPTURE BY REASON OF CAS-
21 UALTY LOSS.—The increase in tax under this
22 subsection shall not apply to a cessation of op-
23 eration of the facility as a qualified child care
24 facility by reason of a casualty loss to the ex-
25 tent such loss is restored by reconstruction or

1 replacement within a reasonable period estab-
2 lished by the Secretary.

3 “(e) SPECIAL RULES.—For purposes of this sec-
4 tion—

5 “(1) AGGREGATION RULES.—All persons which
6 are treated as a single employer under subsections
7 (a) and (b) of section 52 shall be treated as a single
8 taxpayer.

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

13 “(3) ALLOCATION IN THE CASE OF PARTNER-
14 SHIPS.—In the case of partnerships, the credit shall
15 be allocated among partners under regulations pre-
16 scribed by the Secretary.

17 “(f) NO DOUBLE BENEFIT.—

18 “(1) REDUCTION IN BASIS.—For purposes of
19 this subtitle—

20 “(A) IN GENERAL.—If a credit is deter-
21 mined under this section with respect to any
22 property by reason of expenditures described in
23 subsection (c)(1)(A), the basis of such property
24 shall be reduced by the amount of the credit so
25 determined.

1 “(B) CERTAIN DISPOSITIONS.—If during
2 any taxable year there is a recapture amount
3 determined with respect to any property the
4 basis of which was reduced under subparagraph
5 (A), the basis of such property (immediately be-
6 fore the event resulting in such recapture) shall
7 be increased by an amount equal to such recap-
8 ture amount. For purposes of the preceding
9 sentence, the term ‘recapture amount’ means
10 any increase in tax (or adjustment in
11 carrybacks or carryovers) determined under
12 subsection (d).

13 “(2) OTHER DEDUCTIONS AND CREDITS.—No
14 deduction or credit shall be allowed under any other
15 provision of this chapter with respect to the amount
16 of the credit determined under this section.”

17 (b) CONFORMING AMENDMENTS.—

18 (1) Section 38(b) is amended—

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

21 (B) by striking out the period at the end
22 of paragraph (12), and inserting a comma and
23 “plus”, and

24 (C) by adding at the end the following new
25 paragraph:

1 “(13) the employer-provided child care credit
2 determined under section 45D.”.

3 (2) The table of sections for subpart D of part
4 IV of subchapter A of chapter 1 is amended by add-
5 ing at the end the following new item:

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

6 (c) EFFECTIVE DATE.—The amendments made by
7 this section shall apply to taxable years beginning after
8 December 31, 2000.

9 **SEC. 206. MODIFICATION OF ALTERNATIVE MINIMUM TAX**
10 **FOR INDIVIDUALS.**

11 (a) NONREFUNDABLE PERSONAL CREDITS FULLY
12 ALLOWED AGAINST REGULAR TAX LIABILITY.—

13 (1) IN GENERAL.—Subsection (a) of section 26
14 (relating to limitation based on amount of tax) is
15 amended to read as follows:

16 “(a) LIMITATION BASED ON AMOUNT OF TAX.—The
17 aggregate amount of credits allowed by this subpart for
18 the taxable year shall not exceed the taxpayer’s regular
19 tax liability for the taxable year.”

20 (2) CHILD CREDIT.—Subsection (d) of section
21 24 is amended by striking paragraph (2) and by re-
22 designating paragraph (3) as paragraph (2).

23 (3) EFFECTIVE DATE.—The amendments made
24 by this subsection shall apply to taxable years begin-
25 ning after December 31, 1998.

1 (b) PERSONAL EXEMPTIONS ALLOWED IN COMPUT-
2 ING MINIMUM TAX.—

3 (1) IN GENERAL.—Subparagraph (E) of section
4 56(b)(1) is amended by striking “, the deduction for
5 personal exemptions under section 151,”.

6 (2) CONFORMING AMENDMENT.—The heading
7 to section 56(b)(1)(E) is amended by striking “AND
8 DEDUCTION FOR PERSONAL EXEMPTIONS”.

9 (3) EFFECTIVE DATE.—The amendments made
10 by this subsection shall apply to taxable years begin-
11 ning after December 31, 2004.

12 **TITLE III—RETIREMENT**
13 **SAVINGS TAX RELIEF**
14 **Subtitle A—Individual Retirement**
15 **Arrangements**

16 **SEC. 301. MODIFICATION OF DEDUCTION LIMITS FOR IRA**
17 **CONTRIBUTIONS.**

18 (a) INCREASE IN CONTRIBUTION LIMIT.—

19 (1) IN GENERAL.—Paragraph (1)(A) of section
20 219(b) (relating to maximum amount of deduction)
21 is amended by striking “\$2,000” and inserting “the
22 deductible amount”.

23 (2) DEDUCTIBLE AMOUNT.—Section 219(b) is
24 amended by adding at the end the following new
25 paragraph:

1 “(5) DEDUCTIBLE AMOUNT.—For purposes of
2 paragraph (1)(A)—

3 “(A) IN GENERAL.—The deductible
4 amount shall be determined in accordance with
5 the following table:

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

6 “(B) COST-OF-LIVING ADJUSTMENT.—

7 “(i) IN GENERAL.—In the case of any
8 taxable year beginning in a calendar year
9 after 2003, the \$5,000 amount under sub-
10 paragraph (A) shall be increased by an
11 amount equal to—

12 “(I) such dollar amount, multi-
13 plied by

14 “(II) the cost-of-living adjust-
15 ment determined under section 1(f)(3)
16 for the calendar year in which the tax-
17 able year begins, determined by sub-
18 stituting ‘calendar year 2002’ for ‘cal-
19 endar year 1992’ in subparagraph (B)
20 thereof.

21 “(ii) ROUNDING RULES.—If any
22 amount after adjustment under clause (i)
23 is not a multiple of \$100, such amount

1 shall be rounded to the next lower multiple
2 of \$100.”

3 (b) INCREASE IN ADJUSTED GROSS INCOME LIMITS
4 FOR ACTIVE PARTICIPANTS.—

5 (1) IN GENERAL.—Subparagraph (B) of section
6 219(g)(3) (relating to applicable dollar amount) is
7 amended to read as follows:

8 “(B) APPLICABLE DOLLAR AMOUNT.—The
9 term ‘applicable dollar amount’ means the fol-
10 lowing:

11 “(i) In the case of a taxpayer filing a
12 joint return:

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

13 “(ii) In the case of any other taxpayer
14 (other than a married individual filing a
15 separate return):

“For taxable years beginning in:	The applicable dollar amount is:
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.”

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

4 “(C) COST-OF-LIVING ADJUSTMENT.—

5 “(i) IN GENERAL.—In the case of any
6 taxable year beginning in a calendar year
7 after 2010, the \$94,000 amount in sub-
8 paragraph (B)(i) and the \$57,000 amount
9 in subparagraph(B)(ii) shall each be in-
10 creased by an amount equal to—

11 “(I) such dollar amount, multi-
12 plied by

13 “(II) the cost-of-living adjust-
14 ment determined under section 1(f)(3)
15 for the calendar year in which the tax-
16 able year begins, determined by sub-
17 stituting ‘calendar year 2009’ for ‘cal-
18 endar year 1992’ in subparagraph (B)
19 thereof.

20 “(ii) ROUNDING RULES.—If any
21 amount after adjustment under clause (i)
22 is not a multiple of \$1,000, such amount
23 shall be reduced to the next lowest multiple
24 of \$1,000.”

25 (c) CONFORMING AMENDMENTS.—

1 (1) Section 408(a)(1) is amended by striking
2 “in excess of \$2,000 on behalf of any individual”
3 and inserting “on behalf of any individual in excess
4 of the amount in effect for such taxable year under
5 section 219(b)(1)(A)”.

6 (2) Section 408(b)(2)(B) is amended by strik-
7 ing “\$2,000” and inserting “the dollar amount in
8 effect under section 219(b)(1)(A)”.

9 (3) Section 408(b) is amended by striking
10 “\$2,000” in the matter following paragraph (4) and
11 inserting “the dollar amount in effect under section
12 219(b)(1)(A)”.

13 (4) Section 408(j) is amended by striking
14 “\$2,000”.

15 (5) Section 408(p)(8) is amended by striking
16 “\$2,000” and inserting “the dollar amount in effect
17 under section 219(b)(1)(A)”

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

21 **SEC. 302. MODIFICATION OF INCOME LIMITS ON CON-**
22 **TRIBUTIONS AND ROLLOVERS TO ROTH IRAS.**

23 (a) REPEAL OF AGI LIMIT ON CONTRIBUTIONS.—
24 Section 408A(c)(3) (relating to limits based on modified
25 adjusted gross income) is amended by striking subpara-

1 graph (A) and by redesignating subparagraphs (B), (C),
2 and (D) as subparagraphs (A), (B), and (C), respectively.

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

7 “(A) ROLLOVER FROM IRA.—A taxpayer
8 shall not be allowed to make a qualified rollover
9 contribution from an individual retirement plan
10 other than a Roth IRA during any taxable year
11 if, for the taxable year of the distribution to
12 which the contribution relates, the taxpayer’s
13 adjusted gross income exceeds \$1,000,000.”

14 (c) CONFORMING AMENDMENTS.—

15 (1) Subparagraph (B) of section 408A(c)(3), as
16 redesignated by subsection (a) and as in effect be-
17 fore and after the amendments made by the Internal
18 Revenue Service Restructuring and Reform Act of
19 1998, is amended to read as follows:

20 “(B) DEFINITION OF ADJUSTED GROSS IN-
21 COME.—For purposes of subparagraph (A), ad-
22 justed gross income shall be determined—

23 “(i) after application of sections 86
24 and 469, and

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

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

7 “(b) MATCHING CONTRIBUTIONS WITH RESPECT TO
8 INDIVIDUAL DEVELOPMENT ACCOUNTS.—

9 “(1) IN GENERAL.—If an eligible individual es-
10 tablishes an Individual Development Account with a
11 qualified financial institution, the qualified financial
12 institution may deposit into a separate, parallel, in-
13 dividual or pooled matching account an eligible
14 matching contribution for the taxable year. The
15 qualified financial institution shall maintain a sepa-
16 rate accounting of matching contributions and earn-
17 ings thereon.

18 “(2) ELIGIBLE MATCHING CONTRIBUTION.—
19 For purposes of this section, the term ‘eligible
20 matching contribution’ means a dollar-for-dollar
21 match of the contributions made by the eligible indi-
22 vidual into the Individual Development Account de-
23 scribed in paragraph (1) with respect to any taxable
24 year.

1 “(3) ALLOWANCE OF CREDIT FOR ELIGIBLE
2 MATCHING CONTRIBUTIONS.—

3 “(A) IN GENERAL.—In the case of a quali-
4 fied financial institution, there shall be allowed
5 as a credit against the tax imposed by this
6 chapter for the taxable year an amount equal to
7 85 percent of the eligible matching contribu-
8 tions made by such institution with respect to
9 an eligible individual under this subsection for
10 such taxable year (determined without regard to
11 any amount described in paragraph (4)(B)). If
12 any amount determined under the preceding
13 sentence is not a multiple of \$10, such amount
14 shall be rounded to the next highest multiple of
15 \$10.

16 “(B) LIMITATION BASED ON AMOUNT OF
17 TAX.—The credit allowed under subparagraph
18 (A) for any taxable year shall not exceed the ex-
19 cess of—

20 “(i) the sum of the regular tax liabil-
21 ity (as defined in section 26(b)) plus the
22 tax imposed by section 55, over

23 “(ii) the sum of the credits allowable
24 under part IV of subchapter A of this
25 chapter.

1 “(C) CREDIT TREATED AS ALLOWED
2 UNDER PART IV OF SUBCHAPTER A.—For pur-
3 poses of subtitle F, the credit allowed under
4 subparagraph (A) shall be treated as a credit
5 allowable under part IV of subchapter A of this
6 chapter.

7 “(4) FORFEITURE OF MATCHING FUNDS.—

8 “(A) IN GENERAL.—Amounts in the
9 matching account established under this sub-
10 section for an eligible individual shall be re-
11 duced by the amount of any distribution from
12 an Individual Development Account of such in-
13 dividual which is not a qualified expense dis-
14 tribution and which is not recontributed as part
15 of a qualified rollover (as defined in subsection
16 (c)(2)(E)).

17 “(B) USE OF FORFEITED FUNDS.—Eligi-
18 ble matching contributions which are forfeited
19 by an eligible individual under subparagraph
20 (A) shall be used by the qualified financial in-
21 stitution to make eligible matching contribu-
22 tions for other Individual Development Account
23 contributions by eligible individuals.

24 “(5) EXCLUSION FROM INCOME.—Gross income
25 of an eligible individual shall not include any eligible

1 matching contribution and the earnings thereon de-
2 posited into a matching account under paragraph
3 (1) on behalf of such individual.

4 “(6) REGULAR REPORTING OF MATCHING CON-
5 TRIBUTIONS.—Any qualified financial institution
6 shall report eligible matching contributions to eligi-
7 ble individuals with Individual Development Ac-
8 counts on not less than a quarterly basis.

9 “(7) TERMINATION.—No eligible matching con-
10 tribution may be made for any taxable year begin-
11 ning after December 31, 2005.

12 “(c) QUALIFIED EXPENSE DISTRIBUTION.—For pur-
13 poses of this section—

14 “(1) IN GENERAL.—The term ‘qualified expense
15 distribution’ means any amount paid or distributed
16 out of an Individual Development Account and the
17 matching account established under subsection (b)
18 for an eligible individual if such amount—

19 “(A) is used exclusively to pay the quali-
20 fied expenses of such individual or such individ-
21 ual’s spouse or dependents,

22 “(B) is paid by the qualified financial in-
23 stitution directly to the person to whom the
24 amount is due or to another Individual Develop-
25 ment Account, and

1 “(C) is paid after the holder of the Individ-
2 ual Development Account has completed an eco-
3 nomic literacy course offered by the qualified fi-
4 nancial institution, a nonprofit organization, or
5 a government entity.

6 “(2) QUALIFIED EXPENSES.—

7 “(A) IN GENERAL.—The term ‘qualified
8 expenses’ means any of the following:

9 “(i) Qualified higher education ex-
10 penses.

11 “(ii) Qualified first-time homebuyer
12 costs.

13 “(iii) Qualified business capitalization
14 costs.

15 “(iv) Qualified rollovers.

16 “(B) QUALIFIED HIGHER EDUCATION EX-
17 PENSES.—

18 “(i) IN GENERAL.—The term ‘quali-
19 fied higher education expenses’ has the
20 meaning given such term by section
21 72(t)(7), determined by treating post-
22 secondary vocational educational schools as
23 eligible educational institutions.

24 “(ii) POSTSECONDARY VOCATIONAL
25 EDUCATION SCHOOL.—The term ‘post-

1 secondary vocational educational school'
2 means an area vocational education school
3 (as defined in subparagraph (C) or (D) of
4 section 521(4) of the Carl D. Perkins Vo-
5 cational and Applied Technology Education
6 Act (20 U.S.C. 2471(4))) which is in any
7 State (as defined in section 521(33) of
8 such Act), as such sections are in effect on
9 the date of the enactment of this section.

10 “(iii) COORDINATION WITH OTHER
11 BENEFITS.—The amount of qualified high-
12 er education expenses for any taxable year
13 shall be reduced as provided in section
14 25A(g)(2) and by the amount of such ex-
15 penses for which a credit or exclusion is al-
16 lowed under this chapter for such taxable
17 year.

18 “(C) QUALIFIED FIRST-TIME HOMEBUYER
19 COSTS.—The term ‘qualified first-time home-
20 buyer costs’ means qualified acquisition costs
21 (as defined in section 72(t)(8) without regard
22 to subparagraph (B) thereof) with respect to a
23 principal residence (within the meaning of sec-
24 tion 121) for a qualified first-time homebuyer
25 (as defined in section 72(t)(8)).

1 “(D) QUALIFIED BUSINESS CAPITALIZA-
2 TION COSTS.—

3 “(i) IN GENERAL.—The term ‘quali-
4 fied business capitalization costs’ means
5 qualified expenditures for the capitalization
6 of a qualified business pursuant to a quali-
7 fied business plan.

8 “(ii) QUALIFIED EXPENDITURES.—
9 The term ‘qualified expenditures’ means
10 expenditures included in a qualified busi-
11 ness plan, including capital, plant, equip-
12 ment, working capital and inventory ex-
13 penses.

14 “(iii) QUALIFIED BUSINESS.—The
15 term ‘qualified business’ means any busi-
16 ness that does not contravene any law.

17 “(iv) QUALIFIED BUSINESS PLAN.—
18 The term ‘qualified business plan’ means a
19 business plan which meets such require-
20 ments as the Secretary of Housing and
21 Urban Development may specify.

22 “(E) QUALIFIED ROLLOVERS.—The term
23 ‘qualified rollover’ means, with respect to any
24 distribution from an Individual Development
25 Account, the payment, within 120 days of such

1 distribution, of all or a portion of such distribu-
2 tion to such account or to another Individual
3 Development Account established in another
4 qualified financial institution for the benefit of
5 the eligible individual. Rules similar to the rules
6 of section 408(d)(3) (other than subparagraph
7 (C) thereof) shall apply for purposes of this
8 subparagraph.

9 “(d) DEFINITIONS AND SPECIAL RULES.—For pur-
10 poses of this section—

11 “(1) ELIGIBLE INDIVIDUAL.—

12 “(A) IN GENERAL.—The term ‘eligible in-
13 dividual’ means an individual who—

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

15 “(ii) is a citizen or legal resident of
16 the United States, and

17 “(iii) is a member of a household—

18 “(I) which is eligible for the
19 earned income tax credit under sec-
20 tion 32,

21 “(II) which is eligible for assist-
22 ance under a State program funded
23 under part A of title IV of the Social
24 Security Act, or

1 “(III) the gross income of which
2 does not exceed 60 percent of the area
3 median income (as determined by the
4 Department of Housing and Urban
5 Affairs) and the net worth of which
6 does not exceed \$10,000.

7 “(B) HOUSEHOLD.—The term ‘household’
8 means all individuals who share use of a dwell-
9 ing unit as primary quarters for living and eat-
10 ing separate from other individuals.

11 “(C) DETERMINATION OF NET WORTH.—

12 “(i) IN GENERAL.—For purposes of
13 subparagraph (A)(iii)(III), the net worth
14 of a household is the amount equal to—

15 “(I) the aggregate fair market
16 value of all assets that are owned in
17 whole or in part by any member of a
18 household, minus

19 “(II) the obligations or debts of
20 any member of the household.

21 “(ii) CERTAIN ASSETS DIS-
22 REGARDED.—For purposes of determining
23 the net worth of a household, a household’s
24 assets shall not be considered to include

1 the primary dwelling unit and 1 motor ve-
2 hicle owned by the household.

3 “(D) PROOF OF COMPENSATION AND STA-
4 TUS AS AN ELIGIBLE INDIVIDUAL.—Statements
5 under section 6051 and other forms specified
6 by the Secretary proving the eligible individual’s
7 wages and other compensation and the status of
8 the individual as an eligible individual shall be
9 presented to the custodian at the time of the es-
10 tablishment of the Individual Development Ac-
11 count and at least once annually thereafter.

12 “(2) QUALIFIED FINANCIAL INSTITUTION.—
13 The term ‘qualified financial institution’ means any
14 person authorized to be a trustee of any individual
15 retirement account under section 408(a)(2).

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

19 “(4) OTHER RULES TO APPLY.—Rules similar
20 to the rules of paragraphs (1), (2), and (3) of sec-
21 tion 219(f), section 220(f)(8), paragraphs (4) and
22 (6) of section 408(d), and section 408(m) shall apply
23 for purposes of this section.

24 “(5) REPORTS.—The custodian of an Individual
25 Development Account shall make such reports re-

1 regarding such account to the Secretary and to the in-
2 dividual for whom the account is maintained with re-
3 spect to contributions (and the years to which they
4 relate), distributions, and such other matters as the
5 Secretary may require under regulations. The re-
6 ports required by this paragraph—

7 “(A) shall be filed at such time and in
8 such manner as the Secretary prescribes in
9 such regulations, and

10 “(B) shall be furnished to individuals—

11 “(i) not later than January 31 of the
12 calendar year following the calendar year
13 to which such reports relate, and

14 “(ii) in such manner as the Secretary
15 prescribes in such regulations.

16 “(e) APPLICATION OF SECTION.—This section shall
17 apply to amounts paid to an Individual Development Ac-
18 count for any taxable year beginning after December 31,
19 2000, and before January 1, 2006.”

20 (b) TAX ON EXCESS CONTRIBUTIONS.—

21 (1) TAX IMPOSED.—Subsection (a) of section
22 4973 is amended by striking “or” at the end of
23 paragraph (3), adding “or” at the end of paragraph
24 (4), and inserting after paragraph (4) the following
25 new paragraph:

1 “(5) an Individual Development Account (with-
2 in the meaning of section 530A(a)),”.

3 (2) EXCESS CONTRIBUTIONS.—Section 4973 is
4 amended by adding at the end the following new
5 subsection:

6 “(g) INDIVIDUAL DEVELOPMENT ACCOUNTS.—For
7 purposes of this section, in the case of Individual Develop-
8 ment Accounts, the term ‘excess contributions’ means the
9 excess (if any) of—

10 “(1) the amount contributed for the taxable
11 year to the accounts (other than a qualified rollover,
12 as defined in section 530A(c)(2)(E)), over

13 “(2) the amount allowable as a contribution
14 under section 530A.

15 For purposes of this subsection, any contribution which
16 is distributed from the Individual Development Account
17 in a distribution to which rules similar to the rules of sec-
18 tion 408(d)(4) apply by reason of section 530A(d)(4) shall
19 be treated as an amount not contributed.”

20 (c) INFORMATION RELATING TO CERTAIN TRUSTS
21 AND ANNUITY PLANS.—Subsection (c) of section 6047 is
22 amended—

23 (1) by inserting “or section 530A” after “sec-
24 tion 219”; and

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

4 (d) FAILURE TO PROVIDE REPORTS ON INDIVIDUAL
5 DEVELOPMENT ACCOUNTS.—Paragraph (2) of section
6 6693(a) is amended by striking “and” at the end of sub-
7 paragraph (C), by striking the period and inserting “,
8 and” at the end of subparagraph (D), and by adding at
9 the end the following new subparagraph:

10 “(E) section 530(d)(5) (relating to Individ-
11 ual Development Accounts).”

12 (e) CLERICAL AMENDMENT.—The table of parts for
13 subchapter F of chapter 1 is amended by adding at the
14 end the following new item:

 “Part IX. Individual development accounts.”

15 (f) FUNDS IN ACCOUNTS DISREGARDED FOR PUR-
16 POSES OF CERTAIN MEANS-TESTED FEDERAL PRO-
17 GRAMS.—Notwithstanding any other provision of the In-
18 ternal Revenue Code of 1986 or the Social Security Act
19 that requires consideration of 1 or more financial cir-
20 cumstances of an individual, for the purpose of determin-
21 ing eligibility to receive, or the amount of, any assistance
22 or benefit authorized by such provision to be provided to
23 or for the benefit of such individual, contributions (includ-
24 ing earnings thereon) in any Individual Development Ac-

1 count and applicable matching account under section
2 530A of such Code shall be disregarded for such purpose.

3 (g) EFFECTIVE DATE.—The amendments made by
4 this section shall apply to taxable years beginning after
5 December 31, 2000.

6 **SEC. 304. CERTAIN COINS NOT TREATED AS COLLECTIBLES.**

7 (a) IN GENERAL.—Subparagraph (A) of section
8 408(m)(3) (relating to exception for certain coins and bul-
9 lion) is amended to read as follows:

10 “(A) any coin certified by a recognized
11 grading service and traded on a nationally rec-
12 ognized electronic network, or listed by a recog-
13 nized wholesale reporting service, and—

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

16 “(ii) issued under the laws of any
17 State, or”.

18 (b) EFFECTIVE DATE.—The amendment made by
19 this section shall apply to taxable years beginning after
20 December 31, 1999.

21 **Subtitle B—Expanding Coverage**

22 **SEC. 311. OPTION TO TREAT ELECTIVE DEFERRALS AS**
23 **AFTER-TAX CONTRIBUTIONS.**

24 (a) IN GENERAL.—Subpart A of part I of subchapter
25 D of chapter 1 (relating to deferred compensation, etc.)

1 tribution program unless the applicable retirement
2 plan—

3 “(A) establishes separate accounts (‘des-
4 ignated plus accounts’) for the designated plus
5 contributions of each employee and any earn-
6 ings properly allocable to the contributions, and

7 “(B) maintains separate recordkeeping
8 with respect to each account.

9 “(c) DEFINITIONS AND RULES RELATING TO DES-
10 IGNATED PLUS CONTRIBUTIONS.—For purposes of this
11 section—

12 “(1) DESIGNATED PLUS CONTRIBUTION.—The
13 term ‘designated plus contribution’ means any elec-
14 tive deferral which—

15 “(A) is excludable from gross income of an
16 employee without regard to this section, and

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

20 “(2) DESIGNATION LIMITS.—The amount of
21 elective deferrals which an employee may designate
22 under paragraph (1) shall not exceed the excess (if
23 any) of—

24 “(A) the maximum amount of elective de-
25 ferrals excludable from gross income of the em-

1 ployee for the taxable year (without regard to
2 this section), over

3 “(B) the aggregate amount of elective de-
4 ferrals of the employee for the taxable year
5 which the employee does not designate under
6 paragraph (1).

7 “(3) ROLLOVER CONTRIBUTIONS.—

8 “(A) IN GENERAL.—A rollover contribu-
9 tion of any payment or distribution from a des-
10 ignated plus account which is otherwise allow-
11 able under this chapter may be made only if the
12 contribution is to—

13 “(i) another designated plus account
14 of the individual from whose account the
15 payment or distribution was made, or

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

17 “(B) COORDINATION WITH LIMIT.—Any
18 rollover contribution to a designated plus ac-
19 count under subparagraph (A) shall not be
20 taken into account for purposes of paragraph
21 (1).

22 “(d) DISTRIBUTION RULES.—For purposes of this
23 title—

1 “(1) EXCLUSION.—Any qualified distribution
2 from a designated plus account shall not be includ-
3 ible in gross income.

4 “(2) QUALIFIED DISTRIBUTION.—For purposes
5 of this subsection—

6 “(A) IN GENERAL.—The term ‘qualified
7 distribution’ has the meaning given such term
8 by section 408A(d)(2)(A) (without regard to
9 clause (iv) thereof).

10 “(B) DISTRIBUTIONS WITHIN NONEXCLU-
11 SION PERIOD.—A payment or distribution from
12 a designated plus account shall not be treated
13 as a qualified distribution if such payment or
14 distribution is made within the 5-taxable-year
15 period beginning with the earlier of—

16 “(i) the 1st taxable year for which the
17 individual made a designated plus con-
18 tribution to any designated plus account
19 established for such individual under the
20 same applicable retirement plan, or

21 “(ii) if a rollover contribution was
22 made to such designated plus account from
23 a designated plus account previously estab-
24 lished for such individual under another
25 applicable retirement plan, the 1st taxable

1 year for which the individual made a des-
2 ignated plus contribution to such pre-
3 viously established account.

4 “(C) DISTRIBUTIONS OF EXCESS DEFER-
5 RALS AND EARNINGS.—The term ‘qualified dis-
6 tribution’ shall not include any distribution of
7 any excess deferral under section 402(g)(2) and
8 any income on the excess deferral.

9 “(3) AGGREGATION RULES.—Section 72 shall
10 be applied separately with respect to distributions
11 and payments from a designated plus account and
12 other distributions and payments from the plan.

13 “(e) OTHER DEFINITIONS.—For purposes of this
14 section—

15 “(1) APPLICABLE RETIREMENT PLAN.—The
16 term ‘applicable retirement plan’ means—

17 “(A) an employees’ trust described in sec-
18 tion 401(a) which is exempt from tax under
19 section 501(a), and

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

23 “(2) ELECTIVE DEFERRAL.—The term ‘elective
24 deferral’ means any elective deferral described in
25 subparagraph (A) or (C) of section 402(g)(3).”

1 (b) EXCESS DEFERRALS.—Section 402(g) (relating
2 to limitation on exclusion for elective deferrals) is amend-
3 ed—

4 (1) by adding at the end of paragraph (1) the
5 following new sentence: “The preceding sentence
6 shall not apply to so much of such excess as does
7 not exceed the designated plus contributions of the
8 individual for the taxable year.”, and

9 (2) by inserting “(or would be included but for
10 the last sentence thereof)” after “paragraph (1)” in
11 paragraph (2)(A).

12 (c) ROLLOVERS.—Subparagraph (B) of section
13 402(c)(8) is amended by adding at the end the following:

14 “If any portion of an eligible rollover distribu-
15 tion is attributable to payments or distributions
16 from a designated plus account (as defined in
17 section 402A), an eligible retirement plan with
18 respect to such portion shall include only an-
19 other designated plus account and a Roth
20 IRA.”

21 (d) REPORTING REQUIREMENTS.—

22 (1) W-2 INFORMATION.—Section 6051(a)(8) is
23 amended by inserting “, including the amount of
24 designated plus contributions (as defined in section
25 402A)” before the comma at the end.

1 (2) INFORMATION.—Section 6047 is amended
2 by redesignating subsection (f) as subsection (g) and
3 by inserting after subsection (e) the following new
4 subsection:

5 “(f) DESIGNATED PLUS CONTRIBUTIONS.—The Sec-
6 retary shall require the plan administrator of each applica-
7 ble retirement plan (as defined in section 402A) to make
8 such returns and reports regarding designated plus con-
9 tributions (as so defined) to the Secretary, participants
10 and beneficiaries of the plan, and such other persons as
11 the Secretary may prescribe.”

12 (e) CONFORMING AMENDMENTS.—

13 (1) Section 408A(e) is amended by adding after
14 the first sentence the following new sentence: “Such
15 term includes a rollover contribution described in
16 section 402A(c)(3)(A).”

17 (2) The table of sections for subpart A of part
18 I of subchapter D of chapter 1 is amended by insert-
19 ing after the item relating to section 402 the follow-
20 ing new item:

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

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

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

25 (a) ELECTIVE DEFERRALS.—

1 (1) IN GENERAL.—Paragraph (1) of section
2 402(g) (relating to limitation on exclusion for elec-
3 tive deferrals) is amended to read as follows:

4 “(1) IN GENERAL.—

5 “(A) LIMITATION.—Notwithstanding sub-
6 sections (e)(3) and (h)(1)(B), the elective defer-
7 rals of any individual for any taxable year shall
8 be included in such individual’s gross income to
9 the extent the amount of such deferrals for the
10 taxable year exceeds the applicable dollar
11 amount.

12 “(B) APPLICABLE DOLLAR AMOUNT.—For
13 purposes of subparagraph (A), the applicable
14 dollar amount shall be the amount determined
15 in accordance with the following table:

“For taxable years beginning in calendar year:	The applicable dollar amount is:
2001	\$11,000
2002	\$12,000
2003	\$13,000
2004	\$14,000
2005 or thereafter	\$15,000.”

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

18 “(5) COST-OF-LIVING ADJUSTMENT.—In the
19 case of taxable years beginning after December 31,
20 2005, the Secretary shall adjust the \$15,000
21 amount under paragraph (1)(B) at the same time
22 and in the same manner as under section 415(d);

1 except that the base period shall be the calendar
2 quarter beginning July 1, 2004, and any increase
3 under this paragraph which is not a multiple of
4 \$500 shall be rounded to the next lowest multiple of
5 \$500.”

6 (3) CONFORMING AMENDMENTS.—

7 (A) Section 402(g) (relating to limitation
8 on exclusion for elective deferrals), as amended
9 by paragraphs (1) and (2), is further amended
10 by striking paragraph (4) and redesignating
11 paragraphs (5), (6), (7), (8), and (9) as para-
12 graphs (4), (5), (6), (7), and (8), respectively.

13 (B) Paragraph (2) of section 457(c) is
14 amended by striking “402(g)(8)(A)(iii)” and in-
15 serting “402(g)(7)(A)(iii)”.

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

19 (b) DEFERRED COMPENSATION PLANS OF STATE
20 AND LOCAL GOVERNMENTS AND TAX-EXEMPT ORGANI-
21 ZATIONS.—

22 (1) IN GENERAL.—Section 457 (relating to de-
23 ferred compensation plans of State and local govern-
24 ments and tax-exempt organizations) is amended—

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

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

7 (2) APPLICABLE DOLLAR AMOUNT; COST-OF-
 8 LIVING ADJUSTMENT.—Paragraph (15) of section
 9 457(e) is amended to read as follows:

10 “(15) APPLICABLE DOLLAR AMOUNT.—

11 “(A) IN GENERAL.—The applicable dollar
 12 amount shall be the amount determined in ac-
 13 cordance with the following table:

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

14 “(B) COST-OF-LIVING ADJUSTMENTS.—In
 15 the case of taxable years beginning after De-
 16 cember 31, 2004, the Secretary shall adjust the
 17 \$12,000 amount specified in the table in sub-
 18 paragraph (A) at the same time and in the
 19 same manner as under section 415(d), except
 20 that the base period shall be the calendar quar-
 21 ter beginning July 1, 2003, and any increase
 22 under this paragraph which is not a multiple of

1 as under section 415(d), except that the
2 base period taken into account shall be the
3 calendar quarter beginning July 1, 2003,
4 and any increase under this subparagraph
5 which is not a multiple of \$500 shall be
6 rounded to the next lower multiple of
7 \$500.”

8 (3) CONFORMING AMENDMENTS.—

9 (A) Subclause (I) of section
10 401(k)(11)(B)(i) is amended by striking
11 “\$6,000” and inserting “the amount in effect
12 under section 408(p)(2)(A)(ii)”.

13 (B) Section 401(k)(11) is amended by
14 striking subparagraph (E).

15 (d) EFFECTIVE DATE.—The amendments made by
16 this section shall apply to years beginning after December
17 31, 2000.

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

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

24 “(iii) LOAN EXCEPTION.—For pur-
25 poses of subparagraph (A)(i), the term

1 or (9) of subsection (a), and such elective deferrals shall
2 not be taken into account in applying any such limitation
3 to any other contributions.”

4 (b) EFFECTIVE DATE.—The amendment made by
5 this section shall apply to years beginning after December
6 31, 2000.

7 **SEC. 315. REDUCED PBGC PREMIUM FOR NEW PLANS OF**
8 **SMALL EMPLOYERS.**

9 (a) IN GENERAL.—Subparagraph (A) of section
10 4006(a)(3) of the Employee Retirement Income Security
11 Act of 1974 (29 U.S.C. 1306(a)(3)(A)) is amended—

12 (1) in clause (i), by inserting “other than a new
13 single-employer plan (as defined in subparagraph
14 (F)) maintained by a small employer (as so de-
15 fined),” after “single-employer plan,”

16 (2) in clause (iii), by striking the period at the
17 end and inserting “, and”, and

18 (3) by adding at the end the following new
19 clause:

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

1 (b) DEFINITION OF NEW SINGLE-EMPLOYER
2 PLAN.—Section 4006(a)(3) of the Employee Retirement
3 Income Security Act of 1974 (29 U.S.C. 1306(a)(3)) is
4 amended by adding at the end the following new subpara-
5 graph:

6 “(F)(i) For purposes of this paragraph, a single-em-
7 ployer plan maintained by a contributing sponsor shall be
8 treated as a new single-employer plan for each of its first
9 5 plan years if, during the 36-month period ending on the
10 date of the adoption of such plan, the sponsor or any
11 member of such sponsor’s controlled group (or any prede-
12 cessor of either) had not established or maintained a plan
13 to which this title applies with respect to which benefits
14 were accrued for substantially the same employees as are
15 in the new single-employer plan.

16 “(ii)(I) For purposes of this paragraph, the term
17 ‘small employer’ means an employer which on the first day
18 of any plan year has, in aggregation with all members of
19 the controlled group of such employer, 100 or fewer em-
20 ployees.

21 “(II) In the case of a plan maintained by 2 or more
22 contributing sponsors that are not part of the same con-
23 trolled group, the employees of all contributing sponsors
24 and controlled groups of such sponsors shall be aggregated

1 for purposes of determining whether any contributing
2 sponsor is a small employer.”

3 (c) EFFECTIVE DATE.—The amendments made by
4 this section shall apply to plans established after Decem-
5 ber 31, 2000.

6 **SEC. 316. REDUCTION OF ADDITIONAL PBGC PREMIUM FOR**
7 **NEW PLANS.**

8 (a) IN GENERAL.—Subparagraph (E) of section
9 4006(a)(3) of the Employee Retirement Income Security
10 Act of 1974 (29 U.S.C. 1306(a)(3)(E)) is amended by
11 adding at the end the following new clause:

12 “(v) In the case of a new defined benefit plan, the
13 amount determined under clause (ii) for any plan year
14 shall be an amount equal to the product of the amount
15 determined under clause (ii) and the applicable percent-
16 age. For purposes of this clause, the term ‘applicable per-
17 centage’ means—

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

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

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

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

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

23 For purposes of this clause, a defined benefit plan (as de-
24 fined in section 3(35)) maintained by a contributing spon-
25 sor shall be treated as a new defined benefit plan for its

1 first 5 plan years if, during the 36-month period ending
2 on the date of the adoption of the plan, the sponsor and
3 each member of any controlled group including the spon-
4 sor (or any predecessor of either) did not establish or
5 maintain a plan to which this title applies with respect
6 to which benefits were accrued for substantially the same
7 employees as are in the new plan.”

8 (b) **EFFECTIVE DATE.**—The amendments made by
9 this section shall apply to plans established after Decem-
10 ber 31, 2000.

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

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

22 (b) **NEW PENSION BENEFIT PLAN.**—For purposes of
23 this section—

24 (1) **IN GENERAL.**—The term “new pension ben-
25 efit plan” means a pension, profit-sharing, stock

1 bonus, annuity, or employee stock ownership plan
2 which is maintained by one or more eligible employ-
3 ers if such employer (or any predecessor employer)
4 has not made a prior request described in subsection
5 (a) for such plan (or any predecessor plan).

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

14 (c) EFFECTIVE DATE.—The provisions of this section
15 shall apply with respect to requests made after December
16 31, 2000.

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

18 (a) IN GENERAL.—Subpart A of part I of subchapter
19 D of chapter 1 (relating to deferred compensation, etc.)
20 is amended by inserting after section 408A the following
21 new section:

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

23 “(a) EMPLOYER ELIGIBILITY.—

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

4 “(A) the employer is an eligible employer
5 (as defined in section 408(p)(2)(C)), and

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

15 “(2) DEFINITIONS.—For purposes of paragraph
16 (1)—

17 “(A) QUALIFIED PLAN.—The term ‘quali-
18 fied plan’ has the meaning given such term by
19 section 408(p)(2)(D)(ii).

20 “(B) PERMISSIBLE PLAN.—The term ‘per-
21 missible plan’ means—

22 “(i) a SIMPLE plan described in sec-
23 tion 408(p),

24 “(ii) a SIMPLE 401(k) plan de-
25 scribed in section 401(k)(11),

1 “(iii) an eligible deferred compensa-
2 tion plan described in section 457(b),

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

8 “(v) a plan under which there may be
9 made only—

10 “(I) elective deferrals described
11 in section 402(g)(3), and

12 “(II) employer matching con-
13 tributions not in excess of the
14 amounts described in subclauses (I)
15 and (II) of section 401(k)(12)(B)(i).

16 “(b) SAFE ANNUITY.—

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

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

1 “(B) the only contributions to such annu-
2 ity (other than rollover contributions) are em-
3 ployer contributions.

4 Nothing in this section shall be construed as pre-
5 venting an employer from using a group annuity
6 contract which is divisible into individual retirement
7 annuities for purposes of providing SAFE annuities.

8 “(2) PARTICIPATION REQUIREMENTS.—

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

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

15 “(ii) received at least \$5,000 in com-
16 pensation during the year,

17 are entitled to the benefit described in para-
18 graph (5) for such year.

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

23 “(3) VESTING.—The requirements of this para-
24 graph are met if the employee’s rights to any bene-
25 fits under the annuity are nonforfeitable.

1 “(4) BENEFIT FORM.—

2 “(A) IN GENERAL.—The requirements of
3 this paragraph are met if the only form of bene-
4 fit is—

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

9 “(ii) at the election of the participant,
10 any other form of benefit which is the ac-
11 tuarial equivalent (based on the assump-
12 tions specified in the SAFE annuity) of
13 the benefit described in clause (i).

14 The requirements of section 401(a)(11) shall
15 apply to the benefits described in this subpara-
16 graph.

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

22 “(5) AMOUNT OF ANNUAL ACCRUED BENE-
23 FIT.—

24 “(A) IN GENERAL.—The requirements of
25 this paragraph are met for any year if the ac-

1 crued benefit of each participant derived from
2 employer contributions for such year, when ex-
3 pressed as a benefit described in paragraph
4 (4)(A), is not less than the applicable percent-
5 age of the participant's compensation for such
6 year.

7 “(B) APPLICABLE PERCENTAGE.—For
8 purposes of this paragraph—

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

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

20 “(C) COMPENSATION LIMIT.—The com-
21 pensation taken into account under this para-
22 graph for any year shall not exceed the limita-
23 tion in effect for such year under section
24 401(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 num-
5 ber of years of service (not greater than
6 10) performed before the adoption of the
7 plan (each hereinafter referred to as a
8 ‘prior service year’) as service under the
9 plan if the same specified number of years
10 is available to all employees eligible to par-
11 ticipate in the plan for the first plan year.

12 “(ii) ACCRUAL OF PRIOR SERVICE
13 BENEFIT.—Such an election shall be effec-
14 tive for a prior service year only if the re-
15 quirements of this paragraph are met for
16 an eligible plan year (with respect to em-
17 ployees entitled to credit for such prior
18 service year) by doubling the applicable
19 percentage (if any) for such plan year. For
20 purposes of the preceding sentence, an eli-
21 gible plan year is a plan year in the period
22 of consecutive plan years (but not more
23 than the number specified under clause (i))
24 beginning with the first plan year that the
25 plan is in effect.

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

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

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

16 “(6) FUNDING.—

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

24 “(B) TIME WHEN CONTRIBUTIONS
25 DEEMED MADE.—For purposes of this para-

1 graph, an employer shall be deemed to have
2 made a contribution on the last day of the pre-
3 ceding taxable year if the payment is on ac-
4 count of such taxable year and is made not
5 later than the time prescribed by law for filing
6 the return for such taxable year (including ex-
7 tensions thereof).

8 “(C) PENALTY FOR FAILURE TO MAKE RE-
9 QUIRED CONTRIBUTION.—The taxes imposed by
10 section 4971 shall apply to a failure to make
11 the contribution required by this paragraph in
12 the same manner as if the amount of the failure
13 were an accumulated funding deficiency to
14 which such section applies.

15 “(7) LIMITATION ON DISTRIBUTIONS.—The re-
16 quirements of this paragraph are met only if pay-
17 ments under the contract may be made only after
18 the employee attains age 65 or when the employee
19 separates from service, dies, or becomes disabled
20 (within the meaning of section 72(m)(7)).

21 “(c) SAFE TRUST.—

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

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

3 “(B) a participant’s benefits under the
4 plan are based solely on the balance of a sepa-
5 rate account in such plan of such participant,

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

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

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

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

18 “(4) BENEFIT FORM.—

19 “(A) IN GENERAL.—Except as provided in
20 subparagraph (B), a plan meets the require-
21 ments of this paragraph only if the trustee dis-
22 tributes a SAFE annuity that satisfies sub-
23 section (b)(4) where the annual benefit de-
24 scribed in subsection (b)(4)(A) is not less than

1 the accrued benefit determined under para-
2 graph (5).

3 “(B) DIRECT TRANSFERS TO INDIVIDUAL
4 RETIREMENT PLAN OR SAFE ANNUITY.—A plan
5 shall not fail to meet the requirements of this
6 paragraph by reason of permitting, as an op-
7 tional form of benefit, the distribution of the
8 entire balance to the credit of the employee. If
9 the employee is under age 65, such distribution
10 must be in the form of a direct trustee-to-trust-
11 ee transfer to a SAFE annuity, another SAFE
12 trust, or a SAFE rollover plan (or, in the case
13 of a distribution that does not exceed the dollar
14 limit in effect under section 411(a)(11)(A), any
15 other individual retirement plan).

16 “(C) SAFE ROLLOVER PLAN.—For pur-
17 poses of this section, the term ‘SAFE rollover
18 plan’ means an individual retirement plan for
19 the benefit of the employee to which a rollover
20 was made from a SAFE annuity, SAFE trust,
21 or another SAFE rollover plan.

22 “(5) AMOUNT OF ANNUAL ACCRUED BENE-
23 FIT.—A plan meets the requirements of this para-
24 graph for any year only if the requirements of sub-
25 section (b)(5) are met for such year.

1 “(6) FUNDING.—

2 “(A) IN GENERAL.—A plan meets the re-
3 quirements of this paragraph for any year only
4 if—

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

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

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

23 “(B) UNFUNDED ANNUITY AMOUNT.—For
24 purposes of this paragraph, the term ‘unfunded
25 annuity amount’ means, with respect to the ac-

1 count of any participant for whom an annuity
2 is being purchased, the excess (if any) of—

3 “(i) the amount necessary to purchase
4 an annuity contract which meets the re-
5 quirements of subsection (b)(4) in the
6 amount of the participant’s accrued benefit
7 determined under paragraph (5), over

8 “(ii) the balance in such account at
9 the time such contract is purchased.

10 “(C) UNFUNDED PRIOR YEAR LIABIL-
11 ITY.—For purposes of this paragraph, the term
12 ‘unfunded prior year liability’ means, with re-
13 spect to any plan year, the excess (if any) of—

14 “(i) the aggregate of the present value
15 of the accrued liabilities under the plan as
16 of the close of the prior plan year, over

17 “(ii) the value of the plan’s assets de-
18 termined under section 412(c)(2) as of the
19 close of the plan year (determined without
20 regard to any contributions for such plan
21 year).

22 Such present value shall be determined using
23 the assumptions specified in subparagraph (D).

1 “(D) ACTUARIAL ASSUMPTIONS.—In deter-
2 mining the amount required to be contributed
3 under subparagraph (A)—

4 “(i) the assumed interest rate shall be
5 not less than 3 percent, and not greater
6 than 5 percent, per year,

7 “(ii) the assumed mortality shall be
8 determined under the applicable mortality
9 table (as defined in section 417(e)(3), as
10 modified by the Secretary so that it does
11 not include any assumption for preretire-
12 ment mortality), and

13 “(iii) the assumed retirement age
14 shall be 65.

15 “(E) CHANGES IN MORTALITY TABLE.—If,
16 for purposes of this subsection, the applicable
17 mortality table under section 417(e)(3) for any
18 plan year is not the same as such table for the
19 prior plan year, the Secretary shall prescribe
20 regulations for such purposes which phase in
21 the effect of the changes over a reasonable pe-
22 riod of plan years determined by the Secretary.

23 “(F) PENALTY FOR FAILURE TO MAKE RE-
24 QUIRED CONTRIBUTION.—The taxes imposed by
25 section 4971 shall apply to a failure to make

1 the contribution required by this paragraph in
2 the same manner as if the amount of the failure
3 were an accumulated funding deficiency to
4 which such section applies.

5 “(7) SEPARATE ACCOUNTS FOR PARTICI-
6 PANTS.—A plan meets the requirements of this
7 paragraph for any year only if the plan provides—

8 “(A) for an individual account for each
9 participant, and

10 “(B) for benefits based solely on—

11 “(i) the amount contributed to the
12 participant’s account,

13 “(ii) any income, expenses, gains and
14 losses, and any forfeitures of accounts of
15 other participants which may be allocated
16 to such participant’s account, and

17 “(iii) the amount of any unfunded an-
18 nuity amount with respect to the partici-
19 pant.

20 “(8) TRUST MAY NOT HOLD SECURITIES WHICH
21 ARE NOT READILY TRADABLE.—A plan meets the
22 requirements of this paragraph only if the plan pro-
23 hibits the trust from holding directly or indirectly se-
24 curities which are not readily tradable on an estab-
25 lished securities market or otherwise. Nothing in

1 this paragraph shall prohibit the trust from holding
2 insurance company products regulated by State law.

3 “(d) SPECIAL RULES FOR SAFE ANNUITIES AND
4 TRUSTS.—

5 “(1) CERTAIN REQUIREMENTS TREATED AS
6 MET.—For purposes of section 401(a), a SAFE an-
7 nuity and a SAFE trust shall be treated as meeting
8 the requirements of the following provisions:

9 “(A) Section 401(a)(4) (relating to non-
10 discrimination rules).

11 “(B) Section 401(a)(26) (relating to mini-
12 mum participation).

13 “(C) Section 410 (relating to minimum
14 participation and coverage requirements).

15 “(D) Section 411(b) (relating to accrued
16 benefit requirements).

17 “(E) Section 412 (relating to minimum
18 funding standards).

19 “(F) Section 415 (relating to limitations
20 on benefits and contributions under qualified
21 plans).

22 “(G) Section 416 (relating to special rules
23 for top-heavy plans).

24 “(2) CONTRIBUTIONS NOT TAKEN INTO AC-
25 COUNT IN APPLYING LIMITS TO OTHER PLANS.—

1 “(A) DEDUCTION LIMITS.—Contributions
2 to a SAFE annuity or a SAFE trust shall not
3 be taken into account in applying sections 404
4 to other plans maintained by the employer.

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

8 “(3) USE OF DESIGNATED FINANCIAL INSTITU-
9 TIONS.—A rule similar to the rule of section
10 408(p)(7) (without regard to the last sentence there-
11 of) shall apply for purposes of this section.

12 “(4) DEFINITIONS.—The definitions in section
13 408(p)(6) shall apply for purposes of this section.”

14 (b) DEDUCTION LIMITS NOT TO APPLY TO EM-
15 PLOYER CONTRIBUTIONS.—

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

20 “(o) SPECIAL RULES FOR SAFE ANNUITIES.—

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

24 “(2) DEDUCTIBLE LIMIT.—For purposes of
25 subsection (a)(1)(A)(i), the amount necessary to sat-

1 isfy the minimum funding requirement of section
2 408B(b)(6) or (c)(6) shall be treated as the amount
3 necessary to satisfy the minimum funding require-
4 ment of section 412.”

5 (2) COORDINATION WITH DEDUCTION UNDER
6 SECTION 219.—

7 (A) Section 219(b) (relating to maximum
8 amount of deduction), as amended by section
9 301, is amended by adding at the end the fol-
10 lowing new paragraph:

11 “(6) SPECIAL RULE FOR SAFE ANNUITIES.—
12 This section shall not apply with respect to any
13 amount contributed to a SAFE annuity established
14 under section 408B(b).”

15 (B) Section 219(g)(5)(A) (defining active
16 participant) is amended by striking “or” at the
17 end of clause (v) and by adding at the end the
18 following new clause:

19 “(vii) any SAFE annuity (within the
20 meaning of section 408B), or”.

21 (c) CONTRIBUTIONS AND DISTRIBUTIONS.—

22 (1) Section 402 (relating to taxability of bene-
23 ficiary of employees’ trust) is amended by adding at
24 the end the following new subsection:

1 “(1) TREATMENT OF SAFE ANNUITIES.—Rules simi-
2 lar to the rules of paragraphs (1) and (3) of subsection
3 (h) shall apply to contributions and distributions with re-
4 spect to a SAFE annuities under section 408B.”

5 (2) Section 408(d)(3) is amended by adding at
6 the end the following new subparagraph:

7 “(H) SAFE ANNUITIES.—This paragraph
8 shall not apply to any amount paid or distrib-
9 uted out of a SAFE annuity (as defined in sec-
10 tion 408B) unless it is paid in a trustee-to-
11 trustee transfer into another SAFE annuity.”

12 (d) INCREASED PENALTY ON EARLY WITHDRAW-
13 ALS.—Section 72(t) (relating to additional tax on early
14 distributions) is amended by adding at the end the follow-
15 ing new paragraph:

16 “(7) SPECIAL RULES FOR SAFE ANNUITIES AND
17 TRUSTS.—In the case of any amount received from
18 a SAFE annuity or a SAFE trust (within the mean-
19 ing of section 408B), paragraph (1) shall be applied
20 by substituting ‘20 percent’ for ‘10 percent’.”

21 (e) SIMPLIFIED EMPLOYER REPORTS.—

22 (1) SAFE ANNUITIES.—Section 408(l) (relating
23 to simplified employer reports) is amended by add-
24 ing at the end the following new paragraph:

25 “(3) SAFE ANNUITIES.—

1 “(A) SIMPLIFIED REPORT.—The employer
2 maintaining any SAFE annuity (within the
3 meaning of section 408B) shall file a simplified
4 annual return with the Secretary containing
5 only the information described in subparagraph
6 (B).

7 “(B) CONTENTS.—The return required by
8 subparagraph (A) shall set forth—

9 “(i) the name and address of the em-
10 ployer,

11 “(ii) the date the plan was adopted,

12 “(iii) the number of employees of the
13 employer,

14 “(iv) the number of such employees
15 who are eligible to participate in the plan,

16 “(v) the total amount contributed by
17 the employer to each such annuity for such
18 year and the minimum amount required
19 under section 408B to be so contributed,

20 “(vi) the percentage elected under sec-
21 tion 408B(b)(5)(B), and

22 “(vii) the number of employees with
23 respect to whom contributions are required
24 to be made for such year under section
25 408B(b)(5)(D).

1 “(C) REPORTING BY ISSUER OF SAFE AN-
2 NUITY.—

3 “(i) IN GENERAL.—The issuer of each
4 SAFE annuity shall provide to the owner
5 of the annuity for each year a statement
6 setting forth as of the close of such year—

7 “(I) the benefits guaranteed at
8 age 65 under the annuity, and

9 “(II) the cash surrender value of
10 the annuity.

11 “(ii) SUMMARY DESCRIPTION.—The
12 issuer of any SAFE annuity shall provide
13 to the employer maintaining the annuity
14 for each year a description containing the
15 following information:

16 “(I) The name and address of
17 the employer and the issuer.

18 “(II) The requirements for eligi-
19 bility for participation.

20 “(III) The benefits provided with
21 respect to the annuity.

22 “(IV) The procedures for, and ef-
23 fects of, withdrawals (including roll-
24 overs) from the annuity.

1 “(D) TIME AND MANNER OF REPORT-
2 ING.—Any return, report, or statement required
3 under this paragraph shall be made in such
4 form and at such time as the Secretary shall
5 prescribe.”

6 (2) SAFE TRUSTS.—Section 6059 (relating to
7 actuarial reports) is amended by redesignating sub-
8 sections (c) and (d) as subsections (d) and (e), re-
9 spectively, and by inserting after subsection (b) the
10 following new subsection:

11 “(c) SAFE TRUSTS.—In the case of a SAFE trust
12 (within the meaning of section 408B), the Secretary shall
13 require a simplified actuarial report which contains infor-
14 mation similar to the information required in section
15 408(l)(3)(B).”

16 (f) CONFORMING AMENDMENTS.—

17 (1) Section 280G(b)(6) is amended by striking
18 “or” at the end of subparagraph (C), by striking the
19 period at the end of subparagraph (D) and inserting
20 “, or” and by adding after subparagraph (D) the
21 following new subparagraph:

22 “(E) a SAFE annuity described in section
23 408B.”

1 (2) Clause (ii) of section 408(p)(2)(D) is
2 amended by inserting before the period “(other than
3 clause (vii) of such subparagraph (A))”.

4 (3) Subsections (b), (c), (m)(4)(B), and
5 (n)(3)(B) of section 414 are each amended by in-
6 serting “408B,” after “408(p),”.

7 (4) Section 4972(d)(1)(A) is amended by strik-
8 ing “and” at the end of clause (iii), by striking the
9 period at the end of clause (iv) and inserting “,
10 and”, and by adding after clause (iv) the following
11 new clause:

12 “(v) any SAFE annuity (within the
13 meaning of section 408B).”

14 (5) The table of sections for subpart A of part
15 I of subchapter D of chapter 1 is amended by insert-
16 ing after the item relating to section 408A the fol-
17 lowing new item:

 “Sec. 408B. SAFE annuities and trusts.”

18 (g) MODIFICATIONS OF ERISA.—

19 (1) EXEMPTION FROM INSURANCE COV-
20 ERAGE.—Subsection (b) of section 4021 of the Em-
21 ployee Retirement Income Security Act of 1974 (29
22 U.S.C. 1321) is amended by striking “or” at the end
23 of paragraph (12), by striking the period at the end
24 of paragraph (13) and inserting “; or”, and by add-
25 ing at the end the following new paragraph:

1 “(14) which is established and maintained as
2 part of a SAFE trust (as defined in section 408B
3 of the Internal Revenue Code of 1986).”

4 (2) REPORTING REQUIREMENTS.—Section 101
5 of such Act (29 U.S.C. 1021) is amended by redес-
6 ignating the second subsection (h) as subsection (j)
7 and by inserting after the first subsection (h) the
8 following new subsection:

9 “(i) SAFE ANNUITIES.—

10 “(1) NO EMPLOYER REPORTS.—Except as pro-
11 vided in this subsection, no report shall be required
12 under this section by an employer maintaining a
13 SAFE annuity under section 408B(b) of the Inter-
14 nal Revenue Code of 1986.

15 “(2) SUMMARY DESCRIPTION.—The issuer of
16 any SAFE annuity shall provide to the employer
17 maintaining the annuity for each year a description
18 containing the following information:

19 “(A) The name and address of the em-
20 ployer and the issuer.

21 “(B) The requirements for eligibility for
22 participation.

23 “(C) The benefits provided with respect to
24 the annuity.

1 “(D) The procedures for, and effects of,
2 withdrawals (including rollovers) from the an-
3 nuity.

4 “(3) EMPLOYEE NOTIFICATION.—The employer
5 shall provide each employee eligible to participate in
6 the SAFE annuity with the description described in
7 paragraph (2) at the same time as the notification
8 required under section 408B(b)(5)(B) of the Inter-
9 nal Revenue Code of 1986.”

10 (3) WAIVER OF FUNDING STANDARDS.—Section
11 301(a) of such Act (29 U.S.C. 1081) is amended by
12 striking “or” at the end of paragraph (9), by strik-
13 ing the period at the end of paragraph (10) and in-
14 serting “; or”, and by adding at the end the follow-
15 ing new paragraph:

16 “(11) any plan providing for the purchase of
17 any SAFE annuity or any SAFE trust (as such
18 terms are defined in section 408B of such Code).”

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

22 **SEC. 319. MODIFICATION OF TOP-HEAVY RULES.**

23 (a) MATCHING CONTRIBUTIONS TAKEN INTO AC-
24 COUNT FOR MINIMUM CONTRIBUTION REQUIREMENTS.—
25 Section 416(c)(2)(A) (relating to defined contribution

1 plans) is amended by adding at the end the following:
2 “Employer matching contributions (as defined in section
3 401(m)(4)(A)) shall be taken into account for purposes
4 of this subparagraph.”.

5 (b) ELIMINATION OF FAMILY ATTRIBUTION.—Sec-
6 tion 416(i)(1)(B) (defining 5-percent owner) is amended
7 by adding at the end the following new clause:

8 “(iv) FAMILY ATTRIBUTION DIS-
9 REGARDED.—Solely for purposes of apply-
10 ing this paragraph (and not for purposes
11 of any provision of this title which incor-
12 porates by reference the definition of a key
13 employee or 5-percent owner under this
14 paragraph), section 318 shall be applied
15 without regard to subsection (a)(1) thereof
16 in determining whether any person is a 5-
17 percent owner.”

18 (c) DEFINITION OF TOP-HEAVY PLANS.—Paragraph
19 (4) of section 416(g) (relating to other special rules for
20 top-heavy plans) is amended by adding at the end the fol-
21 lowing new subparagraph:

22 “(H) CASH OR DEFERRED ARRANGEMENTS
23 USING ALTERNATIVE METHODS OF MEETING
24 NONDISCRIMINATION REQUIREMENTS.—The

1 term ‘top-heavy plan’ shall not include a plan
2 which consists solely of—

3 “(i) a cash or deferred arrangement
4 which meets the requirements of section
5 401(k)(12), and

6 “(ii) matching contributions with re-
7 spect to which the requirements of section
8 401(m)(11) are met.

9 If, but for this subparagraph, a plan would be
10 treated as a top-heavy plan because it is a
11 member of an aggregation group which is a top-
12 heavy group, contributions under the plan may
13 be taken into account in determining whether
14 any other plan in the group meets the require-
15 ments of subsection (c)(2).”

16 (d) EFFECTIVE DATE.—The amendments made by
17 this section shall apply to plan years beginning after De-
18 cember 31, 2000.

19 **Subtitle C—Enhancing Fairness for** 20 **Women**

21 **SEC. 321. CATCHUP CONTRIBUTIONS FOR INDIVIDUALS** 22 **AGE 50 OR OVER.**

23 (a) ELECTIVE DEFERRALS.—Section 414 (relating to
24 definitions and special rules) is amended by adding at the
25 end the following new subsection:

1 “(v) CATCHUP CONTRIBUTIONS FOR INDIVIDUALS
2 AGE 50 OR OVER.—

3 “(1) IN GENERAL.—An applicable employer
4 plan shall not be treated as failing to meet any re-
5 quirement of this title solely because the plan per-
6 mits an eligible participant to make additional elec-
7 tive deferrals in any plan year.

8 “(2) LIMITATION ON AMOUNT OF ADDITIONAL
9 DEFERRALS.—

10 “(A) IN GENERAL.—A plan shall not per-
11 mit additional elective deferrals under para-
12 graph (1) for any year in an amount greater
13 than the lesser of—

14 “(i) the applicable percentage of the
15 applicable dollar amount for such elective
16 deferrals for such year, or

17 “(ii) the excess (if any) of—

18 “(I) the participant’s compensa-
19 tion for the year, over

20 “(II) any other elective deferrals
21 of the participant for such year which
22 are made without regard to this sub-
23 section.

24 “(B) APPLICABLE PERCENTAGE.—For
25 purposes of this paragraph, the applicable per-

1 centage shall be determined in accordance with
2 the following table:

“For taxable years beginning in:	The applicable percentage is:
2001	10 percent
2002	20 percent
2003	30 percent
2004	40 percent
2005 and thereafter	50 percent.

3 “(3) TREATMENT OF CONTRIBUTIONS.—In the
4 case of any contribution to a plan under paragraph
5 (1)—

6 “(A) such contribution shall not, with re-
7 spect to the year in which the contribution is
8 made—

9 “(i) be subject to any otherwise appli-
10 cable limitation contained in section
11 402(g), 402(h), 403(b), 404(a), 404(h),
12 408, 415, or 457, or

13 “(ii) be taken into account in applying
14 such limitations to other contributions or
15 benefits under such plan or any other such
16 plan, and

17 “(B) such plan shall not be treated as fail-
18 ing to meet the requirements of section
19 401(a)(4), 401(a)(26), 401(k)(3), 401(k)(11),
20 401(k)(12), 401(m), 403(b)(12), 408(k),
21 408(p), 408B, 410(b), or 416 by reason of the

1 making of (or the right to make) such contribu-
2 tion.

3 “(4) ELIGIBLE PARTICIPANT.—For purposes of
4 this subsection, the term ‘eligible participant’ means,
5 with respect to any plan year, a participant in a
6 plan—

7 “(A) who has attained the age of 50 before
8 the close of the plan year, and

9 “(B) with respect to whom no other elec-
10 tive deferrals may (without regard to this sub-
11 section) be made to the plan for the plan year
12 by reason of the application of any limitation or
13 other restriction described in paragraph (3) or
14 contained in the terms of the plan.

15 “(5) OTHER DEFINITIONS AND RULES.—For
16 purposes of this subsection—

17 “(A) APPLICABLE DOLLAR AMOUNT.—The
18 term ‘applicable dollar amount’ means, with re-
19 spect to any year, the amount in effect under
20 section 402(g)(1)(B), 408(p)(2)(E)(i), or
21 457(e)(15)(A), whichever is applicable to an ap-
22 plicable employer plan, for such year.

23 “(B) APPLICABLE EMPLOYER PLAN.—The
24 term ‘applicable employer plan’ means—

101

1 “(i) an employees’ trust described in
2 section 401(a) which is exempt from tax
3 under section 501(a),

4 “(ii) a plan under which amounts are
5 contributed by an individual’s employer for
6 an annuity contract described in section
7 403(b),

8 “(iii) an eligible deferred compensa-
9 tion plan under section 457 of an eligible
10 employer as defined in section
11 457(e)(1)(A), and

12 “(iv) an arrangement meeting the re-
13 quirements of section 408 (k) or (p).

14 “(C) ELECTIVE DEFERRAL.—The term
15 ‘elective deferral’ has the meaning given such
16 term by subsection (u)(2)(C).

17 “(D) EXCEPTION FOR SECTION 457
18 PLANS.—This subsection shall not apply to an
19 applicable employer plan described in paragraph
20 (5)(B)(iii) for any year to which section
21 457(b)(3) applies.”

22 (b) INDIVIDUAL RETIREMENT PLANS.—Section
23 219(b), as amended by sections 301 and 318, is amended
24 by adding at the end the following new paragraph:

25 “(7) CATCHUP CONTRIBUTIONS.—

1 (D) Section 415(c)(3) is amended by add-
2 ing at the end the following new subparagraph:

3 “(E) ANNUITY CONTRACTS.—In the case
4 of an annuity contract described in section
5 403(b), the term ‘participant’s compensation’
6 means the participant’s includible compensation
7 determined under section 403(b)(3).”

8 (E) Section 415(c) is amended by striking
9 paragraph (4).

10 (F) Section 415(c)(7) is amended to read
11 as follows:

12 “(7) CERTAIN CONTRIBUTIONS BY CHURCH
13 PLANS NOT TREATED AS EXCEEDING LIMIT.—

14 “(A) IN GENERAL.—Notwithstanding any
15 other provision of this subsection, at the elec-
16 tion of a participant who is an employee of a
17 church or a convention or association of church-
18 es, including an organization described in sec-
19 tion 414(e)(3)(B)(ii), contributions and other
20 additions for an annuity contract or retirement
21 income account described in section 403(b) with
22 respect to such participant, when expressed as
23 an annual addition to such participant’s ac-
24 count, shall be treated as not exceeding the lim-

1 itation of paragraph (1) if such annual addition
2 is not in excess of \$10,000.

3 “(B) \$40,000 AGGREGATE LIMITATION.—
4 The total amount of additions with respect to
5 any participant which may be taken into ac-
6 count for purposes of this subparagraph for all
7 years may not exceed \$40,000.

8 “(C) ANNUAL ADDITION.—For purposes of
9 this paragraph, the term ‘annual addition’ has
10 the meaning given such term by paragraph
11 (2).”

12 (G) Subparagraph (B) of section 402(g)(7)
13 (as redesignated by section 312(a)) is amended
14 by inserting before the period at the end the
15 following: “(as in effect before the enactment of
16 the Taxpayer Refund Act of 1999)”.

17 (3) EFFECTIVE DATE.—The amendments made
18 by this subsection shall apply to years beginning
19 after December 31, 2000.

20 (b) SPECIAL RULES FOR SECTIONS 403(b) AND
21 408.—

22 (1) IN GENERAL.—Subsection (k) of section
23 415 is amended by adding at the end the following
24 new paragraph:

1 “(4) SPECIAL RULES FOR SECTIONS 403(b) AND
2 408.—For purposes of this section, any annuity con-
3 tract described in section 403(b) for the benefit of
4 a participant shall be treated as a defined contribu-
5 tion plan maintained by each employer with respect
6 to which the participant has the control required
7 under subsection (b) or (c) of section 414 (as modi-
8 fied by subsection (h)). For purposes of this section,
9 any contribution by an employer to a simplified em-
10 ployee pension plan for an individual for a taxable
11 year shall be treated as an employer contribution to
12 a defined contribution plan for such individual for
13 such year.”

14 (2) EFFECTIVE DATE.—The amendments made
15 by paragraph (1) shall apply to limitation years be-
16 ginning after December 31, 2000.

17 (c) DEFERRED COMPENSATION PLANS OF STATE
18 AND LOCAL GOVERNMENTS AND TAX-EXEMPT ORGANI-
19 ZATIONS.—

20 (1) IN GENERAL.—Subparagraph (B) of section
21 457(b)(2) (relating to salary limitation on eligible
22 deferred compensation plans) is amended by striking
23 “33 $\frac{1}{3}$ percent” and inserting “100 percent”.

1 (2) EFFECTIVE DATE.—The amendment made
2 by this subsection shall apply to years beginning
3 after December 31, 2000.

4 **SEC. 323. CLARIFICATION OF TAX TREATMENT OF DIVISION**
5 **OF SECTION 457 PLAN BENEFITS UPON DI-**
6 **VORCE.**

7 (a) IN GENERAL.—Section 414(p)(11) (relating to
8 application of rules to governmental and church plans) is
9 amended—

10 (1) by inserting “or an eligible deferred com-
11 pensation plan (within the meaning of section
12 457(b))” after “subsection (e)”, and

13 (2) in the heading, by striking “GOVERN-
14 MENTAL AND CHURCH PLANS” and inserting “CER-
15 TAIN OTHER PLANS”.

16 (b) WAIVER OF CERTAIN DISTRIBUTION REQUIRE-
17 MENTS.—Paragraph (10) of section 414(p) is amended by
18 striking “and section 409(d)” and inserting “section
19 409(d), and section 457(d)”.

20 (c) TAX TREATMENT OF PAYMENTS FROM A SEC-
21 TION 457 PLAN.—Subsection (p) of section 414 is amend-
22 ed by redesignating paragraph (12) as paragraph (13) and
23 inserting after paragraph (11) the following new para-
24 graph:

1 “(12) TAX TREATMENT OF PAYMENTS FROM A
2 SECTION 457 PLAN.—If a distribution or payment
3 from an eligible deferred compensation plan de-
4 scribed in section 457(b) is made pursuant to a
5 qualified domestic relations order, rules similar to
6 the rules of section 402(e)(1)(A) shall apply to such
7 distribution or payment.”

8 (d) EFFECTIVE DATE.—The amendments made by
9 this section shall apply to transfers, distributions, and
10 payments made after December 31, 2000.

11 **SEC. 324. MODIFICATION OF SAFE HARBOR RELIEF FOR**
12 **HARDSHIP WITHDRAWALS FROM CASH OR**
13 **DEFERRED ARRANGEMENTS.**

14 (a) IN GENERAL.—The Secretary of the Treasury
15 shall revise the regulations relating to hardship distribu-
16 tions under section 401(k)(2)(B)(i)(IV) of the Internal
17 Revenue Code of 1986 to provide that the period an em-
18 ployee is prohibited from making elective and employee
19 contributions in order for a distribution to be deemed nec-
20 essary to satisfy financial need shall be equal to 6 months.

21 (b) EFFECTIVE DATE.—The revised regulations
22 under subsection (a) shall apply to years beginning after
23 December 31, 2000.

1 **SEC. 325. FASTER VESTING OF CERTAIN EMPLOYER**
2 **MATCHING CONTRIBUTIONS.**

3 (a) AMENDMENTS TO 1986 CODE.—Section 411(a)
4 (relating to minimum vesting standards) is amended—

5 (1) in paragraph (2), by striking “A plan” and
6 inserting “Except as provided in paragraph (12), a
7 plan”, and

8 (2) by adding at the end the following:

9 “(12) FASTER VESTING FOR MATCHING CON-
10 TRIBUTIONS.—In the case of matching contributions
11 (as defined in section 401(m)(4)(A)), paragraph (2)
12 shall be applied—

13 “(A) by substituting ‘3 years’ for ‘5 years’
14 in subparagraph (A), and

15 “(B) by substituting the following table for
16 the table contained in subparagraph (B):

“Years of service:	The nonforfeitable percentage is:
2	20
3	40
4	60
5	80
6	100.”

17 (b) AMENDMENTS TO ERISA.—Section 203(a) of the
18 Employee Retirement Income Security Act of 1974 (29
19 U.S.C. 1053(a)) is amended—

20 (1) in paragraph (2), by striking “A plan” and
21 inserting “Except as provided in paragraph (4), a
22 plan”, and

1 (2) by adding at the end the following:

2 “(4) FASTER VESTING FOR MATCHING CON-
3 TRIBUTIONS.—In the case of matching contributions
4 (as defined in section 401(m)(4)(A) of the Internal
5 Revenue Code of 1986), paragraph (2) shall be ap-
6 plied—

7 “(A) by substituting ‘3 years’ for ‘5 years’
8 in subparagraph (A), and

9 “(B) by substituting the following table for
10 the table contained in subparagraph (B):

“Years of service:	The nonforfeitable percentage is:
2	20
3	40
4	60
5	80
6	100.”

11 (c) EFFECTIVE DATES.—

12 (1) IN GENERAL.—Except as provided in para-
13 graph (2), the amendments made by this section
14 shall apply to contributions for plan years beginning
15 after December 31, 2000.

16 (2) COLLECTIVE BARGAINING AGREEMENTS.—
17 In the case of a plan maintained pursuant to 1 or
18 more collective bargaining agreements between em-
19 ployee representatives and 1 or more employers rati-
20 fied by the date of enactment of this Act, the
21 amendments made by this section shall not apply to
22 contributions on behalf of employees covered by any

1 such agreement for plan years beginning before the
2 earlier of—

3 (A) the later of—

4 (i) the date on which the last of such
5 collective bargaining agreements termi-
6 nates (determined without regard to any
7 extension thereof on or after such date of
8 enactment), or

9 (ii) January 1, 2001, or

10 (B) January 1, 2005.

11 (3) SERVICE REQUIRED.—With respect to any
12 plan, the amendments made by this section shall not
13 apply to any employee before the date that such em-
14 ployee has 1 hour of service under such plan in any
15 plan year to which the amendments made by this
16 section apply.

17 **Subtitle D—Increasing Portability**
18 **for Participants**

19 **SEC. 331. ROLLOVERS ALLOWED AMONG VARIOUS TYPES**
20 **OF PLANS.**

21 (a) ROLLOVERS FROM AND TO SECTION 457
22 PLANS.—

23 (1) ROLLOVERS FROM SECTION 457 PLANS.—

1 (A) IN GENERAL.—Section 457(e) (relat-
2 ing to other definitions and special rules) is
3 amended by adding at the end the following:

4 “(16) ROLLOVER AMOUNTS.—

5 “(A) GENERAL RULE.—In the case of an
6 eligible deferred compensation plan established
7 and maintained by an employer described in
8 subsection (e)(1)(A), if—

9 “(i) any portion of the balance to the
10 credit of an employee in such plan is paid
11 to such employee in an eligible rollover dis-
12 tribution (within the meaning of section
13 402(c)(4) without regard to subparagraph
14 (C) thereof),

15 “(ii) the employee transfers any por-
16 tion of the property such employee receives
17 in such distribution to an eligible retire-
18 ment plan described in section
19 402(c)(8)(B), and

20 “(iii) in the case of a distribution of
21 property other than money, the amount so
22 transferred consists of the property distrib-
23 uted,

1 then such distribution (to the extent so trans-
2 ferred) shall not be includible in gross income
3 for the taxable year in which paid.

4 “(B) CERTAIN RULES MADE APPLICA-
5 BLE.—The rules of paragraphs (2) through (7)
6 (other than paragraph (4)(C)) and (9) of sec-
7 tion 402(c) and section 402(f) shall apply for
8 purposes of subparagraph (A).

9 “(C) REPORTING.—Rollovers under this
10 paragraph shall be reported to the Secretary in
11 the same manner as rollovers from qualified re-
12 tirement plans (as defined in section 4974(c)).”

13 (B) DEFERRAL LIMIT DETERMINED WITH-
14 OUT REGARD TO ROLLOVER AMOUNTS.—Section
15 457(b)(2) (defining eligible deferred compensa-
16 tion plan) is amended by inserting “(other than
17 rollover amounts)” after “taxable year”.

18 (C) DIRECT ROLLOVER.—Paragraph (1) of
19 section 457(d) is amended by striking “and” at
20 the end of subparagraph (A), by striking the
21 period at the end of subparagraph (B) and in-
22 serting “, and”, and by inserting after subpara-
23 graph (B) the following:

24 “(C) in the case of a plan maintained by
25 an employer described in subsection (e)(1)(A),

1 the plan meets requirements similar to the re-
2 quirements of section 401(a)(31).

3 Any amount transferred in a direct trustee-to-trust-
4 ee transfer in accordance with section 401(a)(31)
5 shall not be includible in gross income for the tax-
6 able year of transfer.”

7 (D) WITHHOLDING.—

8 (i) Paragraph (12) of section 3401(a)
9 is amended by adding at the end the fol-
10 lowing:

11 “(E) under or to an eligible deferred com-
12 pensation plan which, at the time of such pay-
13 ment, is a plan described in section 457(b)
14 maintained by an employer described in section
15 457(e)(1)(A); or”.

16 (ii) Paragraph (3) of section 3405(c)
17 is amended to read as follows:

18 “(3) ELIGIBLE ROLLOVER DISTRIBUTION.—For
19 purposes of this subsection, the term ‘eligible roll-
20 over distribution’ has the meaning given such term
21 by section 402(f)(2)(A).”

22 (iii) LIABILITY FOR WITHHOLDING.—
23 Subparagraph (B) of section 3405(d)(2) is
24 amended by striking “or” at the end of
25 clause (ii), by striking the period at the

1 end of clause (iii) and inserting “, or”, and
2 by adding at the end the following:

3 “(iv) section 457(b).”

4 (2) ROLLOVERS TO SECTION 457 PLANS.—

5 (A) IN GENERAL.—Section 402(c)(8)(B)
6 (defining eligible retirement plan) is amended
7 by striking “and” at the end of clause (iii), by
8 striking the period at the end of clause (iv) and
9 inserting “, and”, and by inserting after clause
10 (iv) the following new clause:

11 “(v) an eligible deferred compensation
12 plan described in section 457(b) of an em-
13 ployer described in section 457(e)(1)(A).”

14 (B) SEPARATE ACCOUNTING.—Section
15 402(c) is amended by adding at the end the fol-
16 lowing new paragraph:

17 “(11) SEPARATE ACCOUNTING.—Unless a plan
18 described in clause (v) of paragraph (8)(B) agrees to
19 separately account for amounts rolled into such plan
20 from eligible retirement plans not described in such
21 clause, the plan described in such clause may not ac-
22 cept transfers or rollovers from such retirement
23 plans.”

24 (C) 10 PERCENT ADDITIONAL TAX.—Sub-
25 section (t) of section 72 (relating to 10-percent

1 additional tax on early distributions from quali-
2 fied retirement plans) is amended by adding at
3 the end the following new paragraph:

4 “(9) SPECIAL RULE FOR ROLLOVERS TO SEC-
5 TION 457 PLANS.—For purposes of this subsection,
6 a distribution from an eligible deferred compensation
7 plan (as defined in section 457(b)) of an employer
8 described in section 457(e)(1)(A) shall be treated as
9 a distribution from a qualified retirement plan de-
10 scribed in 4974(c)(1) to the extent that such dis-
11 tribution is attributable to an amount transferred to
12 an eligible deferred compensation plan from a quali-
13 fied retirement plan (as defined in section
14 4974(c)).”

15 (b) ALLOWANCE OF ROLLOVERS FROM AND TO
16 403(b) PLANS.—

17 (1) ROLLOVERS FROM SECTION 403(b)
18 PLANS.—Section 403(b)(8)(A)(ii) (relating to roll-
19 over amounts) is amended by striking “such dis-
20 tribution” and all that follows and inserting “such
21 distribution to an eligible retirement plan described
22 in section 402(c)(8)(B), and”.

23 (2) ROLLOVERS TO SECTION 403(b) PLANS.—
24 Section 402(c)(8)(B) (defining eligible retirement
25 plan), as amended by subsection (a), is amended by

1 striking “and” at the end of clause (iv), by striking
2 the period at the end of clause (v) and inserting
3 “, and”, and by inserting after clause (v) the follow-
4 ing new clause:

5 “(vi) an annuity contract described in
6 section 403(b).”

7 (c) EXPANDED EXPLANATION TO RECIPIENTS OF
8 ROLLOVER DISTRIBUTIONS.—Paragraph (1) of section
9 402(f) (relating to written explanation to recipients of dis-
10 tributions eligible for rollover treatment) is amended by
11 striking “and” at the end of subparagraph (C), by striking
12 the period at the end of subparagraph (D) and inserting
13 “, and”, and by adding at the end the following new sub-
14 paragraph:

15 “(E) of the provisions under which dis-
16 tributions from the eligible retirement plan re-
17 ceiving the distribution may be subject to re-
18 strictions and tax consequences which are dif-
19 ferent from those applicable to distributions
20 from the plan making such distribution.”

21 (d) SPOUSAL ROLLOVERS.—Section 402(c)(9) (relat-
22 ing to rollover where spouse receives distribution after
23 death of employee) is amended by striking “; except that”
24 and all that follows up to the end period.

25 (e) CONFORMING AMENDMENTS.—

1 (1) Section 72(o)(4) is amended by striking
2 “and 408(d)(3)” and inserting “403(b)(8),
3 408(d)(3), and 457(e)(16)”.

4 (2) Section 219(d)(2) is amended by striking
5 “or 408(d)(3)” and inserting “408(d)(3), or
6 457(e)(16)”.

7 (3) Section 401(a)(31)(B) is amended by strik-
8 ing “and 403(a)(4)” and inserting “, 403(a)(4),
9 403(b)(8), and 457(e)(16)”.

10 (4) Subparagraph (A) of section 402(f)(2) is
11 amended by striking “or paragraph (4) of section
12 403(a)” and inserting “, paragraph (4) of section
13 403(a), subparagraph (A) of section 403(b)(8), or
14 subparagraph (A) of section 457(e)(16)”.

15 (5) Paragraph (1) of section 402(f) is amended
16 by striking “from an eligible retirement plan”.

17 (6) Subparagraphs (A) and (B) of section
18 402(f)(1) are amended by striking “another eligible
19 retirement plan” and inserting “an eligible retire-
20 ment plan”.

21 (7) Subparagraph (B) of section 403(b)(8) is
22 amended to read as follows:

23 “(B) CERTAIN RULES MADE APPLICA-
24 BLE.—The rules of paragraphs (2) through (7)
25 and (9) of section 402(c) and section 402(f)

1 shall apply for purposes of subparagraph (A),
2 except that section 402(f) shall be applied to
3 the payor in lieu of the plan administrator.”

4 (8) Section 408(a)(1) is amended by striking
5 “or 403(b)(8)” and inserting “, 403(b)(8), or
6 457(e)(16)”.

7 (9) Subparagraphs (A) and (B) of section
8 415(b)(2) are each amended by striking “and
9 408(d)(3)” and inserting “403(b)(8), 408(d)(3), and
10 457(e)(16)”.

11 (10) Section 415(c)(2) is amended by striking
12 “and 408(d)(3)” and inserting “408(d)(3), and
13 457(e)(16)”.

14 (11) Section 4973(b)(1)(A) is amended by
15 striking “or 408(d)(3)” and inserting “408(d)(3), or
16 457(e)(16)”.

17 (f) EFFECTIVE DATE; SPECIAL RULE.—

18 (1) EFFECTIVE DATE.—The amendments made
19 by this section shall apply to distributions after De-
20 cember 31, 2000.

21 (2) SPECIAL RULE.—Notwithstanding any other
22 provision of law, subsections (h)(3) and (h)(5) of
23 section 1122 of the Tax Reform Act of 1986 shall
24 not apply to any distribution from an eligible retire-
25 ment plan (as defined in clause (iii) or (iv) of section

1 402(c)(8)(B) of the Internal Revenue Code of 1986)
2 on behalf of an individual if there was a rollover to
3 such plan on behalf of such individual which is per-
4 mitted solely by reason of any amendment made by
5 this section.

6 **SEC. 332. ROLLOVERS OF IRAS INTO WORKPLACE RETIRE-**
7 **MENT PLANS.**

8 (a) IN GENERAL.—Subparagraph (A) of section
9 408(d)(3) (relating to rollover amounts) is amended by
10 adding “or” at the end of clause (i), by striking clauses
11 (ii) and (iii), and by adding at the end the following:

12 “(ii) the entire amount received (in-
13 cluding money and any other property) is
14 paid into an eligible retirement plan for
15 the benefit of such individual not later
16 than the 60th day after the date on which
17 the payment or distribution is received, ex-
18 cept that the maximum amount which may
19 be paid into such plan may not exceed the
20 portion of the amount received which is in-
21 cludible in gross income (determined with-
22 out regard to this paragraph).

23 For purposes of clause (ii), the term ‘eligible re-
24 tirement plan’ means an eligible retirement plan

1 described in clause (iii), (iv), (v), or (vi) of sec-
2 tion 402(c)(8)(B).”

3 (b) CONFORMING AMENDMENTS.—

4 (1) Paragraph (1) of section 403(b) is amended
5 by striking “section 408(d)(3)(A)(iii)” and inserting
6 “section 408(d)(3)(A)(ii)”.

7 (2) Clause (i) of section 408(d)(3)(D) is amend-
8 ed by striking “(i), (ii), or (iii)” and inserting “(i)
9 or (ii)”.

10 (3) Subparagraph (G) of section 408(d)(3) is
11 amended to read as follows:

12 “(G) SIMPLE RETIREMENT ACCOUNTS.—In
13 the case of any payment or distribution out of
14 a simple retirement account (as defined in sub-
15 section (p)) to which section 72(t)(6) applies,
16 this paragraph shall not apply unless such pay-
17 ment or distribution is paid into another simple
18 retirement account.”

19 (c) EFFECTIVE DATE; SPECIAL RULE.—

20 (1) EFFECTIVE DATE.—The amendments made
21 by this section shall apply to distributions after De-
22 cember 31, 2000.

23 (2) SPECIAL RULE.—Notwithstanding any other
24 provision of law, subsections (h)(3) and (h)(5) of
25 section 1122 of the Tax Reform Act of 1986 shall

1 not apply to any distribution from an eligible retire-
2 ment plan (as defined in clause (iii) or (iv) of section
3 402(c)(8)(B) of the Internal Revenue Code of 1986)
4 on behalf of an individual if there was a rollover to
5 such plan on behalf of such individual which is per-
6 mitted solely by reason of the amendments made by
7 this section.

8 **SEC. 333. ROLLOVERS OF AFTER-TAX CONTRIBUTIONS.**

9 (a) ROLLOVERS FROM EXEMPT TRUSTS.—Para-
10 graph (2) of section 402(c) (relating to maximum amount
11 which may be rolled over) is amended by adding at the
12 end the following: “The preceding sentence shall not apply
13 to such distribution to the extent—

14 “(A) such portion is transferred in a direct
15 trustee-to-trustee transfer to a qualified trust
16 which is part of a plan which is a defined con-
17 tribution plan and which agrees to separately
18 account for amounts so transferred, including
19 separately accounting for the portion of such
20 distribution which is includible in gross income
21 and the portion of such distribution which is
22 not so includible, or

23 “(B) such portion is transferred to an eli-
24 gible retirement plan described in clause (i) or
25 (ii) of paragraph (8)(B).”

1 (b) OPTIONAL DIRECT TRANSFER OF ELIGIBLE
2 ROLLOVER DISTRIBUTIONS.—Subparagraph (B) of sec-
3 tion 401(a)(31) (relating to limitation) is amended by add-
4 ing at the end the following: “The preceding sentence shall
5 not apply to such distribution if the plan to which such
6 distribution is transferred—

7 “(i) agrees to separately account for
8 amounts so transferred, including sepa-
9 rately accounting for the portion of such
10 distribution which is includible in gross in-
11 come and the portion of such distribution
12 which is not so includible, or

13 “(ii) is an eligible retirement plan de-
14 scribed in clause (i) or (ii) of section
15 402(e)(8)(B).”

16 (c) RULES FOR APPLYING SECTION 72 TO IRAS.—
17 Paragraph (3) of section 408(d) (relating to special rules
18 for applying section 72) is amended by inserting at the
19 end the following:

20 “(H) APPLICATION OF SECTION 72.—

21 “(i) IN GENERAL.—If—

22 “(I) a distribution is made from
23 an individual retirement plan, and

24 “(II) a rollover contribution is
25 made to an eligible retirement plan

1 described in section 402(c)(8)(B)(iii),
2 (iv), (v), or (vi) with respect to all or
3 part of such distribution,
4 then, notwithstanding paragraph (2), the
5 rules of clause (ii) shall apply for purposes
6 of applying section 72.

7 “(ii) APPLICABLE RULES.—In the
8 case of a distribution described in clause
9 (i)—

10 “(I) section 72 shall be applied
11 separately to such distribution,

12 “(II) notwithstanding the pro
13 rata allocation of income on, and in-
14 vestment in the contract, to distribu-
15 tions under section 72, the portion of
16 such distribution rolled over to an eli-
17 gible retirement plan described in
18 clause (i) shall be treated as from in-
19 come on the contract (to the extent of
20 the aggregate income on the contract
21 from all individual retirement plans of
22 the distributee), and

23 “(III) appropriate adjustments
24 shall be made in applying section 72

1 to other distributions in such taxable
2 year and subsequent taxable years.”

3 (d) EFFECTIVE DATE.—The amendments made by
4 this section shall apply to distributions made after Decem-
5 ber 31, 2000.

6 **SEC. 334. HARDSHIP EXCEPTION TO 60-DAY RULE.**

7 (a) EXEMPT TRUSTS.—Paragraph (3) of section
8 402(c) (relating to transfer must be made within 60 days
9 of receipt) is amended to read as follows:

10 “(3) TRANSFER MUST BE MADE WITHIN 60
11 DAYS OF RECEIPT.—

12 “(A) IN GENERAL.—Except as provided in
13 subparagraph (B), paragraph (1) shall not
14 apply to any transfer of a distribution made
15 after the 60th day following the day on which
16 the distributee received the property distrib-
17 uted.

18 “(B) HARDSHIP EXCEPTION.—The Sec-
19 retary may waive the 60-day requirement under
20 subparagraph (A) where the failure to waive
21 such requirement would be against equity or
22 good conscience, including casualty, disaster, or
23 other events beyond the reasonable control of
24 the individual subject to such requirement.”

1 (b) IRAs.—Paragraph (3) of section 408(d) (relating
2 to rollover contributions), as amended by section 333, is
3 amended by adding after subparagraph (H) the following
4 new subparagraph:

5 “(I) WAIVER OF 60-DAY REQUIREMENT.—
6 The Secretary may waive the 60-day require-
7 ment under subparagraphs (A) and (D) where
8 the failure to waive such requirement would be
9 against equity or good conscience, including
10 casualty, disaster, or other events beyond the
11 reasonable control of the individual subject to
12 such requirement.”

13 (c) EFFECTIVE DATE.—The amendments made by
14 this section shall apply to distributions after December 31,
15 2000.

16 **SEC. 335. TREATMENT OF FORMS OF DISTRIBUTION.**

17 (a) PLAN TRANSFERS.—

18 (1) AMENDMENT TO INTERNAL REVENUE CODE
19 OF 1986.—Paragraph (6) of section 411(d) (relating
20 to accrued benefit not to be decreased by amend-
21 ment) is amended by adding at the end the follow-
22 ing:

23 “(D) PLAN TRANSFERS.—

24 “(i) A defined contribution plan (in
25 this subparagraph referred to as the

1 or beneficiary whose account was
2 transferred to the transferee plan,

3 “(IV) the election described in
4 subclause (III) was made after the
5 participant or beneficiary received a
6 notice describing the consequences of
7 making the election,

8 “(V) if the transferor plan pro-
9 vides for an annuity as the normal
10 form of distribution under the plan in
11 accordance with section 417, the
12 transfer is made with the consent of
13 the participant’s spouse (if any), and
14 such consent meets requirements simi-
15 lar to the requirements imposed by
16 section 417(a)(2), and

17 “(VI) the transferee plan allows
18 the participant or beneficiary de-
19 scribed in subclause (III) to receive
20 any distribution to which the partici-
21 pant or beneficiary is entitled under
22 the transferee plan in the form of a
23 single sum distribution.

24 “(ii) Clause (i) shall apply to plan
25 mergers and other transactions having the

1 effect of a direct transfer, including con-
2 solidations of benefits attributable to dif-
3 ferent employers within a multiple em-
4 ployer plan.

5 “(E) ELIMINATION OF FORM OF DISTRIBU-
6 TION.—Except to the extent provided in regula-
7 tions, a defined contribution plan shall not be
8 treated as failing to meet the requirements of
9 this section merely because of the elimination of
10 a form of distribution previously available there-
11 under. This subparagraph shall not apply to the
12 elimination of a form of distribution with re-
13 spect to any participant unless—

14 “(i) a single sum payment is available
15 to such participant at the same time or
16 times as the form of distribution being
17 eliminated, and

18 “(ii) such single sum payment is
19 based on the same or greater portion of
20 the participant’s account as the form of
21 distribution being eliminated.”

22 (2) AMENDMENT TO ERISA.—Section 204(g) of
23 the Employee Retirement Income Security Act of
24 1974 (29 U.S.C. 1054(g)) is amended by adding at
25 the end the following:

1 “(4)(A) A defined contribution plan (in this subpara-
2 graph referred to as the ‘transferee plan’) shall not be
3 treated as failing to meet the requirements of this sub-
4 section merely because the transferee plan does not pro-
5 vide some or all of the forms of distribution previously
6 available under another defined contribution plan (in this
7 paragraph referred to as the ‘transferor plan’) to the ex-
8 tent that—

9 “(i) the forms of distribution previously avail-
10 able under the transferor plan applied to the account
11 of a participant or beneficiary under the transferor
12 plan that was transferred from the transferor plan
13 to the transferee plan pursuant to a direct transfer
14 rather than pursuant to a distribution from the
15 transferor plan;

16 “(ii) the terms of both the transferor plan and
17 the transferee plan authorize the transfer described
18 in clause (i);

19 “(iii) the transfer described in clause (i) was
20 made pursuant to a voluntary election by the partici-
21 pant or beneficiary whose account was transferred to
22 the transferee plan;

23 “(iv) the election described in clause (iii) was
24 made after the participant or beneficiary received a

1 notice describing the consequences of making the
2 election;

3 “(v) if the transferor plan provides for an annu-
4 ity as the normal form of distribution under the plan
5 in accordance with section 417, the transfer is made
6 with the consent of the participant’s spouse (if any),
7 and such consent meets requirements similar to the
8 requirements imposed by section 417(a)(2); and

9 “(vi) the transferee plan allows the participant
10 or beneficiary described in subclause (III) to receive
11 any distribution to which the participant or bene-
12 ficiary is entitled under the transferee plan in the
13 form of a single sum distribution.

14 “(B) Subparagraph (A) shall apply to plan mergers
15 and other transactions having the effect of a direct trans-
16 fer, including consolidations of benefits attributable to dif-
17 ferent employers within a multiple employer plan.

18 “(5) ELIMINATION OF FORM OF DISTRIBUTION.—Ex-
19 cept to the extent provided in regulations, a defined con-
20 tribution plan shall not be treated as failing to meet the
21 requirements of this section merely because of the elimi-
22 nation of a form of distribution previously available there-
23 under. This paragraph shall not apply to the elimination
24 of a form of distribution with respect to any participant
25 unless—

1 “(A) a single sum payment is available to such
2 participant at the same time or times as the form
3 of distribution being eliminated; and

4 “(B) such single sum payment is based on the
5 same or greater portion of the participant’s account
6 as the form of distribution being eliminated.”

7 (3) EFFECTIVE DATE.—The amendments made
8 by this subsection shall apply to years beginning
9 after December 31, 2000.

10 (b) REGULATIONS.—

11 (1) AMENDMENT TO INTERNAL REVENUE CODE
12 OF 1986.—The last sentence of paragraph (6)(B) of
13 section 411(d) (relating to accrued benefit not to be
14 decreased by amendment) is amended to read as fol-
15 lows: “The Secretary may by regulations provide
16 that this subparagraph shall not apply to any plan
17 amendment that does not adversely affect the rights
18 of participants in a material manner.”

19 (2) AMENDMENT TO ERISA.—The last sentence
20 of section 204(g)(2) of the Employee Retirement In-
21 come Security Act of 1974 (29 U.S.C. 1054(g)(2))
22 is amended to read as follows: “The Secretary of the
23 Treasury may by regulations provide that this para-
24 graph shall not apply to any plan amendment that

1 does not adversely affect the rights of participants in
2 a material manner.”

3 (3) SECRETARY DIRECTED.—Not later than
4 December 31, 2001, the Secretary of the Treasury
5 is directed to issue final regulations under section
6 411(d)(6) of the Internal Revenue Code of 1986 and
7 section 204(g)(2) of the Employee Retirement In-
8 come Security Act of 1974. Such regulations shall
9 apply to plan years beginning after December 31,
10 2001, or such earlier date as is specified by the Sec-
11 retary of the Treasury.

12 **SEC. 336. RATIONALIZATION OF RESTRICTIONS ON DIS-**
13 **TRIBUTIONS.**

14 (a) MODIFICATION OF SAME DESK EXCEPTION.—

15 (1) SECTION 401(k).—

16 (A) Section 401(k)(2)(B)(i)(I) (relating to
17 qualified cash or deferred arrangements) is
18 amended by striking “separation from service”
19 and inserting “severance from employment”.

20 (B) Subparagraph (A) of section
21 401(k)(10) (relating to distributions upon ter-
22 mination of plan or disposition of assets or sub-
23 sidiary) is amended to read as follows:

24 “(A) IN GENERAL.—An event described in
25 this subparagraph is the termination of the

1 plan without establishment or maintenance of
2 another defined contribution plan (other than
3 an employee stock ownership plan as defined in
4 section 4975(e)(7)).”

5 (C) Section 401(k)(10) is amended—

6 (i) in subparagraph (B)—

7 (I) by striking “An event” in
8 clause (i) and inserting “A termi-
9 nation”, and

10 (II) by striking “the event” in
11 clause (i) and inserting “the termi-
12 nation”,

13 (ii) by striking subparagraph (C), and

14 (iii) by striking “OR DISPOSITION OF
15 ASSETS OR SUBSIDIARY” in the heading.

16 (2) SECTION 403(b).—

17 (A) Paragraphs (7)(A)(ii) and (11)(A) of
18 section 403(b) are each amended by striking
19 “separates from service” and inserting “has a
20 severance from employment”.

21 (B) The heading for paragraph (11) of
22 section 403(b) is amended by striking “SEPARA-
23 TION FROM SERVICE” and inserting “SEVER-
24 ANCE FROM EMPLOYMENT”.

1 (1) Subsection (e) of section 457 is amended by
2 adding after paragraph (17) the following new para-
3 graph:

4 “(18) TRUSTEE-TO-TRUSTEE TRANSFERS TO
5 PURCHASE PERMISSIVE SERVICE CREDIT.—No
6 amount shall be includible in gross income by reason
7 of a direct trustee-to-trustee transfer to a defined
8 benefit governmental plan (as defined in section
9 414(d)) if such transfer is—

10 “(A) for the purchase of permissive service
11 credit (as defined in section 415(n)(3)(A))
12 under such plan, or

13 “(B) a repayment to which section 415
14 does not apply by reason of subsection (k)(3)
15 thereof.”

16 (2) Section 457(b)(2) is amended by striking
17 “(other than rollover amounts)” and inserting
18 “(other than rollover amounts and amounts received
19 in a transfer referred to in subsection (e)(16))”.

20 (c) EFFECTIVE DATE.—The amendments made by
21 this section shall apply to trustee-to-trustee transfers after
22 December 31, 2000.

23 **SEC. 338. EMPLOYERS MAY DISREGARD ROLLOVERS FOR**
24 **PURPOSES OF CASH-OUT AMOUNTS.**

25 (a) QUALIFIED PLANS.—

1 (1) AMENDMENT TO INTERNAL REVENUE CODE
2 OF 1986.—Section 411(a)(11) (relating to restric-
3 tions on certain mandatory distributions) is amended
4 by adding at the end the following:

5 “(D) SPECIAL RULE FOR ROLLOVER CON-
6 TRIBUTIONS.—A plan shall not fail to meet the
7 requirements of this paragraph if, under the
8 terms of the plan, the present value of the non-
9 forfeitable accrued benefit is determined with-
10 out regard to that portion of such benefit which
11 is attributable to rollover contributions (and
12 earnings allocable thereto). For purposes of this
13 subparagraph, the term ‘rollover contributions’
14 means any rollover contribution under sections
15 402(c), 403(a)(4), 403(b)(8), 408(d)(3)(A)(ii),
16 and 457(e)(16).”

17 (2) AMENDMENT TO ERISA.—Section 203(e) of
18 the Employee Retirement Income Security Act of
19 1974 (29 U.S.C. 1053(c)) is amended by adding at
20 the end the following:

21 “(4) A plan shall not fail to meet the requirements
22 of this subsection if, under the terms of the plan, the
23 present value of the nonforfeitable accrued benefit is de-
24 termined without regard to that portion of such benefit
25 which is attributable to rollover contributions (and earn-

1 ings allocable thereto). For purposes of this subparagraph,
2 the term ‘rollover contributions’ means any rollover con-
3 tribution under sections 402(c), 403(a)(4), 403(b)(8),
4 408(d)(3)(A)(ii), and 457(e)(16) of the Internal Revenue
5 Code of 1986.”

6 (b) ELIGIBLE DEFERRED COMPENSATION PLANS.—
7 Clause (i) of section 457(e)(9)(A) is amended by striking
8 “such amount” and inserting “the portion of such amount
9 which is not attributable to rollover contributions (as de-
10 fined in section 411(a)(11)(D))”.

11 (c) EFFECTIVE DATE.—The amendments made by
12 this section shall apply to distributions after December 31,
13 2000.

14 **SEC. 339. INCLUSION REQUIREMENTS FOR SECTION 457**
15 **PLANS.**

16 (a) YEAR OF INCLUSION.—Subsection (a) of section
17 457 (relating to year of inclusion in gross income) is
18 amended to read as follows:

19 “(a) YEAR OF INCLUSION IN GROSS INCOME.—

20 “(1) IN GENERAL.—Any amount of compensa-
21 tion deferred under an eligible deferred compensa-
22 tion plan, and any income attributable to the
23 amounts so deferred, shall be includible in gross in-
24 come only for the taxable year in which such com-
25 pensation or other income—

1 “(A) is paid to the participant or other
2 beneficiary, in the case of a plan of an eligible
3 employer described in subsection (e)(1)(A), and

4 “(B) is paid or otherwise made available to
5 the participant or other beneficiary, in the case
6 of a plan of an eligible employer described in
7 subsection (e)(1)(B).

8 “(2) SPECIAL RULE FOR ROLLOVER
9 AMOUNTS.—To the extent provided in section
10 72(t)(9), section 72(t) shall apply to any amount in-
11 cludible in gross income under this subsection.”

12 (b) CONFORMING AMENDMENT.—So much of para-
13 graph (9) of section 457(e) as precedes subparagraph (A)
14 is amended to read as follows:

15 “(9) BENEFITS OF TAX EXEMPT ORGANIZATION
16 PLANS NOT TREATED AS MADE AVAILABLE BY REA-
17 SON OF CERTAIN ELECTIONS, ETC.—In the case of
18 an eligible deferred compensation plan of an em-
19 ployer described in paragraph (1)(B)—”.

20 (c) EFFECTIVE DATE.—The amendments made by
21 this section shall apply to distributions after December 31,
22 2000.

1 **Subtitle E—Strengthening Pension**
 2 **Security and Enforcement**

3 **SEC. 341. REPEAL OF 150 PERCENT OF CURRENT LIABILITY**
 4 **FUNDING LIMIT.**

5 (a) AMENDMENT TO INTERNAL REVENUE CODE OF
 6 1986.—Section 412(c)(7) (relating to full-funding limita-
 7 tion) is amended—

8 (1) by striking “the applicable percentage” in
 9 subparagraph (A)(i)(I) and inserting “in the case of
 10 plan years beginning before January 1, 2004, the
 11 applicable percentage”, and

12 (2) by amending subparagraph (F) to read as
 13 follows:

14 “(F) APPLICABLE PERCENTAGE.—For
 15 purposes of subparagraph (A)(i)(I), the applica-
 16 ble percentage shall be determined in accord-
 17 ance with the following table:

“In the case of any plan year beginning in—	The applicable percentage is—
2001	160
2002	165
2003	170.”

18 (b) AMENDMENT TO ERISA.—Section 302(c)(7) of
 19 the Employee Retirement Income Security Act of 1974
 20 (29 U.S.C. 1082(c)(7)) is amended—

21 (1) by striking “the applicable percentage” in
 22 subparagraph (A)(i)(I) and inserting “in the case of

1 plan years beginning before January 1, 2004, the
2 applicable percentage”, and

3 (2) by amending subparagraph (F) to read as
4 follows:

5 “(F) APPLICABLE PERCENTAGE.—For
6 purposes of subparagraph (A)(i)(I), the applica-
7 ble percentage shall be determined in accord-
8 ance with the following table:

“In the case of any plan year beginning in—	The applicable percentage is—
2001	160
2002	165
2003	170.”

9 (c) EFFECTIVE DATE.—The amendments made by
10 this section shall apply to plan years beginning after De-
11 cember 31, 2000.

12 **SEC. 342. EXTENSION OF MISSING PARTICIPANTS PRO-**
13 **GRAM TO MULTIEMPLOYER PLANS.**

14 (a) IN GENERAL.—Section 4050 of the Employee Re-
15 tirement Income Security Act of 1974 (29 U.S.C. 1350)
16 is amended by redesignating subsection (c) as subsection
17 (d) and by inserting after subsection (b) the following:

18 “(c) MULTIEMPLOYER PLANS.—The corporation
19 shall prescribe rules similar to the rules in subsection (a)
20 for multiemployer plans covered by this title that termi-
21 nate under section 4041A.”.

22 (b) CONFORMING AMENDMENT.—Section 206(f) of
23 the Employee Retirement Income Security Act of 1974

1 (29 U.S.C. 1056(f)) is amended by striking “the plan shall
2 provide that,”.

3 (c) EFFECTIVE DATE.—The amendments made by
4 this section shall apply to distributions made after final
5 regulations implementing subsection (c) of section 4050
6 of the Employee Retirement Income Security Act of 1974
7 (as added by subsection (a)) are prescribed.

8 **SEC. 343. EXCISE TAX RELIEF FOR SOUND PENSION FUND-**
9 **ING.**

10 (a) IN GENERAL.—Subsection (c) of section 4972
11 (relating to nondeductible contributions) is amended by
12 adding at the end the following new paragraph:

13 “(7) DEFINED BENEFIT PLAN EXCEPTION.—In
14 determining the amount of nondeductible contribu-
15 tions for any taxable year, an employer may elect for
16 such year not to take into account any contributions
17 to a defined benefit plan except to the extent that
18 such contributions exceed the full-funding limitation
19 (as defined in section 412(c)(7), determined without
20 regard to subparagraph (A)(i)(I) thereof). For pur-
21 poses of this paragraph, the deductible limits under
22 section 404(a)(7) shall first be applied to amounts
23 contributed to defined contribution plans and then
24 to amounts described in this paragraph. If an em-
25 ployer makes an election under this paragraph for a

1 taxable year, paragraph (6) shall not apply to such
2 employer for such taxable year.”

3 (b) EFFECTIVE DATE.—The amendments made by
4 this section shall apply to years beginning after December
5 31, 2000.

6 **SEC. 344. FAILURE TO PROVIDE NOTICE BY DEFINED BENE-**
7 **FIT PLANS SIGNIFICANTLY REDUCING FU-**
8 **TURE BENEFIT ACCRUALS.**

9 (a) EXCISE TAX.—

10 (1) IN GENERAL.—Chapter 43 of subtitle D
11 (relating to qualified pension, etc., plans) is amend-
12 ed by adding at the end the following new section:

13 **“SEC. 4980F. FAILURE OF DEFINED BENEFIT PLANS REDUC-**
14 **ING BENEFIT ACCRUALS TO SATISFY NOTICE**
15 **REQUIREMENTS.**

16 “(a) IMPOSITION OF TAX.—There is hereby imposed
17 a tax on the failure of an applicable pension plan to meet
18 the requirements of subsection (e) with respect to any ap-
19 plicable individual.

20 “(b) AMOUNT OF TAX.—

21 “(1) IN GENERAL.—The amount of the tax im-
22 posed by subsection (a) on any failure with respect
23 to any applicable individual shall be \$100 for each
24 day in the noncompliance period with respect to such
25 failure.

1 “(2) NONCOMPLIANCE PERIOD.—For purposes
2 of this section, the term ‘noncompliance period’
3 means, with respect to any failure, the period begin-
4 ning on the date the failure first occurs and ending
5 on the date the failure is corrected.

6 “(3) MINIMUM TAX FOR NONCOMPLIANCE PE-
7 RIOD WHERE FAILURE DISCOVERED AFTER NOTICE
8 OF EXAMINATION.—Notwithstanding paragraphs (1)
9 and (2) of subsection (c)—

10 “(A) IN GENERAL.—In the case of 1 or
11 more failures with respect to an applicable indi-
12 vidual—

13 “(i) which are not corrected before the
14 date a notice of examination of income tax
15 liability is sent to the employer, and

16 “(ii) which occurred or continued dur-
17 ing the period under examination,

18 the amount of tax imposed by subsection (a) by
19 reason of such failures with respect to such
20 beneficiary shall not be less than the lesser of
21 \$2,500 or the amount of tax which would be
22 imposed by subsection (a) without regard to
23 such paragraphs.

24 “(B) HIGHER MINIMUM TAX WHERE VIO-
25 LATIONS ARE MORE THAN DE MINIMIS.—To the

1 extent violations by the employer (or the plan in
2 the case of a multiemployer plan) for any year
3 are more than de minimis, subparagraph (A)
4 shall be applied by substituting ‘\$15,000’ for
5 ‘\$2,500’ with respect to the employer (or such
6 plan).

7 “(c) LIMITATIONS ON AMOUNT OF TAX.—

8 “(1) TAX NOT TO APPLY WHERE FAILURE NOT
9 DISCOVERED EXERCISING REASONABLE DILI-
10 GENCE.—No tax shall be imposed by subsection (a)
11 on any failure during any period for which it is es-
12 tablished to the satisfaction of the Secretary that
13 none of the persons referred to in subsection (d)
14 knew, or exercising reasonable diligence would have
15 known, that the failure existed.

16 “(2) TAX NOT TO APPLY TO FAILURES COR-
17 RECTED WITHIN 30 DAYS.—No tax shall be imposed
18 by subsection (a) on any failure if—

19 “(A) such failure was due to reasonable
20 cause and not to willful neglect, and

21 “(B) such failure is corrected during the
22 30-day period beginning on the first date any of
23 the persons referred to in subsection (d) knew,
24 or exercising reasonable diligence would have
25 known, that such failure existed.

1 “(3) OVERALL LIMITATION FOR UNINTEN-
2 TIONAL FAILURES.—

3 “(A) IN GENERAL.—In the case of failures
4 that are due to reasonable cause and not to
5 willful neglect, the tax imposed by subsection
6 (a) for failures during the taxable year of the
7 employer (or, in the case of a multiemployer
8 plan, the taxable year of the trust forming part
9 of the plan) shall not exceed \$500,000. For
10 purposes of the preceding sentence, all multiem-
11 ployer plans of which the same trust forms a
12 part shall be treated as 1 plan.

13 “(B) TAXABLE YEARS IN THE CASE OF
14 CERTAIN CONTROLLED GROUPS.—For purposes
15 of this paragraph, if all persons who are treated
16 as a single employer for purposes of this section
17 do not have the same taxable year, the taxable
18 years taken into account shall be determined
19 under principles similar to the principles of sec-
20 tion 1561.

21 “(4) WAIVER BY SECRETARY.—In the case of a
22 failure which is due to reasonable cause and not to
23 willful neglect, the Secretary may waive part or all
24 of the tax imposed by subsection (a) to the extent

1 that the payment of such tax would be excessive rel-
2 ative to the failure involved.

3 “(d) LIABILITY FOR TAX.—The following shall be lia-
4 ble for the tax imposed by subsection (a):

5 “(1) In the case of a plan other than a multi-
6 employer plan, the employer.

7 “(2) In the case of a multiemployer plan, the
8 plan.

9 “(e) NOTICE REQUIREMENTS FOR PLANS SIGNIFI-
10 CANTLY REDUCING BENEFIT ACCRUALS.—

11 “(1) IN GENERAL.—If a defined benefit plan
12 adopts an amendment which has the effect of signifi-
13 cantly reducing the rate of future benefit accrual of
14 1 or more participants (including any elimination or
15 reduction of an early retirement benefit or retire-
16 ment-type subsidy), the plan administrator shall, not
17 later than the 30th day before the effective date of
18 the amendment, provide written notice to each appli-
19 cable individual (and to each employee organization
20 representing applicable individuals) which—

21 “(A) sets forth the plan amendment and
22 its effective date, and

23 “(B) includes sufficient information (as de-
24 termined in accordance with regulations pre-
25 scribed by the Secretary) to allow such partici-

1 pants and beneficiaries to understand how the
2 amendment generally affects different classes of
3 employees.

4 “(2) ADDITIONAL NOTICE REQUIRED IN CER-
5 TAIN CASES.—

6 “(A) IN GENERAL.—If a plan amendment
7 to which paragraph (1) applies—

8 “(i) either—

9 “(I) provides for a significant
10 change in the manner in which the ac-
11 crued benefit of an applicable individ-
12 ual is determined under the plan, or

13 “(II) requires an applicable indi-
14 vidual to choose between 2 or more
15 benefit formulas, and

16 “(ii) may reasonably be expected to
17 affect such applicable individual,

18 the plan shall, not later than the date which is
19 6 months after the effective date of the amend-
20 ment, provide written notice to such applicable
21 individual which includes the information de-
22 scribed in subparagraph (B).

23 “(B) ADDITIONAL INFORMATION.—The
24 notice under subparagraph (A) shall include the
25 following information:

1 “(i) The accrued benefit (and if the
2 amendment adds the option of an imme-
3 diate lump sum distribution, the present
4 value of the accrued benefit) as of the ef-
5 fective date, determined under the terms of
6 the plan in effect immediately before the
7 effective date.

8 “(ii) The accrued benefit as of the ef-
9 fective date, determined under the terms of
10 the plan in effect on the effective date and
11 without regard to any minimum accrued
12 benefit required by reason of section
13 411(d)(6).

14 “(iii) Sufficient information (as deter-
15 mined in accordance with regulations pre-
16 scribed by the Secretary) for an applicable
17 individual to compute their projected ac-
18 crued benefit under the terms of the plan
19 in effect on the effective date or to acquire
20 information necessary to compute such
21 projected accrued benefit.

22 “(C) OPTION TO PROVIDE PROJECTED AC-
23 CRUED BENEFIT.—A plan may, in lieu of the
24 information described in subparagraph (B)(iii),
25 include a determination of an applicable individ-

1 ual’s projected accrued benefit under the terms
2 of the plan in effect on the effective date. Such
3 determination shall include a disclosure of the
4 assumptions used by the plan in determining
5 such benefit and such assumptions must be rea-
6 sonable in the aggregate.

7 “(D) RULES FOR COMPUTING BENEFITS.—
8 For purposes of this paragraph, an applicable
9 individual’s accrued benefit and projected ac-
10 crued benefit shall be computed—

11 “(i) as if the accrued benefit were in
12 the form of a single life annuity commenc-
13 ing at normal retirement age (and by tak-
14 ing into account any early retirement sub-
15 sidy), and

16 “(ii) by using the applicable mortality
17 table and the applicable interest rate under
18 section 417(e)(3)(A).

19 “(3) SECRETARY MAY CHANGE NOTICE AND
20 TIME FOR NOTICE.—If a plan amendment to which
21 paragraph (1) applies requires an applicable individ-
22 ual to choose between 2 or more benefit formulas,
23 the Secretary may, after consultation with the Sec-
24 retary of Labor—

1 “(A) require additional information to be
2 provided in either of the notices described in
3 paragraph (1) or (2), and

4 “(B) require either of such notices to be
5 provided at a time other than the time required
6 under either such paragraph.

7 “(4) NOTICE BEFORE ADOPTION OF AMEND-
8 MENT.—A plan shall not be treated as failing to
9 meet the requirements of paragraph (1) or (2) mere-
10 ly because notice is provided before the adoption of
11 the plan amendment if no material modification of
12 the amendment occurs before the amendment is
13 adopted.

14 “(5) NOTICE TO DESIGNEE.—Any notice under
15 paragraph (1) or (2) may be provided to a person
16 designated, in writing, by the person to which it
17 would otherwise be provided.

18 “(f) APPLICABLE INDIVIDUAL.—For purposes of this
19 section—

20 “(1) IN GENERAL.—The term ‘applicable indi-
21 vidual’ means, with respect to any plan amend-
22 ment—

23 “(A) any participant in the plan, and

24 “(B) any beneficiary who is an alternate
25 payee (within the meaning of section 414(p)(8))

1 under an applicable qualified domestic relations
2 order (within the meaning of section
3 414(p)(1)(A)).

4 “(2) EXCEPTION FOR PARTICIPANTS WITH LESS
5 THAN 1 YEAR OF PARTICIPATION.—Such term shall
6 not include a participant who has less than 1 year
7 of participation (within the meaning of section
8 411(b)(4)) under the plan as of the effective date of
9 the plan amendment.

10 “(3) PARTICIPANTS GETTING HIGHER OF BENE-
11 FITS.—Such term shall not include a participant or
12 beneficiary who, under the terms of the plan as of
13 the effective date of the plan amendment, is entitled
14 to the greater of the accrued benefit under such
15 terms or the accrued benefit under the terms of the
16 plan in effect immediately before the effective date.

17 “(g) APPLICABLE PENSION PLAN.—For purposes of
18 this section, the term ‘applicable pension plan’ means—

19 “(1) a defined benefit plan, or

20 “(2) an individual account plan which is subject
21 to the funding standards of section 412.”

22 (2) CONFORMING AMENDMENT.—The table of
23 sections for chapter 43 of subtitle D is amended by
24 adding at the end the following new item:

“Sec. 4980F. Failure of defined benefit plans reducing benefit accruals to satisfy notice requirements.”

1 (b) AMENDMENT TO ERISA.—Section 204(h) of the
2 Employee Retirement Income Security Act of 1974 (29
3 U.S.C. 1054(h)) is amended to read as follows:

4 “(h)(1) An applicable pension plan may not adopt an
5 amendment which has the effect of significantly reducing
6 the rate of future benefit accrual of 1 or more participants
7 (including any elimination or reduction of an early retire-
8 ment benefit or retirement-type subsidy) unless the plan
9 administrator provides, not later than the 30th day before
10 the effective date of the amendment, written notice to each
11 applicable individual (and to each employee organization
12 representing applicable individuals) which—

13 “(A) sets forth the plan amendment and its ef-
14 fective date, and

15 “(B) includes sufficient information (as deter-
16 mined in accordance with regulations prescribed by
17 the Secretary of the Treasury) to allow applicable in-
18 dividuals to understand how the amendment gen-
19 erally affects different classes of employees.

20 “(2)(A) If a plan amendment to which paragraph (1)
21 applies—

22 “(i) either—

23 “(I) provides for a significant change in
24 the manner in which the accrued benefit is de-
25 termined under the plan, or

1 “(II) requires an applicable individual to
2 choose between 2 or more benefit formulas, and
3 “(ii) may reasonably be expected to affect such
4 applicable individual,
5 the plan shall, not later than the date which is 6 months
6 after the effective date of the amendment, provide written
7 notice to such applicable individual which includes the in-
8 formation described in subparagraph (B).

9 “(B) The notice under subparagraph (A) shall in-
10 clude the following information:

11 “(i) The accrued benefit (and if the amendment
12 adds the option of an immediate lump sum distribu-
13 tion, the present value of the accrued benefit) as of
14 the effective date, determined under the terms of the
15 plan in effect immediately before the effective date.

16 “(ii) The accrued benefit as of the effective
17 date, determined under the terms of the plan in ef-
18 fect on the effective date and without regard to any
19 minimum accrued benefit required by reason of sec-
20 tion 204(g).

21 “(iii) Sufficient information (as determined in
22 accordance with regulations prescribed by the Sec-
23 retary of the Treasury) for an applicable individual
24 to compute their projected accrued benefit under the
25 terms of the plan in effect on the effective date or

1 to acquire information necessary to compute such
2 projected accrued benefit.

3 “(C) A plan may, in lieu of the information described
4 in subparagraph (B)(iii), include a determination of an ap-
5 plicable individual’s projected accrued benefit under the
6 terms of the plan in effect on the effective date. Such de-
7 termination shall include a disclosure of the assumptions
8 used by the plan in determining such benefit and such as-
9 sumptions must be reasonable in the aggregate.

10 “(D) For purposes of this paragraph, an applicable
11 individual’s accrued benefit and projected accrued benefit
12 shall be computed—

13 “(i) as if the accrued benefit were in the form
14 of a single life annuity commencing at normal retire-
15 ment age (and by taking into account any early re-
16 tirement subsidy), and

17 “(ii) by using the applicable mortality table and
18 the applicable interest rate under section
19 205(g)(3)(A).

20 “(3) If a plan amendment to which paragraph (1)
21 applies requires an applicable individual to choose between
22 2 or more benefit formulas, the Secretary of the Treasury
23 may, after consultation with the Secretary—

1 “(A) require additional information to be pro-
2 vided in either of the notices described in paragraph
3 (1) or (2), and

4 “(B) require either of such notices to be pro-
5 vided at a time other than the time required under
6 either such paragraph.

7 “(4) A plan shall not be treated as failing to meet
8 the requirements of paragraph (1) or (2) merely because
9 notice is provided before the adoption of the plan amend-
10 ment if no material modification of the amendment occurs
11 before the amendment is adopted.

12 “(5) Any notice under paragraph (1) or (2) may be
13 provided to a person designated, in writing, by the person
14 to which it would otherwise be provided.

15 “(6)(A) For purposes of this subsection, the term ‘ap-
16 plicable individual’ means, with respect to any plan
17 amendment—

18 “(i) any participant in the plan, and

19 “(ii) any beneficiary who is an alternate payee
20 (within the meaning of section 206(d)(3)(K)) under
21 an applicable qualified domestic relations order
22 (within the meaning of section 206(d)(3)(B)).

23 “(B) Such term shall not include a participant who
24 has less than 1 year of participation (within the meaning

1 of section 204(b)(4)) under the plan as of the effective
2 date of the plan amendment.

3 “(C) Such term shall not include a participant or
4 beneficiary who, under the terms of the plan as of the ef-
5 fective date of the plan amendment, is entitled to the
6 greater of the accrued benefit under such terms or the
7 accrued benefit under the terms of the plan in effect im-
8 mediately before the effective date.

9 “(7) For purposes of this subsection, the term ‘appli-
10 cable pension plan’ means—

11 “(A) a defined benefit plan, or

12 “(B) an individual account plan which is sub-
13 ject to the funding standards of section 302.”

14 (c) EFFECTIVE DATES.—

15 (1) IN GENERAL.—The amendments made by
16 this section shall apply to plan amendments taking
17 effect on or after the date of the enactment of this
18 Act.

19 (2) SPECIAL RULE FOR COLLECTIVELY BAR-
20 GAINED PLANS.—In the case of a plan maintained
21 pursuant to 1 or more collective bargaining agree-
22 ments between employee representatives and 1 or
23 more employers ratified by the date of the enact-
24 ment of this Act, the amendments made by this sec-

1 tion shall not apply to plan amendments taking ef-
2 fect before the earlier of—

3 (A) the later of—

4 (i) the date on which the last of such
5 collective bargaining agreements termi-
6 nates (determined without regard to any
7 extension thereof on or after such date of
8 enactment), or

9 (ii) January 1, 2000, or

10 (B) January 1, 2002.

11 (3) SPECIAL RULE.—The period for providing
12 any notice required by the amendments made by this
13 section shall not end before the date which is 3
14 months after the date of the enactment of this Act.

15 **SEC. 345. PROTECTION OF INVESTMENT OF EMPLOYEE**

16 **CONTRIBUTIONS TO 401(K) PLANS.**

17 (a) IN GENERAL.—Section 1524(b) of the Taxpayer
18 Relief Act of 1997 is amended to read as follows:

19 “(b) EFFECTIVE DATE.—

20 “(1) IN GENERAL.—Except as provided in para-
21 graph (2), the amendments made by this section
22 shall apply to elective deferrals for plan years begin-
23 ning after December 31, 1998.

24 “(2) NONAPPLICATION TO PREVIOUSLY AC-
25 QUIRED PROPERTY.—The amendments made by this

1 section shall not apply to any elective deferral used
2 to acquire an interest in the income or gain from
3 employer securities or employer real property ac-
4 quired—

5 “(A) before January 1, 1999, or

6 “(B) after such date pursuant to a written
7 contract which was binding on such date and at
8 all times thereafter on such plan.”

9 (b) EFFECTIVE DATE.—The amendment made by
10 this section shall apply as if included in the provision of
11 the Taxpayer Relief Act of 1997 to which it relates.

12 **SEC. 346. TREATMENT OF MULTIEMPLOYER PLANS UNDER**
13 **SECTION 415.**

14 (a) COMPENSATION LIMIT.—Paragraph (11) of sec-
15 tion 415(b) (relating to limitation for defined benefit
16 plans) is amended to read as follows:

17 “(11) SPECIAL LIMITATION RULE FOR GOVERN-
18 MENTAL AND MULTIEMPLOYER PLANS.—In the case
19 of a governmental plan (as defined in section
20 414(d)) or a multiemployer plan (as defined in sec-
21 tion 414(f)), subparagraph (B) of paragraph (1)
22 shall not apply.”

23 (b) COMBINING AND AGGREGATION OF PLANS.—

1 (1) COMBINING OF PLANS.—Subsection (f) of
2 section 415 (relating to combining of plans) is
3 amended by adding at the end the following:

4 “(3) EXCEPTION FOR MULTIEMPLOYER
5 PLANS.—Notwithstanding paragraph (1) and sub-
6 section (g), a multiemployer plan (as defined in sec-
7 tion 414(f)) shall not be combined or aggregated
8 with any other plan maintained by an employer for
9 purposes of applying the limitations established in
10 this section. The preceding sentence shall not apply
11 for purposes of applying subsection (b)(1)(A) to a
12 plan which is not a multiemployer plan.”

13 (2) CONFORMING AMENDMENT FOR AGGREGA-
14 TION OF PLANS.—Subsection (g) of section 415 (re-
15 lating to aggregation of plans) is amended by strik-
16 ing “The Secretary” and inserting “Except as pro-
17 vided in subsection (f)(3), the Secretary”.

18 (c) APPLICATION OF SPECIAL EARLY RETIREMENT
19 RULES.—Section 415(b)(2)(F) (relating to plans main-
20 tained by governments and tax-exempt organizations) is
21 amended—

22 (1) by inserting “a multiemployer plan (within
23 the meaning of section 414(f)),” after “section
24 414(d)),”, and

25 (2) by striking the heading and inserting:

1 “(F) SPECIAL EARLY RETIREMENT RULES
2 FOR CERTAIN PLANS.—”.

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

6 **Subtitle F—Encouraging**
7 **Retirement Education**

8 **SEC. 351. PERIODIC PENSION BENEFITS STATEMENTS.**

9 (a) IN GENERAL.—Section 105(a) of the Employee
10 Retirement Income Security Act of 1974 (29 U.S.C. 1025
11 (a)) is amended to read as follows:

12 “(a)(1) Except as provided in paragraph (2)—

13 “(A) the administrator of an individual account
14 plan shall furnish a pension benefit statement—

15 “(i) to a plan participant at least once an-
16 nually, and

17 “(ii) to a plan beneficiary upon written re-
18 quest, and

19 “(B) the administrator of a defined benefit plan
20 shall furnish a pension benefit statement—

21 “(i) at least once every 3 years to each
22 participant with a nonforfeitable accrued bene-
23 fit who is employed by the employer maintain-
24 ing the plan at the time the statement is fur-
25 nished to participants, and

1 “(ii) to a participant or beneficiary of the
2 plan upon written request.

3 “(2) Notwithstanding paragraph (1), the adminis-
4 trator of a plan to which more than 1 unaffiliated em-
5 ployer is required to contribute shall only be required to
6 furnish a pension benefit statement under paragraph (1)
7 upon the written request of a participant or beneficiary
8 of the plan.

9 “(3) A pension benefit statement under paragraph
10 (1)—

11 “(A) shall indicate, on the basis of the latest
12 available information—

13 “(i) the total benefits accrued, and

14 “(ii) the nonforfeitable pension benefits, if
15 any, which have accrued, or the earliest date on
16 which benefits will become nonforfeitable,

17 “(B) shall be written in a manner calculated to
18 be understood by the average plan participant, and

19 “(C) may be provided in written, electronic, tel-
20 ephonic, or other appropriate form.

21 “(4) In the case of a defined benefit plan, the require-
22 ments of paragraph (1)(B)(i) shall be treated as met with
23 respect to a participant if the administrator provides the
24 participant at least once each year with notice of the avail-
25 ability of the pension benefit statement and the ways in

1 which the participant may obtain such statement. Such
2 notice shall be provided in written, electronic, telephonic,
3 or other appropriate form, and may be included with other
4 communications to the participant if done in a manner
5 reasonably designed to attract the attention of the partici-
6 pant.”

7 (b) CONFORMING AMENDMENTS.—

8 (1) Section 105 of the Employee Retirement In-
9 come Security Act of 1974 (29 U.S.C. 1025) is
10 amended by striking subsection (d).

11 (2) Section 105(b) of such Act (29 U.S.C.
12 1025(b)) is amended to read as follows:

13 “(b) In no case shall a participant or beneficiary of
14 a plan be entitled to more than one statement described
15 in subsection (a)(1)(A) or (a)(1)(B)(ii), whichever is appli-
16 cable, in any 12-month period.”

17 (c) EFFECTIVE DATE.—The amendments made by
18 this section shall apply to plan years beginning after De-
19 cember 31, 2000.

20 **SEC. 352. CLARIFICATION OF TREATMENT OF EMPLOYER-**
21 **PROVIDED RETIREMENT ADVICE.**

22 (a) IN GENERAL.—Subsection (a) of section 132 (re-
23 lating to exclusion from gross income) is amended by
24 striking “or” at the end of paragraph (5), by striking the

1 period at the end of paragraph (6) and inserting “, or”,
2 and by adding at the end the following new paragraph:

3 “(7) qualified retirement planning services.”

4 (b) QUALIFIED RETIREMENT PLANNING SERVICES
5 DEFINED.—Section 132 is amended by redesignating sub-
6 section (m) as subsection (n) and by inserting after sub-
7 section (l) the following:

8 “(m) QUALIFIED RETIREMENT PLANNING SERV-
9 ICES.—

10 “(1) IN GENERAL.—For purposes of this sec-
11 tion, the term ‘qualified retirement planning serv-
12 ices’ means any retirement planning service provided
13 to an employee and his spouse by an employer main-
14 taining a qualified employer plan.

15 “(2) NONDISCRIMINATION RULE.—Subsection
16 (a)(7) shall apply in the case of highly compensated
17 employees only if such services are available on sub-
18 stantially the same terms to each member of the
19 group of employees normally provided education and
20 information regarding the employer’s qualified em-
21 ployer plan.

22 “(3) QUALIFIED EMPLOYER PLAN.—For pur-
23 poses of this subsection, the term ‘qualified employer
24 plan’ means a plan, contract, pension, or account de-
25 scribed in section 219(g)(5).”

1 (c) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to years beginning after December
3 31, 2000.

4 **Subtitle G—Reducing Regulatory**
5 **Burdens**

6 **SEC. 361. FLEXIBILITY IN NONDISCRIMINATION AND COV-**
7 **ERAGE RULES.**

8 (a) NONDISCRIMINATION.—

9 (1) IN GENERAL.—The Secretary of the Treas-
10 ury shall, by regulation, provide that a plan shall be
11 deemed to satisfy the requirements of section
12 401(a)(4) of the Internal Revenue Code of 1986 if
13 such plan satisfies the facts and circumstances test
14 under section 401(a)(4) of such Code, as in effect
15 before January 1, 1994, but only if—

16 (A) the plan satisfies conditions prescribed
17 by the Secretary to appropriately limit the
18 availability of such test, and

19 (B) the plan is submitted to the Secretary
20 for a determination of whether it satisfies such
21 test.

22 Subparagraph (B) shall only apply to the extent pro-
23 vided by the Secretary.

24 (2) EFFECTIVE DATES.—

1 (A) REGULATIONS.—The regulation re-
2 quired by subsection (a) shall apply to years be-
3 ginning after December 31, 2000.

4 (B) CONDITIONS OF AVAILABILITY.—Any
5 condition of availability prescribed by the Sec-
6 retary under paragraph (1)(A) shall not apply
7 before the first year beginning not less than
8 120 days after the date on which such condition
9 is prescribed.

10 (b) COVERAGE TEST.—

11 (1) IN GENERAL.—Section 410(b)(1) (relating
12 to minimum coverage requirements) is amended by
13 adding at the end the following:

14 “(D) In the case that the plan fails to
15 meet the requirements of subparagraphs (A),
16 (B) and (C), the plan—

17 “(i) satisfies subparagraph (B), as in
18 effect immediately before the enactment of
19 the Tax Reform Act of 1986,

20 “(ii) is submitted to the Secretary for
21 a determination of whether it satisfies the
22 requirement described in clause (i), and

23 “(iii) satisfies conditions prescribed by
24 the Secretary by regulation that appro-

1 priately limit the availability of this sub-
2 paragraph.

3 Clause (ii) shall apply only to the extent pro-
4 vided by the Secretary.”.

5 (2) EFFECTIVE DATES.—

6 (A) IN GENERAL.—The amendment made
7 by subsection (a) shall apply to years beginning
8 after December 31, 2000.

9 (B) CONDITIONS OF AVAILABILITY.—Any
10 condition of availability prescribed by the Sec-
11 retary under regulations prescribed by the Sec-
12 retary under section 410(b)(1)(D) of the Inter-
13 nal Revenue Code of 1986 shall not apply be-
14 fore the first year beginning not less than 120
15 days after the date on which such condition is
16 prescribed.

17 **SEC. 362. MODIFICATION OF TIMING OF PLAN VALUATIONS.**

18 (a) IN GENERAL.—Section 412(c)(9) (relating to an-
19 nual valuation) is amended—

20 (1) by striking “For purposes” and inserting
21 the following:

22 “(A) IN GENERAL.—For purposes”, and

23 (2) by adding at the end the following:

24 “(B) ELECTION TO USE PRIOR YEAR
25 VALUATION.—

1 under the regulations under subpara-
2 graph (A).

3 “(iii) ADJUSTMENTS.—Information
4 under clause (i) shall, in accordance with
5 regulations, be actuarially adjusted to re-
6 flect significant differences in participants.

7 “(iv) ELECTION.—An election under
8 this subparagraph, once made, shall be ir-
9 revocable without the consent of the Sec-
10 retary.”

11 (b) AMENDMENTS TO ERISA.—Paragraph (9) of
12 section 302(c) of the Employee Retirement Income Secu-
13 rity Act of 1974 (29 U.S.C. 1053(c)) is amended—

14 (1) by inserting “(A)” after “(9)”, and

15 (2) by adding at the end the following:

16 “(B)(i) Except as provided in clause (ii), if, for any
17 plan year—

18 “(I) an election is in effect under this subpara-
19 graph with respect to a plan, and

20 “(II) the assets of the plan are not less than
21 125 percent of the plan’s current liability (as defined
22 in paragraph (7)(B)), determined as of the valuation
23 date for the preceding plan year,

24 then this section shall be applied using the information
25 available as of such valuation date.

1 “(ii)(I) Clause (i) shall not apply for more than 2
2 consecutive plan years and valuation shall be under sub-
3 paragraph (A) with respect to any plan year to which
4 clause (i) does not apply by reason of this subclause.

5 “(II) Clause (i) shall not apply to the extent that
6 more frequent valuations are required under the regula-
7 tions under subparagraph (A).

8 “(iii) Information under clause (i) shall, in accord-
9 ance with regulations, be actuarially adjusted to reflect
10 significant differences in participants.

11 “(iv) An election under this subparagraph, once
12 made, shall be irrevocable without the consent of the Sec-
13 retary of the Treasury.”

14 (c) EFFECTIVE DATE.—The amendments made by
15 this section shall apply to plan years beginning after De-
16 cember 31, 2000.

17 **SEC. 363. SUBSTANTIAL OWNER BENEFITS IN TERMINATED**
18 **PLANS.**

19 (a) MODIFICATION OF PHASE-IN OF GUARANTEE.—
20 Section 4022(b)(5) of the Employee Retirement Income
21 Security Act of 1974 (29 U.S.C. 1322(b)(5)) is amended
22 to read as follows:

23 “(5)(A) For purposes of this paragraph, the term
24 ‘majority owner’ means an individual who, at any time

1 during the 60-month period ending on the date the deter-
2 mination is being made—

3 “(i) owns the entire interest in an unincor-
4 porated trade or business,

5 “(ii) in the case of a partnership, is a partner
6 who owns, directly or indirectly, 50 percent or more
7 of either the capital interest or the profits interest
8 in such partnership, or

9 “(iii) in the case of a corporation, owns, directly
10 or indirectly, 50 percent or more in value of either
11 the voting stock of that corporation or all the stock
12 of that corporation.

13 For purposes of clause (iii), the constructive ownership
14 rules of section 1563(e) of the Internal Revenue Code of
15 1986 shall apply (determined without regard to section
16 1563(e)(3)(C)).

17 “(B) In the case of a participant who is a majority
18 owner, the amount of benefits guaranteed under this sec-
19 tion shall equal the product of—

20 “(i) a fraction (not to exceed 1) the numerator
21 of which is the number of years from the later of the
22 effective date or the adoption date of the plan to the
23 termination date, and the denominator of which is
24 10, and

1 “(ii) the amount of benefits that would be guar-
2 anteed under this section if the participant were not
3 a majority owner.”

4 (b) MODIFICATION OF ALLOCATION OF ASSETS.—

5 (1) Section 4044(a)(4)(B) of the Employee Re-
6 tirement Income Security Act of 1974 (29 U.S.C.
7 1344(a)(4)(B)) is amended by striking “section
8 4022(b)(5)” and inserting “section 4022(b)(5)(B)”.

9 (2) Section 4044(b) of such Act (29 U.S.C.
10 1344(b)) is amended—

11 (A) by striking “(5)” in paragraph (2) and
12 inserting “(4), (5),” and

13 (B) by redesignating paragraphs (3)
14 through (6) as paragraphs (4) through (7), re-
15 spectively, and by inserting after paragraph (2)
16 the following:

17 “(3) If assets available for allocation under
18 paragraph (4) of subsection (a) are insufficient to
19 satisfy in full the benefits of all individuals who are
20 described in that paragraph, the assets shall be allo-
21 cated first to benefits described in subparagraph (A)
22 of that paragraph. Any remaining assets shall then
23 be allocated to benefits described in subparagraph
24 (B) of that paragraph. If assets allocated to such
25 subparagraph (B) are insufficient to satisfy in full

1 the benefits described in that subparagraph, the as-
2 sets shall be allocated pro rata among individuals on
3 the basis of the present value (as of the termination
4 date) of their respective benefits described in that
5 subparagraph.”

6 (c) CONFORMING AMENDMENTS.—

7 (1) Section 4021 of the Employee Retirement
8 Income Security Act of 1974 (29 U.S.C. 1321) is
9 amended—

10 (A) in subsection (b)(9), by striking “as
11 defined in section 4022(b)(6)”, and

12 (B) by adding at the end the following:

13 “(d) For purposes of subsection (b)(9), the term ‘sub-
14 stantial owner’ means an individual who, at any time dur-
15 ing the 60-month period ending on the date the determina-
16 tion is being made—

17 “(1) owns the entire interest in an unincor-
18 porated trade or business,

19 “(2) in the case of a partnership, is a partner
20 who owns, directly or indirectly, more than 10 per-
21 cent of either the capital interest or the profits inter-
22 est in such partnership, or

23 “(3) in the case of a corporation, owns, directly
24 or indirectly, more than 10 percent in value of either

1 the voting stock of that corporation or all the stock
2 of that corporation.

3 For purposes of paragraph (3), the constructive ownership
4 rules of section 1563(e) of the Internal Revenue Code of
5 1986 shall apply (determined without regard to section
6 1563(e)(3)(C)).”

7 (2) Section 4043(c)(7) of such Act (29 U.S.C.
8 1343(c)(7)) is amended by striking “section 4022(b)(6)”
9 and inserting “section 4021(d)”.

10 (d) EFFECTIVE DATES.—

11 (1) IN GENERAL.—Except as provided in para-
12 graph (2), the amendments made by this section
13 shall apply to plan terminations—

14 (A) under section 4041(c) of the Employee
15 Retirement Income Security Act of 1974 (29
16 U.S.C. 1341(c)) with respect to which notices
17 of intent to terminate are provided under sec-
18 tion 4041(a)(2) of such Act (29 U.S.C.
19 1341(a)(2)) after December 31, 2000, and

20 (B) under section 4042 of such Act (29
21 U.S.C. 1342) with respect to which proceedings
22 are instituted by the corporation after such
23 date.

1 (2) CONFORMING AMENDMENTS.—The amend-
2 ments made by subsection (c) shall take effect on
3 the date of enactment of this Act.

4 **SEC. 364. ESOP DIVIDENDS MAY BE REINVESTED WITHOUT**
5 **LOSS OF DIVIDEND DEDUCTION.**

6 (a) IN GENERAL.—Section 404(k)(2)(A) (defining
7 applicable dividends) is amended by striking “or” at the
8 end of clause (ii), by redesignating clause (iii) as clause
9 (iv), and by inserting after clause (ii) the following new
10 clause:

11 “(iii) is, at the election of such par-
12 ticipants or their beneficiaries—

13 “(I) payable as provided in clause
14 (i) or (ii), or

15 “(II) paid to the plan and rein-
16 vested in qualifying employer securi-
17 ties, or”.

18 (b) EFFECTIVE DATE.—The amendments made by
19 this section shall apply to taxable years beginning after
20 December 31, 2000.

21 **SEC. 365. NOTICE AND CONSENT PERIOD REGARDING DIS-**
22 **TRIBUTIONS.**

23 (a) EXPANSION OF PERIOD.—

24 (1) IN GENERAL.—

1 (A) AMENDMENT OF INTERNAL REVENUE
2 CODE OF 1986.—Subparagraph (A) of section
3 417(a)(6) is amended by striking “90-day” and
4 inserting “1-year”.

5 (B) AMENDMENT TO ERISA.—Subpara-
6 graph (A) of section 205(c)(7) of the Employee
7 Retirement Income Security Act of 1974 (29
8 U.S.C. 1055(c)(7)) is amended by striking “90-
9 day” and inserting “1-year”.

10 (2) MODIFICATION OF REGULATIONS.—The
11 Secretary of the Treasury shall modify the regula-
12 tions under sections 402(f), 411(a)(11), and 417 of
13 the Internal Revenue Code of 1986 to substitute “1-
14 year” for “90 days” each place it appears in Treas-
15 ury Regulations sections 1.402(f)–1, 1.411(a)–11(c),
16 and 1.417(e)–1(b).

17 (3) EFFECTIVE DATE.—The amendments made
18 by paragraph (1) and the modifications required by
19 paragraph (2) shall apply to years beginning after
20 December 31, 2000.

21 (b) CONSENT REGULATION INAPPLICABLE TO CER-
22 TAIN DISTRIBUTIONS.—

23 (1) IN GENERAL.—The Secretary of the Treas-
24 ury shall modify the regulations under section
25 411(a)(11) of the Internal Revenue Code of 1986 to

1 provide that the description of a participant's right,
2 if any, to defer receipt of a distribution shall also de-
3 scribe the consequences of failing to defer such re-
4 ceipt.

5 (2) EFFECTIVE DATE.—The modifications re-
6 quired by paragraph (1) shall apply to years begin-
7 ning after December 31, 2000.

8 **SEC. 366. REPEAL OF TRANSITION RULE RELATING TO CER-**
9 **TAIN HIGHLY COMPENSATED EMPLOYEES.**

10 (a) IN GENERAL.—Paragraph (4) of section 1114(c)
11 of the Tax Reform Act of 1986 is hereby repealed.

12 (b) EFFECTIVE DATE.—The repeal made by sub-
13 section (a) shall apply to plan years beginning after De-
14 cember 31, 1999.

15 **SEC. 367. EMPLOYEES OF TAX-EXEMPT ENTITIES.**

16 (a) IN GENERAL.—The Secretary of the Treasury
17 shall modify Treasury Regulations section 1.410(b)–6(g)
18 to provide that employees of an organization described in
19 section 403(b)(1)(A)(i) of the Internal Revenue Code of
20 1986 who are eligible to make contributions under section
21 403(b) of such Code pursuant to a salary reduction agree-
22 ment may be treated as excludable with respect to a plan
23 under section 401 (k) or (m) of such Code that is provided
24 under the same general arrangement as a plan under such
25 section 401(k), if—

1 (1) The headings for subparagraph (G) of sec-
2 tion 401(a)(5) and subparagraph (H) of section
3 401(a)(26) are each amended by inserting “AND
4 INTERNATIONAL ORGANIZATION” after “GOVERN-
5 MENTAL”.

6 (2) Subparagraph (G) of section 401(k)(3) is
7 amended by inserting “STATE AND LOCAL GOVERN-
8 MENTAL AND INTERNATIONAL ORGANIZATION
9 PLANS.—” after “(G)”.

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

13 **SEC. 369. ANNUAL REPORT DISSEMINATION.**

14 (a) IN GENERAL.—Section 104(b)(3) of the Em-
15 ployee Retirement Income Security Act of 1974 (29
16 U.S.C. 1024(b)(3)) is amended by striking “shall furnish”
17 and inserting “shall make available for examination (and,
18 upon request, shall furnish)”.

19 (b) EFFECTIVE DATE.—The amendment made by
20 this section shall apply to reports for years beginning after
21 December 31, 1998.

1 **SEC. 370. MODIFICATION OF EXCLUSION FOR EMPLOYER**
2 **PROVIDED TRANSIT PASSES.**

3 (a) IN GENERAL.—Section 132(f)(3) (relating to
4 cash reimbursements) is amended by striking the last sen-
5 tence.

6 (b) EFFECTIVE DATE.—The amendment made by
7 this section shall apply to taxable years beginning after
8 December 31, 1999.

9 **Subtitle H—Plan Amendments**

10 **SEC. 371. 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—

24 (A) pursuant to any amendment made by
25 this title, or pursuant to any regulation issued
26 under this title, and

1 (B) on or before the last day of the first
2 plan year beginning on or after January 1,
3 2003.

4 In the case of a government plan (as defined in sec-
5 tion 414(d) of the Internal Revenue Code of 1986),
6 this paragraph shall be applied by substituting
7 “2005” for “2003”.

8 (2) CONDITIONS.—This section shall not apply
9 to any amendment unless—

10 (A) during the period—

11 (i) beginning on the date the legisla-
12 tive or regulatory amendment described in
13 paragraph (1)(A) takes effect (or in the
14 case of a plan or contract amendment not
15 required by such legislative or regulatory
16 amendment, the effective date specified by
17 the plan), and

18 (ii) ending on the date described in
19 paragraph (1)(B) (or, if earlier, the date
20 the plan or contract amendment is adopt-
21 ed),

22 the plan or contract is operated as if such plan
23 or contract amendment were in effect, and

24 (B) such plan or contract amendment ap-
25 plies retroactively for such period.

1 **TITLE IV—EDUCATION TAX**
2 **RELIEF PROVISIONS**

3 **SEC. 401. ELIMINATION OF 60-MONTH LIMIT AND INCREASE**
4 **IN INCOME LIMITATION ON STUDENT LOAN**
5 **INTEREST DEDUCTION.**

6 (a) **ELIMINATION OF 60-MONTH LIMIT.—**

7 (1) **IN GENERAL.—**Section 221 (relating to in-
8 terest on education loans) is amended by striking
9 subsection (d) and by redesignating subsections (e),
10 (f), and (g) as subsections (d), (e), and (f), respec-
11 tively.

12 (2) **CONFORMING AMENDMENT.—**Section
13 6050S(e) is amended by striking “section 221(e)(1)”
14 and inserting “section 221(d)(1)”.

15 (3) **EFFECTIVE DATE.—**The amendments made
16 by this subsection shall apply with respect to any
17 loan interest paid after December 31, 1999, in tax-
18 able years ending after such date.

19 (b) **INCREASE IN INCOME LIMITATION.—**

20 (1) **IN GENERAL.—**Section 221(b)(2)(B) (relat-
21 ing to amount of reduction) is amended by striking
22 clauses (i) and (ii) and inserting the following:

23 “(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 end-
13 ing after December 31, 1999.

14 **SEC. 402. MODIFICATIONS TO QUALIFIED TUITION PRO-**
15 **GRAMS.**

16 (a) ELIGIBLE EDUCATIONAL INSTITUTIONS PER-
17 MITTED TO MAINTAIN QUALIFIED TUITION PROGRAMS.—

18 (1) IN GENERAL.—Section 529(b)(1) (defining
19 qualified State tuition program) is amended by in-
20 serting “or by 1 or more eligible educational institu-
21 tions” after “maintained by a State or agency or in-
22 strumentality thereof”.

23 (2) PRIVATE QUALIFIED TUITION PROGRAMS
24 LIMITED TO BENEFIT PLANS.—Clause (ii) of section
25 529(b)(1)(A) is amended by inserting “in the case of

1 a program established and maintained by a State or
2 agency or instrumentality thereof,” before “may
3 make”.

4 (3) CONFORMING AMENDMENTS.—

5 (A) Sections 72(e)(9), 135(c)(2)(C),
6 135(d)(1)(D), 529, 530(b)(2)(B), 4973(e), and
7 6693(a)(2)(C) are each amended by striking
8 “qualified State tuition” each place it appears
9 and inserting “qualified tuition”.

10 (B) The headings for sections 72(e)(9) and
11 135(c)(2)(C) are each amended by striking
12 “QUALIFIED STATE TUITION” and inserting
13 “QUALIFIED TUITION”.

14 (C) The headings for sections 529(b) and
15 530(b)(2)(B) are each amended by striking
16 “QUALIFIED STATE TUITION” and inserting
17 “QUALIFIED TUITION”.

18 (D) The heading for section 529 is amend-
19 ed by striking “**STATE**”.

20 (E) The item relating to section 529 in the
21 table of sections for part VIII of subchapter F
22 of chapter 1 is amended by striking “State”.

23 (b) EXCLUSION FROM GROSS INCOME OF EDU-
24 CATION DISTRIBUTIONS FROM QUALIFIED TUITION PRO-
25 GRAMS.—

1 amount as such expenses bear to such
2 distributions.

3 “(iii) EXCEPTION FOR INSTITUTIONAL
4 PROGRAMS.—In the case of any taxable
5 year beginning before January 1, 2004,
6 clauses (i) and (ii) shall not apply with re-
7 spect to any distribution during such tax-
8 able year under a qualified tuition program
9 established and maintained by 1 or more
10 eligible educational institutions.

11 “(iv) TREATMENT AS DISTRIBU-
12 TIONS.—Any benefit furnished to a des-
13 ignated beneficiary under a qualified tui-
14 tion program shall be treated as a distribu-
15 tion to the beneficiary for purposes of this
16 paragraph.

17 “(v) COORDINATION WITH HOPE AND
18 LIFETIME LEARNING CREDITS.—The total
19 amount of qualified higher education ex-
20 penses with respect to an individual for the
21 taxable year shall be reduced—

22 “(I) as provided in section
23 25A(g)(2), and

24 “(II) by the amount of such ex-
25 penses which were taken into account

1 in determining the credit allowed to
2 the taxpayer or any other person
3 under section 25A.

4 “(vi) COORDINATION WITH EDU-
5 CATION INDIVIDUAL RETIREMENT AC-
6 COUNTS.—If, with respect to an individual
7 for any taxable year—

8 “(I) the aggregate distributions
9 to which clauses (i) and (ii) and sec-
10 tion 530(d)(2)(A) apply, exceed

11 “(II) the total amount of quali-
12 fied higher education expenses other-
13 wise taken into account under clauses
14 (i) and (ii) (after the application of
15 clause (v)) for such year,

16 the taxpayer shall allocate such expenses
17 among such distributions for purposes of
18 determining the amount of the exclusion
19 under clauses (i) and (ii) and section
20 530(d)(2)(A).”

21 (2) CONFORMING AMENDMENTS.—

22 (A) Section 135(d)(2)(B) is amended by
23 striking “the exclusion under section
24 530(d)(2)” and inserting “the exclusions under
25 sections 529(c)(3)(B)(i) and 530(d)(2)”.

1 (B) Section 221(e)(2)(A) is amended by
2 inserting “529,” after “135,”.

3 (c) COORDINATION WITH HOPE AND LIFETIME
4 LEARNING CREDITS AND QUALIFIED TUITION PRO-
5 GRAMS.—

6 (1) IN GENERAL.—Section 530(d)(2)(C) is
7 amended to read as follows:

8 “(C) COORDINATION WITH HOPE AND
9 LIFETIME LEARNING CREDITS AND QUALIFIED
10 TUITION PROGRAMS.—For purposes of subpara-
11 graph (A)—

12 “(i) CREDIT COORDINATION.—The
13 total amount of qualified higher education
14 expenses with respect to an individual for
15 the taxable year shall be reduced—

16 “(I) as provided in section
17 25A(g)(2), and

18 “(II) by the amount of such ex-
19 penses which were taken into account
20 in determining the credit allowed to
21 the taxpayer or any other person
22 under section 25A.

23 “(ii) COORDINATION WITH QUALIFIED
24 TUITION PROGRAMS.—If, with respect to
25 an individual for any taxable year—

1 “(I) the aggregate distributions
2 during such year to which subpara-
3 graph (A) and section 529(c)(3)(B)
4 apply, exceed

5 “(II) the total amount of quali-
6 fied higher education expenses other-
7 wise taken into account under sub-
8 paragraph (A) (after the application
9 of clause (i)) for such year,
10 the taxpayer shall allocate such expenses
11 among such distributions for purposes of
12 determining the amount of the exclusion
13 under subparagraph (A) and section
14 529(c)(3)(B).”

15 (2) CONFORMING AMENDMENTS.—

16 (A) Subsection (e) of section 25A is
17 amended to read as follows:

18 “(e) ELECTION TO HAVE SECTION APPLY.—No
19 credit shall be allowed under subsection (a) for a taxable
20 year with respect to the qualified tuition and related ex-
21 penses of an individual unless the taxpayer elects to have
22 this section apply with respect to such individual for such
23 year.”

24 (B) Section 135(d)(2)(A) is amended by
25 striking “allowable” and inserting “allowed”.

1 (C) Section 530(d)(2)(D) is amended—

2 (i) by striking “or credit”, and

3 (ii) by striking “CREDIT OR” in the
4 heading.

5 (d) ROLLOVER TO DIFFERENT PROGRAM FOR BENE-
6 FIT OF SAME DESIGNATED BENEFICIARY.—Section
7 529(c)(3)(C) (relating to change in beneficiaries) is
8 amended—

9 (1) by striking “transferred to the credit” in
10 clause (i) and inserting “transferred—

11 “(I) to another qualified tuition
12 program for the benefit of the des-
13 ignated beneficiary, or

14 “(II) to the credit”,

15 (2) by adding at the end the following new
16 clause:

17 “(iii) LIMITATION ON CERTAIN ROLL-
18 OVERS.—Clause (i)(I) shall not apply to
19 any amount transferred with respect to a
20 designated beneficiary if, at any time dur-
21 ing the 1-year period ending on the day of
22 such transfer, any other amount was
23 transferred with respect to such beneficiary
24 which was not includible in gross income
25 by reason of clause (i)(I).”, and

1 (3) by inserting “OR PROGRAMS” after “BENE-
2 FICIARIES” in the heading.

3 (e) MEMBER OF FAMILY INCLUDES FIRST COUS-
4 IN.—Section 529(e)(2) (defining member of family) is
5 amended by striking “and” at the end of subparagraph
6 (B), by striking the period at the end of subparagraph
7 (C) and by inserting “; and”, and by adding at the end
8 the following new subparagraph:

9 “(D) any first cousin of such beneficiary.”

10 (f) DEFINITION OF QUALIFIED HIGHER EDUCATION
11 EXPENSES.—

12 (1) IN GENERAL.—Subparagraph (A) of section
13 529(e)(3) (relating to definition of qualified higher
14 education expenses) is amended to read as follows:

15 “(A) IN GENERAL.—The term ‘qualified
16 higher education expenses’ means—

17 “(i) tuition and fees required for the
18 enrollment or attendance of a designated
19 beneficiary at an eligible educational insti-
20 tution for courses of instruction of such
21 beneficiary at such institution, and

22 “(ii) expenses for books, supplies, and
23 equipment which are incurred in connec-
24 tion with such enrollment or attendance,
25 but not to exceed the allowance for books

1 and supplies included in the cost of attend-
2 ance (as defined in section 472 of the
3 Higher Education Act of 1965 (20 U.S.C.
4 10871l), as in effect on the date of enact-
5 ment of the Taxpayer Refund Act of 1999)
6 as determined by the eligible educational
7 institution.”

8 (2) EXCEPTION FOR EDUCATION INVOLVING
9 SPORTS, ETC.—Paragraph (3) of section 529(e) (re-
10 lating to qualified higher education expenses) is
11 amended by adding at the end the following new
12 subparagraph:

13 “(C) EXCEPTION FOR EDUCATION INVOLV-
14 ING SPORTS, ETC.—The term ‘qualified higher
15 education expenses’ shall not include expenses
16 with respect to any course or other education
17 involving sports, games, or hobbies unless such
18 course or other education is part of the bene-
19 ficiary’s degree program or is taken to acquire
20 or improve job skills of the beneficiary.”

21 (g) EFFECTIVE DATES.—

22 (1) IN GENERAL.—The amendments made by
23 this section shall apply to taxable years beginning
24 after December 31, 1999.

1 (2) QUALIFIED HIGHER EDUCATION EX-
2 PENSES.—The amendments made by subsection (f)
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
19 paragraph:

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
2 Act, 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
8 subsection (a) shall apply to amounts received in taxable
9 years beginning after December 31, 1993.

10 **SEC. 404. PERMANENT EXTENSION OF EXCLUSION FOR EM-**
11 **PLOYER-PROVIDED EDUCATIONAL ASSIST-**
12 **ANCE.**

13 (a) IN GENERAL.—Section 127 (relating to exclusion
14 for educational assistance programs) is amended by strik-
15 ing subsection (d).

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 individ-
23 ual pursuing a program leading to a law, business,
24 medical, or other advanced academic or professional
25 degree”.

1 (2) EFFECTIVE DATE.—The amendment made
2 by paragraph (1) shall apply with respect to ex-
3 penses relating to courses beginning after December
4 31, 1999.

5 **SEC. 405. ADDITIONAL INCREASE IN ARBITRAGE REBATE**
6 **EXCEPTION FOR GOVERNMENTAL BONDS**
7 **USED TO FINANCE EDUCATIONAL FACILI-**
8 **TIES.**

9 (a) IN GENERAL.—Section 148(f)(4)(D)(vii) (relat-
10 ing to increase in exception for bonds financing public
11 school capital expenditures) is amended by striking
12 “\$5,000,000” the second place it appears and inserting
13 “\$10,000,000”.

14 (b) EFFECTIVE DATE.—The amendment made by
15 subsection (a) shall apply to obligations issued in calendar
16 years beginning after December 31, 1999.

17 **SEC. 406. TREATMENT OF QUALIFIED PUBLIC EDU-**
18 **CATIONAL FACILITY BONDS AS EXEMPT FA-**
19 **CILITY BONDS.**

20 (a) TREATMENT AS EXEMPT FACILITY BOND.—Sub-
21 section (a) of section 142 (relating to exempt facility
22 bond) is amended by striking “or” at the end of paragraph
23 (11), by striking the period at the end of paragraph (12)
24 and inserting “, or”, and by adding at the end the follow-
25 ing new paragraph:

1 “(13) qualified public educational facilities.”

2 (b) QUALIFIED PUBLIC EDUCATIONAL FACILI-
3 TIES.—Section 142 (relating to exempt facility bond) is
4 amended by adding at the end the following new sub-
5 section:

6 “(k) QUALIFIED PUBLIC EDUCATIONAL FACILI-
7 TIES.—

8 “(1) IN GENERAL.—For purposes of subsection
9 (a)(13), the term ‘qualified public educational facil-
10 ity’ means any school facility which is—

11 “(A) part of a public elementary school or
12 a public secondary school, and

13 “(B) owned by a private, for-profit cor-
14 poration pursuant to a public-private partner-
15 ship agreement with a State or local edu-
16 cational agency described in paragraph (2).

17 “(2) PUBLIC-PRIVATE PARTNERSHIP AGREE-
18 MENT DESCRIBED.—A public-private partnership
19 agreement is described in this paragraph if it is an
20 agreement—

21 “(A) under which the corporation agrees—

22 “(i) to do 1 or more of the following:
23 construct, rehabilitate, refurbish, or equip
24 a school facility, and

1 “(ii) at the end of the term of the
2 agreement, to transfer the school facility to
3 such agency for no additional consider-
4 ation, and

5 “(B) the term of which does not exceed the
6 last maturity date of any bond which is a part
7 of the issue to be used to finance the activities
8 described in subparagraph (A)(i).

9 “(3) SCHOOL FACILITY.—For purposes of this
10 subsection, the term ‘school facility’ means—

11 “(A) school buildings,

12 “(B) functionally related and subordinate
13 facilities and land with respect to such build-
14 ings, including any stadium or other facility pri-
15 marily used for school events, and

16 “(C) any property, to which section 168
17 applies (or would apply but for section 179), for
18 use in the facility.

19 “(4) PUBLIC SCHOOLS.—For purposes of this
20 subsection, the terms ‘elementary school’ and ‘sec-
21 ondary school’ have the meanings given such terms
22 by section 14101 of the Elementary and Secondary
23 Education Act of 1965 (20 U.S.C. 8801), as in ef-
24 fect on the date of the enactment of this subsection.

1 “(5) ANNUAL AGGREGATE FACE AMOUNT OF
2 TAX-EXEMPT FINANCING.—

3 “(A) IN GENERAL.—An issue shall not be
4 treated as an issue described in subsection
5 (a)(13) if the aggregate face amount of bonds
6 issued by the State pursuant thereto (when
7 added to the aggregate face amount of bonds
8 previously so issued during the calendar year)
9 exceeds an amount equal to the greater of—

10 “(i) \$10 multiplied by the State popu-
11 lation, or

12 “(ii) \$5,000,000.

13 “(B) ALLOCATION RULES.—

14 “(i) IN GENERAL.—Except as other-
15 wise provided in this subparagraph, the
16 State may allocate the amount described in
17 subparagraph (A) for any calendar year in
18 such manner as the State determines ap-
19 propriate.

20 “(ii) RULES FOR CARRYFORWARD OF
21 UNUSED LIMITATION.—A State may elect
22 to carry forward an unused limitation for
23 any calendar year for 3 calendar years fol-
24 lowing the calendar year in which the un-
25 used limitation arose under rules similar to

1 the rules of section 146(f), except that the
2 only purpose for which the carryforward
3 may be elected is the issuance of exempt
4 facility bonds described in subsection
5 (a)(13).”

6 (c) EXEMPTION FROM GENERAL STATE VOLUME
7 CAPS.—Paragraph (3) of section 146(g) (relating to ex-
8 ception for certain bonds) is amended—

9 (1) by striking “or (12)” and inserting “(12),
10 or (13)”, and

11 (2) by striking “and environmental enhance-
12 ments of hydroelectric generating facilities” and in-
13 serting “environmental enhancements of hydro-
14 electric generating facilities, and qualified public
15 educational facilities”.

16 (d) EXEMPTION FROM LIMITATION ON USE FOR
17 LAND ACQUISITION.—Section 147(h) (relating to certain
18 rules not to apply to mortgage revenue bonds, qualified
19 student loan bonds, and qualified 501(c)(3) bonds) is
20 amended by adding at the end the following new para-
21 graph:

22 “(3) EXEMPT FACILITY BONDS FOR QUALIFIED
23 PUBLIC-PRIVATE SCHOOLS.—Subsection (c) shall not
24 apply to any exempt facility bond issued as part of

1 an issue described in section 142(a)(13) (relating to
2 qualified public educational facilities).”

3 (e) CONFORMING AMENDMENT.—The heading for
4 section 147(h) is amended by striking “MORTGAGE REVE-
5 NUE BONDS, QUALIFIED STUDENT LOAN BONDS, AND
6 QUALIFIED 501(c)(3) BONDS” and inserting “CERTAIN
7 BONDS”.

8 (f) EFFECTIVE DATE.—The amendments made by
9 this section shall apply to bonds issued after December
10 31, 1999.

11 **SEC. 407. FEDERAL GUARANTEE OF SCHOOL CONSTRUC-**
12 **TION BONDS BY FEDERAL HOME LOAN**
13 **BANKS.**

14 (a) IN GENERAL.—Section 149(b)(3) (relating to ex-
15 ceptions) is amended by adding at the end the following
16 new subparagraph:

17 “(E) CERTAIN GUARANTEED SCHOOL CON-
18 STRUCTION BONDS.—Any bond issued as part
19 of an issue 95 percent or more of the net pro-
20 ceeds of which are used for public school con-
21 struction shall not be treated as federally guar-
22 anteed by reason of any guarantee by any Fed-
23 eral Home Loan Bank under the Federal Home
24 Loan Bank Act (12 U.S.C. 1421 et seq.), to the
25 extent the Federal Housing Finance Board allo-

1 cates authority to such Bank to so guarantee
2 such bond. For purposes of the preceding sen-
3 tence, the aggregate face amount of such bonds
4 which may be so guaranteed may not exceed
5 \$500,000,000 in any calendar year.”

6 (b) EFFECTIVE DATE.—Subparagraph (E) of section
7 149(b)(3) of the Internal Revenue Code of 1986, as added
8 by the amendment made by subsection (a), shall take ef-
9 fect upon the enactment, after the date of the enactment
10 of this Act, of legislation authorizing the Federal Housing
11 Finance Board to allocate authority to Federal Home
12 Loan Banks to guarantee any bond described in such sub-
13 paragraph, but only if such legislation makes specific ref-
14 erence to such subparagraph.

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

17 **SEC. 501. DEDUCTION FOR HEALTH AND LONG-TERM CARE**
18 **INSURANCE COSTS OF INDIVIDUALS NOT**
19 **PARTICIPATING IN EMPLOYER-SUBSIDIZED**
20 **HEALTH PLANS.**

21 (a) IN GENERAL.—Part VII of subchapter B of chap-
22 ter 1 is amended by redesignating section 222 as section
23 223 and by inserting after section 221 the following new
24 section:

1 **“SEC. 222. HEALTH AND LONG-TERM CARE INSURANCE**
2 **COSTS.**

3 “(a) IN GENERAL.—In the case of an individual,
4 there shall be allowed as a deduction an amount equal to
5 the applicable percentage of the amount paid during the
6 taxable year for insurance which constitutes medical care
7 for the taxpayer and the taxpayer’s spouse and depend-
8 ents.

9 “(b) APPLICABLE PERCENTAGE.—For purposes of
10 subsection (a), the applicable percentage shall be deter-
11 mined in accordance with the following table:

“For taxable years beginning in calendar year—	The applicable percentage is—
2001, 2002, 2003	25
2004 and 2005	50
2006 and thereafter	100.

12 “(c) LIMITATION BASED ON OTHER COVERAGE.—

13 “(1) COVERAGE UNDER CERTAIN SUBSIDIZED
14 EMPLOYER PLANS.—

15 “(A) IN GENERAL.—Subsection (a) shall
16 not apply to any taxpayer for any calendar
17 month for which the taxpayer participates in
18 any health plan maintained by any employer of
19 the taxpayer or of the spouse of the taxpayer if
20 50 percent or more of the cost of coverage
21 under such plan (determined under section
22 4980B and without regard to payments made

1 with respect to any coverage described in sub-
2 section (e)) is paid or incurred by the employer.

3 “(B) EMPLOYER CONTRIBUTIONS TO CAF-
4 ETERIA PLANS, FLEXIBLE SPENDING ARRANGE-
5 MENTS, AND MEDICAL SAVINGS ACCOUNTS.—
6 Employer contributions to a cafeteria plan, a
7 flexible spending or similar arrangement, or a
8 medical savings account which are excluded
9 from gross income under section 106 shall be
10 treated for purposes of subparagraph (A) as
11 paid by the employer.

12 “(C) AGGREGATION OF PLANS OF EM-
13 PLOYER.—A health plan which is not otherwise
14 described in subparagraph (A) shall be treated
15 as described in such subparagraph if such plan
16 would be so described if all health plans of per-
17 sons treated as a single employer under sub-
18 sections (b), (c), (m), or (o) of section 414 were
19 treated as one health plan.

20 “(D) SEPARATE APPLICATION TO HEALTH
21 INSURANCE AND LONG-TERM CARE INSUR-
22 ANCE.—Subparagraphs (A) and (C) shall be
23 applied separately with respect to—

24 “(i) plans which include primarily cov-
25 erage for qualified long-term care services

1 or are qualified long-term care insurance
2 contracts, and

3 “(ii) plans which do not include such
4 coverage and are not such contracts.

5 “(2) COVERAGE UNDER CERTAIN FEDERAL
6 PROGRAMS.—

7 “(A) IN GENERAL.—Subsection (a) shall
8 not apply to any amount paid for any coverage
9 for an individual for any calendar month if, as
10 of the first day of such month, the individual is
11 covered under any medical care program de-
12 scribed in—

13 “(i) title XVIII, XIX, or XXI of the
14 Social Security Act,

15 “(ii) chapter 55 of title 10, United
16 States Code,

17 “(iii) chapter 17 of title 38, United
18 States Code,

19 “(iv) chapter 89 of title 5, United
20 States Code, or

21 “(v) the Indian Health Care Improve-
22 ment Act.

23 “(B) EXCEPTIONS.—

24 “(i) QUALIFIED LONG-TERM CARE.—
25 Subparagraph (A) shall not apply to

1 amounts paid for coverage under a quali-
2 fied long-term care insurance contract.

3 “(ii) CONTINUATION COVERAGE OF
4 FEHBP.—Subparagraph (A)(iv) shall not
5 apply to coverage which is comparable to
6 continuation coverage under section
7 4980B.

8 “(d) LONG-TERM CARE DEDUCTION LIMITED TO
9 QUALIFIED LONG-TERM CARE INSURANCE CON-
10 TRACTS.—In the case of a qualified long-term care insur-
11 ance contract, only eligible long-term care premiums (as
12 defined in section 213(d)(10)) may be taken into account
13 under subsection (a).

14 “(e) DEDUCTION NOT AVAILABLE FOR PAYMENT OF
15 ANCILLARY COVERAGE PREMIUMS.—Any amount paid as
16 a premium for insurance which provides for—

17 “(1) coverage for accidents, disability, dental
18 care, vision care, or a specified illness, or

19 “(2) making payments of a fixed amount per
20 day (or other period) by reason of being hospitalized.
21 shall not be taken into account under subsection (a).

22 “(f) SPECIAL RULES.—

23 “(1) COORDINATION WITH DEDUCTION FOR
24 HEALTH INSURANCE COSTS OF SELF-EMPLOYED IN-
25 DIVIDUALS.—The amount taken into account by the

1 taxpayer in computing the deduction under section
2 162(l) shall not be taken into account under this
3 section.

4 “(2) COORDINATION WITH MEDICAL EXPENSE
5 DEDUCTION.—The amount taken into account by
6 the taxpayer in computing the deduction under this
7 section shall not be taken into account under section
8 213.

9 “(g) REGULATIONS.—The Secretary shall prescribe
10 such regulations as may be appropriate to carry out this
11 section, including regulations requiring employers to re-
12 port to their employees and the Secretary such informa-
13 tion as the Secretary determines to be appropriate.”

14 (b) DEDUCTION ALLOWED WHETHER OR NOT TAX-
15 PAYER ITEMIZES OTHER DEDUCTIONS.—Subsection (a)
16 of section 62 is amended by inserting after paragraph (17)
17 the following new item:

18 “(18) HEALTH AND LONG-TERM CARE INSUR-
19 ANCE COSTS.—The deduction allowed by section
20 222.”

21 (c) CLERICAL AMENDMENT.—The table of sections
22 for part VII of subchapter B of chapter 1 is amended by
23 striking the last item and inserting the following new
24 items:

“Sec. 222. Health and long-term care insurance costs.

“Sec. 223. Cross reference.”

1 (c) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to taxable years beginning after
3 December 31, 2000.

4 **SEC. 502. LONG-TERM CARE INSURANCE PERMITTED TO BE**
5 **OFFERED UNDER CAFETERIA PLANS AND**
6 **FLEXIBLE SPENDING ARRANGEMENTS.**

7 (a) CAFETERIA PLANS.—

8 (1) IN GENERAL.—Subsection (f) of section 125
9 (defining qualified benefits) is amended by inserting
10 before the period at the end “; except that such term
11 shall include the payment of premiums for any quali-
12 fied long-term care insurance contract (as defined in
13 section 7702B) to the extent the amount of such
14 payment does not exceed the eligible long-term care
15 premiums (as defined in section 213(d)(10)) for
16 such contract.”

17 (b) FLEXIBLE SPENDING ARRANGEMENTS.—Section
18 106 (relating to contributions by employer to accident and
19 health plans) is amended by striking subsection (c).

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

1 **SEC. 503. ADDITIONAL PERSONAL EXEMPTION FOR TAX-**
2 **PAYER CARING FOR ELDERLY FAMILY MEM-**
3 **BER IN TAXPAYER'S HOME.**

4 (a) IN GENERAL.—Section 151 (relating to allowance
5 of deductions for personal exemptions) is amended by add-
6 ing at the end redesignating subsection (e) as subsection
7 (f) and by inserting after subsection (d) the following new
8 subsection:

9 “(e) ADDITIONAL EXEMPTION FOR CERTAIN ELDER-
10 LY FAMILY MEMBERS RESIDING WITH TAXPAYER.—

11 “(1) IN GENERAL.—An exemption of the ex-
12 emption amount for each qualified family member of
13 the taxpayer.

14 “(2) QUALIFIED FAMILY MEMBER.—For pur-
15 poses of this subsection, the term ‘qualified family
16 member’ means, with respect to any taxable year,
17 any individual—

18 “(A) who is—

19 “(i) the father or mother, or an ances-
20 tor of either, or

21 “(ii) a stepfather or stepmother,
22 of the taxpayer or of the taxpayer’s spouse or
23 former spouse,

24 “(B) who is a member for the entire tax-
25 able year of a household maintained by the tax-
26 payer, and

1 “(C) who has been certified, before the due
2 date for filing the return of tax for the taxable
3 year (without extensions), by a physician (as
4 defined in section 1861(r)(1) of the Social Se-
5 curity Act) as being an individual with long-
6 term care needs described in paragraph (3) for
7 a period—

8 “(i) which is at least 180 consecutive
9 days, and

10 “(ii) a portion of which occurs within
11 the taxable year.

12 Such term shall not include any individual oth-
13 erwise meeting the requirements of the preced-
14 ing sentence unless within the 39½ month pe-
15 riod ending on such due date (or such other pe-
16 riod as the Secretary prescribes) a physician (as
17 so defined) has certified that such individual
18 meets such requirements.

19 “(3) INDIVIDUALS WITH LONG-TERM CARE
20 NEEDS.—An individual is described in this para-
21 graph if the individual—

22 “(A) is unable to perform (without sub-
23 stantial assistance from another individual) at
24 least 2 activities of daily living (as defined in

1 section 7702B(c)(2)(B)) due to a loss of func-
2 tional capacity, or

3 “(B) requires substantial supervision to
4 protect such individual from threats to health
5 and safety due to severe cognitive impairment
6 and is unable to perform, without reminding or
7 cuing assistance, at least 1 activity of at least
8 1 activity of daily living (as so defined) or to
9 the extent provided in regulations prescribed by
10 the Secretary (in consultation with the Sec-
11 retary of Health and Human Services), is un-
12 able to engage in age appropriate activities.

13 “(4) SPECIAL RULES.—Rules similar to the
14 rules of paragraphs (1), (2), (3), (4), and (5) of sec-
15 tion 21(e) shall apply for purposes of this sub-
16 section.”

17 (b) EFFECTIVE DATE.—The amendments made by
18 this section shall apply to taxable years beginning after
19 December 31, 1999.

20 **SEC. 504. INCLUSION OF CERTAIN VACCINES AGAINST**
21 **STREPTOCOCCUS PNEUMONIAE TO LIST OF**
22 **TAXABLE VACCINES; REDUCTION IN PER**
23 **DOSE TAX RATE.**

24 (a) INCLUSION OF VACCINES.—

1 (1) IN GENERAL.—Section 4132(a)(1) (defining
2 taxable vaccine) is amended by adding at the end
3 the following new subparagraph:

4 “(L) Any conjugate vaccine against strep-
5 tococcus pneumoniae.”

6 (2) EFFECTIVE DATE.—

7 (A) SALES.—The amendment made by this
8 subsection shall apply to vaccine sales beginning
9 on the day after the date on which the Centers
10 for Disease Control makes a final recommenda-
11 tion for routine administration to children of
12 any conjugate vaccine against streptococcus
13 pneumoniae, but shall not take effect if sub-
14 section (c) does not take effect.

15 (B) DELIVERIES.—For purposes of sub-
16 paragraph (A), in the case of sales on or before
17 the date described in such subparagraph for
18 which delivery is made after such date, the de-
19 livery date shall be considered the sale date.

20 (b) REDUCTION IN PER DOSE TAX RATE.—

21 (1) IN GENERAL.—Section 4131(b)(1) (relating
22 to amount of tax) is amended by striking “75 cents”
23 and inserting “25 cents”.

24 (2) EFFECTIVE DATE.—

1 (A) SALES.—The amendment made by this
2 subsection shall apply to vaccine sales after De-
3 cember 31, 2004, but shall not take effect if
4 subsection (c) does not take effect.

5 (B) DELIVERIES.—For purposes of sub-
6 paragraph (A), in the case of sales on or before
7 the date described in such subparagraph for
8 which delivery is made after such date, the de-
9 livery date shall be considered the sale date.

10 (3) LIMITATION ON CERTAIN CREDITS OR RE-
11 FUNDS.—For purposes of applying section 4132(b)
12 of the Internal Revenue Code of 1986 with respect
13 to any claim for credit or refund filed after August
14 31, 2004, the amount of tax taken into account shall
15 not exceed the tax computed under the rate in effect
16 on January 1, 2005.

17 (c) VACCINE TAX AND TRUST FUND AMEND-
18 MENTS.—

19 (1) Sections 1503 and 1504 of the Vaccine In-
20 jury Compensation Program Modification Act (and
21 the amendments made by such sections) are hereby
22 repealed.

23 (2) Subparagraph (A) of section 9510(c)(1) is
24 amended by striking “August 5, 1997” and insert-
25 ing “October 21, 1998”.

1 (3) The amendments made by this subsection
2 shall take effect as if included in the provisions of
3 the Tax and Trade Relief Extension Act of 1998 to
4 which they relate.

5 (d) REPORT.—Not later than 1 year after the date
6 of the enactment of this Act, the Comptroller General of
7 the United States shall prepare and submit a report to
8 the Committee on Ways and Means of the House of Rep-
9 resentatives and the Committee on Finance of the Senate
10 on the operation the Vaccine Injury Compensation Trust
11 Fund and on the adequacy of such Fund to meet future
12 claims made under the Vaccine Injury Compensation Pro-
13 gram.

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

16 **SEC. 601. DEDUCTION FOR 100 PERCENT OF HEALTH IN-**
17 **SURANCE COSTS OF SELF-EMPLOYED INDI-**
18 **VIDUALS.**

19 (a) IN GENERAL.—Paragraph (1) of section 162(l)
20 is amended to read as follows:

21 “(1) ALLOWANCE OF DEDUCTION.—In the case
22 of an individual who is an employee within the
23 meaning of section 401(c)(1), there shall be allowed
24 as a deduction under this section an amount equal
25 to 100 percent of the amount paid during the tax-

1 **SEC. 604. INCOME AVERAGING FOR FARMERS NOT TO IN-**
2 **CREASE ALTERNATIVE MINIMUM TAX LIABIL-**
3 **ITY.**

4 (a) IN GENERAL.—Section 55(c) (defining regular
5 tax) is amended by redesignating paragraph (2) as para-
6 graph (3) and by inserting after paragraph (1) the follow-
7 ing:

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

12 (b) EFFECTIVE DATE.—The amendments made by
13 this section shall apply to taxable years beginning after
14 December 31, 1999.

15 **SEC. 605. FARM AND RANCH RISK MANAGEMENT AC-**
16 **COUNTS.**

17 (a) IN GENERAL.—Subpart C of part II of sub-
18 chapter E of chapter 1 (relating to taxable year for which
19 deductions taken) is amended by inserting after section
20 468B the following:

21 **“SEC. 468C. FARM AND RANCH RISK MANAGEMENT AC-**
22 **COUNTS.**

23 “(a) DEDUCTION ALLOWED.—In the case of an indi-
24 vidual engaged in an eligible farming business, there shall
25 be allowed as a deduction for any taxable year the amount
26 paid in cash by the taxpayer during the taxable year to

1 a Farm and Ranch Risk Management Account (herein-
2 after referred to as the ‘FARRM Account’).

3 “(b) LIMITATION.—The amount which a taxpayer
4 may pay into the FARRM Account for any taxable year
5 shall not exceed 20 percent of so much of the taxable in-
6 come of the taxpayer (determined without regard to this
7 section) which is attributable (determined in the manner
8 applicable under section 1301) to any eligible farming
9 business.

10 “(c) ELIGIBLE FARMING BUSINESS.—For purposes
11 of this section, the term ‘eligible farming business’ means
12 any farming business (as defined in section 263A(e)(4))
13 which is not a passive activity (within the meaning of sec-
14 tion 469(c)) of the taxpayer.

15 “(d) FARRM ACCOUNT.—For purposes of this sec-
16 tion—

17 “(1) IN GENERAL.—The term ‘FARRM Ac-
18 count’ means a trust created or organized in the
19 United States for the exclusive benefit of the tax-
20 payer, but only if the written governing instrument
21 creating the trust meets the following requirements:

22 “(A) No contribution will be accepted for
23 any taxable year in excess of the amount al-
24 lowed as a deduction under subsection (a) for
25 such year.

1 “(B) The trustee is a bank (as defined in
2 section 408(n)) or another person who dem-
3 onstrates to the satisfaction of the Secretary
4 that the manner in which such person will ad-
5 minister the trust will be consistent with the re-
6 quirements of this section.

7 “(C) The assets of the trust consist en-
8 tirely of cash or of obligations which have ade-
9 quate stated interest (as defined in section
10 1274(c)(2)) and which pay such interest not
11 less often than annually.

12 “(D) All income of the trust is distributed
13 currently to the grantor.

14 “(E) The assets of the trust will not be
15 commingled with other property except in a
16 common trust fund or common investment
17 fund.

18 “(2) ACCOUNT TAXED AS GRANTOR TRUST.—
19 The grantor of a FARRM Account shall be treated
20 for purposes of this title as the owner of such Ac-
21 count and shall be subject to tax thereon in accord-
22 ance with subpart E of part I of subchapter J of
23 this chapter (relating to grantors and others treated
24 as substantial owners).

25 “(e) INCLUSION OF AMOUNTS DISTRIBUTED.—

1 “(1) IN GENERAL.—Except as provided in para-
2 graph (2), there shall be includible in the gross in-
3 come of the taxpayer for any taxable year—

4 “(A) any amount distributed from a
5 FARRM Account of the taxpayer during such
6 taxable year, and

7 “(B) any deemed distribution under—

8 “(i) subsection (f)(1) (relating to de-
9 posits not distributed within 5 years),

10 “(ii) subsection (f)(2) (relating to ces-
11 sation in eligible farming business), and

12 “(iii) subparagraph (A) or (B) of sub-
13 section (f)(3) (relating to prohibited trans-
14 actions and pledging account as security).

15 “(2) EXCEPTIONS.—Paragraph (1)(A) shall not
16 apply to—

17 “(A) any distribution to the extent attrib-
18 utable to income of the Account, and

19 “(B) the distribution of any contribution
20 paid during a taxable year to a FARRM Ac-
21 count to the extent that such contribution ex-
22 ceeds the limitation applicable under subsection
23 (b) if requirements similar to the requirements
24 of section 408(d)(4) are met.

1 For purposes of subparagraph (A), distributions
2 shall be treated as first attributable to income and
3 then to other amounts.

4 “(f) SPECIAL RULES.—

5 “(1) TAX ON DEPOSITS IN ACCOUNT WHICH
6 ARE NOT DISTRIBUTED WITHIN 5 YEARS.—

7 “(A) IN GENERAL.—If, at the close of any
8 taxable year, there is a nonqualified balance in
9 any FARRM Account—

10 “(i) there shall be deemed distributed
11 from such Account during such taxable
12 year an amount equal to such balance, and

13 “(ii) the taxpayer’s tax imposed by
14 this chapter for such taxable year shall be
15 increased by 10 percent of such deemed
16 distribution.

17 The preceding sentence shall not apply if an
18 amount equal to such nonqualified balance is
19 distributed from such Account to the taxpayer
20 before the due date (including extensions) for
21 filing the return of tax imposed by this chapter
22 for such year (or, if earlier, the date the tax-
23 payer files such return for such year).

24 “(B) NONQUALIFIED BALANCE.—For pur-
25 poses of subparagraph (A), the term ‘non-

1 qualified balance' means any balance in the Ac-
2 count on the last day of the taxable year which
3 is attributable to amounts deposited in such Ac-
4 count before the 4th preceding taxable year.

5 “(C) ORDERING RULE.—For purposes of
6 this paragraph, distributions from a FARRM
7 Account (other than distributions of current in-
8 come) shall be treated as made from deposits in
9 the order in which such deposits were made, be-
10 ginning with the earliest deposits.

11 “(2) CESSATION IN ELIGIBLE FARMING BUSI-
12 NESS.—At the close of the first disqualification pe-
13 riod after a period for which the taxpayer was en-
14 gaged in an eligible farming business, there shall be
15 deemed distributed from the FARRM Account of the
16 taxpayer an amount equal to the balance in such Ac-
17 count (if any) at the close of such disqualification
18 period. For purposes of the preceding sentence, the
19 term ‘disqualification period’ means any period of 2
20 consecutive taxable years for which the taxpayer is
21 not engaged in an eligible farming business.

22 “(3) CERTAIN RULES TO APPLY.—Rules similar
23 to the following rules shall apply for purposes of this
24 section:

1 “(A) Section 220(f)(8) (relating to treat-
2 ment on death).

3 “(B) Section 408(e)(2) (relating to loss of
4 exemption of account where individual engages
5 in prohibited transaction).

6 “(C) Section 408(e)(4) (relating to effect
7 of pledging account as security).

8 “(D) Section 408(g) (relating to commu-
9 nity property laws).

10 “(E) Section 408(h) (relating to custodial
11 accounts).

12 “(4) TIME WHEN PAYMENTS DEEMED MADE.—
13 For purposes of this section, a taxpayer shall be
14 deemed to have made a payment to a FARRM Ac-
15 count on the last day of a taxable year if such pay-
16 ment is made on account of such taxable year and
17 is made on or before the due date (without regard
18 to extensions) for filing the return of tax for such
19 taxable year.

20 “(5) INDIVIDUAL.—For purposes of this sec-
21 tion, the term ‘individual’ shall not include an estate
22 or trust.

23 “(6) DEDUCTION NOT ALLOWED FOR SELF-EM-
24 PLOYMENT TAX.—The deduction allowable by reason
25 of subsection (a) shall not be taken into account in

1 determining an individual's net earnings from self-
2 employment (within the meaning of section 1402(a))
3 for purposes of chapter 2.

4 “(g) REPORTS.—The trustee of a FARRM Account
5 shall make such reports regarding such Account to the
6 Secretary and to the person for whose benefit the Account
7 is maintained with respect to contributions, distributions,
8 and such other matters as the Secretary may require
9 under regulations. The reports required by this subsection
10 shall be filed at such time and in such manner and fur-
11 nished to such persons at such time and in such manner
12 as may be required by such regulations.”

13 (b) TAX ON EXCESS CONTRIBUTIONS.—

14 (1) Subsection (a) of section 4973 (relating to
15 tax on excess contributions to certain tax-favored ac-
16 counts and annuities), as amended by section
17 303(b)(1), is amended by striking “or” at the end
18 of paragraph (4), by redesignating paragraphs (4)
19 and (5) as paragraphs (5) and (6), respectively, and
20 by inserting after paragraph (3) the following:

21 “(4) a FARRM Account (within the meaning of
22 section 468C(d)), or”.

23 (2) Section 4973, as amended by section
24 303(b)(2), is amended by adding at the end the fol-
25 lowing:

1 (within the meaning of section 468C(d)) is estab-
2 lished shall be exempt from the tax imposed by this
3 section with respect to any transaction concerning
4 such account (which would otherwise be taxable
5 under this section) if, with respect to such trans-
6 action, the account ceases to be a FARRM Account
7 by reason of the application of section 468C(f)(3)(A)
8 to such account.”

9 (2) Paragraph (1) of section 4975(e) is amend-
10 ed by redesignating subparagraphs (E) and (F) as
11 subparagraphs (F) and (G), respectively, and by in-
12 serting after subparagraph (D) the following:

13 “(E) a FARRM Account described in sec-
14 tion 468C(d),”.

15 (d) FAILURE TO PROVIDE REPORTS ON FARRM AC-
16 COUNTS.—Paragraph (2) of section 6693(a) (relating to
17 failure to provide reports on certain tax-favored accounts
18 or annuities), as amended by section 303(d), is amended
19 by redesignating subparagraphs (C), (D), and (E) as sub-
20 paragraphs (D), (E), and (F), respectively, and by insert-
21 ing after subparagraph (B) the following:

22 “(C) section 468C(g) (relating to FARRM
23 Accounts),”.

24 (e) CLERICAL AMENDMENT.—The table of sections
25 for subpart C of part II of subchapter E of chapter 1 is

1 amended by inserting after the item relating to section
2 468B the following:

“Sec. 468C. Farm and Ranch Risk Management Accounts.”

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

6 **TITLE VII—ESTATE AND GIFT**
7 **TAX RELIEF PROVISIONS**
8 **Subtitle A—Reductions of Estate,**
9 **Gift, and Generation-Skipping**
10 **Transfer Taxes**

11 **SEC. 701. REDUCTIONS OF ESTATE, GIFT, AND GENERA-**
12 **TION-SKIPPING TRANSFER TAXES.**

13 (a) MAXIMUM RATE OF TAX REDUCED TO 50 PER-
14 CENT.—The table contained in section 2001(c)(1) is
15 amended by striking the 2 highest brackets and inserting
16 the following:

Over \$2,500,000 \$1,025,800, plus 50% of the excess
over \$2,500,000.”

17 (b) REPEAL OF PHASEOUT OF GRADUATED
18 RATES.—Subsection (c) of section 2001 is amended by
19 striking paragraph (2).

20 (c) EFFECTIVE DATE.—The amendments made by
21 this section shall apply to estates of decedents dying, and
22 gifts made, after December 31, 2000.

1 **SEC. 702. UNIFIED CREDIT AGAINST ESTATE AND GIFT**
2 **TAXES REPLACED WITH UNIFIED EXEMPTION**
3 **AMOUNT.**

4 (a) IN GENERAL.—

5 (1) ESTATE TAX.—Part IV of subchapter A of
6 chapter 11 is amended by inserting after section
7 2051 the following new section:

8 **“SEC. 2052. EXEMPTION.**

9 “(a) IN GENERAL.—For purposes of the tax imposed
10 by section 2001, the value of the taxable estate shall be
11 determined by deducting from the value of the gross estate
12 an amount equal to the excess (if any) of—

13 “(1) the exemption amount for the calendar
14 year in which the decedent died, over

15 “(2) the sum of—

16 “(A) the aggregate amount allowed as an
17 exemption under section 2521 with respect to
18 gifts made by the decedent after December 31,
19 2003, and

20 “(B) the aggregate amount of gifts made
21 by the decedent for which credit was allowed by
22 section 2505 (as in effect on the day before the
23 date of the enactment of the Taxpayer Refund
24 Act of 1999).

1 Gifts which are includible in the gross estate of the dece-
 2 dent shall not be taken into account in determining the
 3 amounts under paragraph (2).

4 “(b) EXEMPTION AMOUNT.—For purposes of sub-
 5 section (a), the term ‘exemption amount’ means the
 6 amount determined in accordance with the following table:

“In the case of calendar year:	The exemption amount is:
2004	\$850,000
2005	\$950,000
2006	\$1,000,000
2007 or thereafter	\$1,500,000.”

7 (2) GIFT TAX.—Subchapter C of chapter 12
 8 (relating to deductions) is amended by inserting be-
 9 fore section 2522 the following new section:

10 **“SEC. 2521. EXEMPTION.**

11 “(a) IN GENERAL.—In computing taxable gifts for
 12 any calendar year, there shall be allowed as a deduction
 13 in the case of a citizen or resident of the United States
 14 an amount equal to the excess of—

15 “(1) the exemption amount determined under
 16 section 2052 for such calendar year, over

17 “(2) the sum of—

18 “(A) the aggregate amount allowed as an
 19 exemption under this section for all preceding
 20 calendar years after 2003, and

21 “(B) the aggregate amount of gifts for
 22 which credit was allowed by section 2505 (as in

1 effect on the day before the date of the enact-
2 ment of the Taxpayer Refund Act of 1999).”

3 (b) REPEAL OF UNIFIED CREDITS.—

4 (1) Section 2010 (relating to unified credit
5 against estate tax) is hereby repealed.

6 (2) Section 2505 (relating to unified credit
7 against gift tax) is hereby repealed.

8 (c) CONFORMING AMENDMENTS.—

9 (1)(A) Subparagraph (B) of section 2001(b)(1)
10 is amended by inserting before the comma “reduced
11 by the amount described in section 2052(a)(2)”.

12 (B) Subsection (b) of section 2001 is amended
13 by adding at the end the following new sentence:
14 “For purposes of paragraph (2), the amount of the
15 tax payable under chapter 12 shall be determined
16 without regard to the credit provided by section
17 2505 (as in effect on the day before the date of the
18 enactment of the Taxpayer Refund Act of 1999).”

19 (2) Subsection (f) of section 2011 is amended
20 by striking “, reduced by the amount of the unified
21 credit provided by section 2010”.

22 (3) Subsection (a) of section 2012 is amended
23 by striking “and the unified credit provided by sec-
24 tion 2010”.

1 (4) Subsection (b) of section 2013 is amended
2 by inserting before the period at the end of the first
3 sentence “and increased by the exemption allowed
4 under section 2052 or 2106(a)(4) (or the cor-
5 responding provisions of prior law) in determining
6 the taxable estate of the transferor for purposes of
7 the estate tax”.

8 (5) Subparagraph (A) of section 2013(c)(1) is
9 amended by striking “2010,”.

10 (6) Paragraph (2) of section 2014(b) is amend-
11 ed by striking “2010,”.

12 (7) Clause (ii) of section 2056A(b)(12)(C) is
13 amended to read as follows:

14 “(ii) to treat any reduction in the tax
15 imposed by paragraph (1)(A) by reason of
16 the credit allowable under section 2010 (as
17 in effect on the day before the date of the
18 enactment of the Taxpayer Refund Act of
19 1999) or the exemption allowable under
20 section 2052 with respect to the decedent
21 as such a credit or exemption (as the case
22 may be) allowable to such surviving spouse
23 for purposes of determining the amount of
24 the exemption allowable under section
25 2521 with respect to taxable gifts made by

1 the surviving spouse during the year in
2 which the spouse becomes a citizen or any
3 subsequent year.”.

4 (8) Section 2102 is amended by striking sub-
5 section (c).

6 (9) Subsection (a) of section 2106 is amended
7 by adding at the end the following new paragraph:

8 “(4) EXEMPTION.—

9 “(A) IN GENERAL.—An exemption of
10 \$60,000.

11 “(B) RESIDENTS OF POSSESSIONS OF THE
12 UNITED STATES.—In the case of a decedent
13 who is considered to be a nonresident not a citi-
14 zen of the United States under section 2209,
15 the exemption under this paragraph shall be the
16 greater of—

17 “(i) \$60,000, or

18 “(ii) that proportion of \$175,000
19 which the value of that part of the dece-
20 dent’s gross estate which at the time of his
21 death is situated in the United States
22 bears to the value of his entire gross estate
23 wherever situated.

24 “(C) SPECIAL RULES.—

1 “(i) COORDINATION WITH TREA-
2 TIES.—To the extent required under any
3 treaty obligation of the United States, the
4 exemption allowed under this paragraph
5 shall be equal to the amount which bears
6 the same ratio to the exemption amount
7 under section 2052 (for the calendar year
8 in which the decedent died) as the value of
9 the part of the decedent’s gross estate
10 which at the time of his death is situated
11 in the United States bears to the value of
12 his entire gross estate wherever situated.
13 For purposes of the preceding sentence,
14 property shall not be treated as situated in
15 the United States if such property is ex-
16 empt from the tax imposed by this sub-
17 chapter under any treaty obligation of the
18 United States.

19 “(ii) COORDINATION WITH GIFT TAX
20 EXEMPTION AND UNIFIED CREDIT.—If an
21 exemption has been allowed under section
22 2521 (or a credit has been allowed under
23 section 2505 as in effect on the day before
24 the date of the enactment of the Taxpayer
25 Refund Act of 1999) with respect to any

1 gift made by the decedent, each dollar
2 amount contained in subparagraph (A) or
3 (B) or the exemption amount applicable
4 under clause (i) of this subparagraph
5 (whichever applies) shall be reduced by the
6 exemption so allowed under 2521 (or, in
7 the case of such a credit, by the amount of
8 the gift for which the credit was so al-
9 lowed).”

10 (10) Subsection (c) of section 2107 is amend-
11 ed—

12 (A) by striking paragraph (1) and by re-
13 designating paragraphs (2) and (3) as para-
14 graphs (1) and (2), respectively, and

15 (B) by striking the second sentence of
16 paragraph (2) (as so redesignated).

17 (11) Section 2206 is amended by striking “the
18 taxable estate” in the first sentence and inserting
19 “the sum of the taxable estate and the amount of
20 the exemption allowed under section 2052 or
21 2106(a)(4) in computing the taxable estate”.

22 (12) Section 2207 is amended by striking “the
23 taxable estate” in the first sentence and inserting
24 “the sum of the taxable estate and the amount of

1 the exemption allowed under section 2052 or
2 2106(a)(4) in computing the taxable estate”.

3 (13) Subparagraph (B) of section 2207B(a)(1)
4 is amended to read as follows:

5 “(B) the sum of the taxable estate and the
6 amount of the exemption allowed under section
7 2052 or 2106(a)(4) in computing the taxable
8 estate.”

9 (14) Subsection (a) of section 2503 is amended
10 by striking “section 2522” and inserting “section
11 2521”.

12 (15) Paragraph (1) of section 6018(a) is
13 amended by striking “the applicable exclusion
14 amount” and inserting “the exemption amount
15 under section 2052 for the calendar year which in-
16 cludes the date of death”.

17 (16) Subparagraph (A) of section 6601(j)(2) is
18 amended to read as follows:

19 “(A)(i) the amount of the tax which would
20 be imposed by chapter 11 on an amount of tax-
21 able estate equal to the sum of \$1,000,000 and
22 the exemption amount allowable under section
23 2052, reduced by

1 “(ii) the amount of tax which would be so
2 imposed if the taxable estate equaled such ex-
3 emption amount, or”.

4 (17) The table of sections for part II of sub-
5 chapter A of chapter 11 is amended by striking the
6 item relating to section 2010.

7 (18) The table of sections for subchapter A of
8 chapter 12 is amended by striking the item relating
9 to section 2505.

10 (d) EFFECTIVE DATE.—The amendments made by
11 this section—

12 (1) insofar as they relate to the tax imposed by
13 chapter 11 of the Internal Revenue Code of 1986,
14 shall apply to estates of decedents dying after De-
15 cember 31, 2003, and

16 (2) insofar as they relate to the tax imposed by
17 chapter 12 of such Code, shall apply to gifts made
18 after December 31, 2003.

19 **Subtitle B—Conservation** 20 **Easements**

21 **SEC. 711. EXPANSION OF ESTATE TAX RULE FOR CON-**
22 **SERVATION EASEMENTS.**

23 (a) WHERE LAND IS LOCATED.—

24 (1) IN GENERAL.—Clause (i) of section
25 2031(e)(8)(A) (defining land subject to a qualified

1 conservation easement) is amended by striking “25
2 miles” both places it appears and inserting “50
3 miles”.

4 (2) EFFECTIVE DATE.—The amendments made
5 by this subsection shall apply to estates of decedents
6 dying after December 31, 1999.

7 (b) CLARIFICATION OF DATE FOR DETERMINING
8 VALUE OF LAND AND EASEMENT.—

9 (1) IN GENERAL.—Section 2031(c)(2) (defining
10 applicable percentage) is amended by adding at the
11 end the following new sentence: “The values taken
12 into account under the preceding sentence shall be
13 such values as of the date of the contribution re-
14 ferred to in paragraph (8)(B).”

15 (2) EFFECTIVE DATE.—The amendment made
16 by this subsection shall apply to estates of decedents
17 dying after December 31, 1997.

18 **Subtitle C—Annual Gift Exclusion**

19 **SEC. 721. INCREASE IN ANNUAL GIFT EXCLUSION.**

20 (a) IN GENERAL.—Section 2503(b) (relating to ex-
21 clusions from gifts) is amended—

22 (1) by striking “\$10,000” in paragraph (1) and
23 inserting “applicable dollar amount”, and

24 (2) by striking paragraph (2) and inserting the
25 following new paragraph:

1 “(2) APPLICABLE DOLLAR AMOUNT.—For pur-
 2 poses of paragraph (1), the applicable dollar amount
 3 shall be determined in accordance with the following
 4 table:

“For gifts made—	The applicable dollar amount is—
After 2000 but before 2002	\$12,000
After 2001 but before 2003	\$13,500
After 2002 but before 2004	\$15,000
After 2003 but before 2005	\$16,500
After 2004 but before 2006	\$18,000
After 2005	\$20,000.”

5 (b) EFFECTIVE DATE.—The amendments made by
 6 this section shall apply to gifts made after December 31,
 7 2000.

8 **Subtitle D—Simplification of** 9 **Generation-Skipping Transfer Tax**

10 **SEC. 731. RETROACTIVE ALLOCATION OF GST EXEMPTION.**

11 (a) IN GENERAL.—Section 2632 (relating to special
 12 rules for allocation of GST exemption) is amended by re-
 13 designating subsection (c) as subsection (d) and by insert-
 14 ing after subsection (b) the following new subsection:

15 “(c) RETROACTIVE ALLOCATIONS.—

16 “(1) IN GENERAL.—If—

17 “(A) a non-skip person has an interest or
 18 a future interest in a trust to which any trans-
 19 fer has been made,

20 “(B) such person—

1 “(i) is a lineal descendant of a grand-
2 parent of the transferor or of a grand-
3 parent of the transferor’s spouse, and

4 “(ii) is assigned to a generation below
5 the generation assignment of the trans-
6 feror, and

7 “(C) such person predeceases the trans-
8 feror,

9 then the transferor may make an allocation of any
10 of such transferor’s unused GST exemption to any
11 previous transfer or transfers to the trust on a
12 chronological basis.

13 “(2) SPECIAL RULES.—If the allocation under
14 paragraph (1) by the transferor is made on a gift
15 tax return filed on or before the date prescribed by
16 section 6075(b) for gifts made within the calendar
17 year within which the non-skip person’s death oc-
18 curred—

19 “(A) the value of such transfer or trans-
20 fers for purposes of section 2642(a) shall be de-
21 termined as if such allocation had been made
22 on a timely filed gift tax return for each cal-
23 endar year within which each transfer was
24 made,

1 “(B) such allocation shall be effective im-
2 mediately before such death, and

3 “(C) the amount of the transferor’s unused
4 GST exemption available to be allocated shall
5 be determined immediately before such death.

6 “(3) FUTURE INTEREST.—For purposes of this
7 subsection, a person has a future interest in a trust
8 if the trust may permit income or corpus to be paid
9 to such person on a date or dates in the future.”

10 (b) EFFECTIVE DATE.—The amendments made by
11 this section shall apply to deaths of non-skip persons oc-
12 curring after the date of the enactment of this Act.

13 **SEC. 732. SEVERING OF TRUSTS.**

14 (a) IN GENERAL.—Subsection (a) of section 2642
15 (relating to inclusion ratio) is amended by adding at the
16 end the following new paragraph:

17 “(3) SEVERING OF TRUSTS.—

18 “(A) IN GENERAL.—If a trust is severed in
19 a qualified severance, the trusts resulting from
20 such severance shall be treated as separate
21 trusts thereafter for purposes of this chapter.

22 “(B) QUALIFIED SEVERANCE.—For pur-
23 poses of subparagraph (A)—

24 “(i) IN GENERAL.—The term ‘quali-
25 fied severance’ means the division of a sin-

1 severance permitted under regulations pre-
2 scribed by the Secretary.

3 “(C) TIMING AND MANNER OF
4 SEVERANCES.—A severance pursuant to this
5 paragraph may be made at any time. The Sec-
6 retary shall prescribe by forms or regulations
7 the manner in which the qualified severance
8 shall be reported to the Secretary.”

9 (b) EFFECTIVE DATE.—The amendment made by
10 this section shall apply to severances after the date of the
11 enactment of this Act.

12 **SEC. 733. MODIFICATION OF CERTAIN VALUATION RULES.**

13 (a) GIFTS FOR WHICH GIFT TAX RETURN FILED OR
14 DEEMED ALLOCATION MADE.—Paragraph (1) of section
15 2642(b) (relating to valuation rules, etc.) is amended to
16 read as follows:

17 “(1) GIFTS FOR WHICH GIFT TAX RETURN
18 FILED OR DEEMED ALLOCATION MADE.—If the allo-
19 cation of the GST exemption to any transfers of
20 property is made on a gift tax return filed on or be-
21 fore the date prescribed by section 6075(b) for such
22 transfer or is deemed to be made under section
23 2632(b)(1)—

24 “(A) the value of such property for pur-
25 poses of subsection (a) shall be its value as fi-

1 nally determined for purposes of chapter 12
2 (within the meaning of section 2001(f)(2)), or,
3 in the case of an allocation deemed to have been
4 made at the close of an estate tax inclusion pe-
5 riod, its value at the time of the close of the es-
6 tate tax inclusion period, and

7 “(B) such allocation shall be effective on
8 and after the date of such transfer, or, in the
9 case of an allocation deemed to have been made
10 at the close of an estate tax inclusion period, on
11 and after the close of such estate tax inclusion
12 period.”

13 (b) TRANSFERS AT DEATH.—Subparagraph (A) of
14 section 2642(b)(2) is amended to read as follows:

15 “(A) TRANSFERS AT DEATH.—If property
16 is transferred as a result of the death of the
17 transferor, the value of such property for pur-
18 poses of subsection (a) shall be its value as fi-
19 nally determined for purposes of chapter 11; ex-
20 cept that, if the requirements prescribed by the
21 Secretary respecting allocation of post-death
22 changes in value are not met, the value of such
23 property shall be determined as of the time of
24 the distribution concerned.”

1 (c) EFFECTIVE DATE.—The amendments made by
2 this section shall take effect as if included in the amend-
3 ments made by section 1431 of the Tax Reform Act of
4 1986.

5 **SEC. 734. RELIEF PROVISIONS.**

6 (a) IN GENERAL.—Section 2642 is amended by add-
7 ing at the end the following new subsection:

8 “(g) RELIEF PROVISIONS.—

9 “(1) RELIEF FOR LATE ELECTIONS.—

10 “(A) IN GENERAL.—The Secretary shall by
11 regulation prescribe such circumstances and
12 procedures under which extensions of time will
13 be granted to make—

14 “(i) an allocation of GST exemption
15 described in paragraph (1) or (2) of sub-
16 section (b), and

17 “(ii) an election under section
18 2632(b)(3).

19 Such regulations shall include procedures for
20 requesting comparable relief with respect to
21 transfers made before the date of enactment of
22 this paragraph.

23 “(B) BASIS FOR DETERMINATIONS.—In
24 determining whether to grant relief under this
25 paragraph, the Secretary shall take into ac-

1 count all relevant circumstances, including evi-
2 dence of intent contained in the trust instru-
3 ment or instrument of transfer and such other
4 factors as the Secretary deems relevant. For
5 purposes of determining whether to grant relief
6 under this paragraph, the time for making the
7 allocation (or election) shall be treated as if not
8 expressly prescribed by statute.

9 “(2) SUBSTANTIAL COMPLIANCE.—An alloca-
10 tion of GST exemption under section 2632 that
11 demonstrates an intent to have the lowest possible
12 inclusion ratio with respect to a transfer or a trust
13 shall be deemed to be an allocation of so much of
14 the transferor’s unused GST exemption as produces
15 the lowest possible inclusion ratio. In determining
16 whether there has been substantial compliance, all
17 relevant circumstances shall be taken into account,
18 including evidence of intent contained in the trust
19 instrument or instrument of transfer and such other
20 factors as the Secretary deems relevant.”

21 (b) EFFECTIVE DATES.—

22 (1) RELIEF FOR LATE ELECTIONS.—Section
23 2642(g)(1) (as added by subsection (a)) shall apply
24 to requests pending on, or filed after, the date of the
25 enactment of this Act.

1 (2) SUBSTANTIAL COMPLIANCE.—Section
2 2642(g)(2) (as so added) shall take effect on the
3 date of the enactment of this Act and shall apply to
4 allocations made prior to such date for purposes of
5 determining the tax consequences of generation-skip-
6 ping transfers with respect to which the period of
7 time for filing claims for refund has not expired. No
8 implication is intended with respect to the availabil-
9 ity of relief for late elections or the application of a
10 rule of substantial compliance before the enactment
11 of this amendment.

12 **TITLE VIII—TAX EXEMPT**
13 **ORGANIZATIONS PROVISIONS**

14 **SEC. 801. EXEMPTION FROM INCOME TAX FOR STATE-CRE-**
15 **ATED ORGANIZATIONS PROVIDING PROP-**
16 **ERTY AND CASUALTY INSURANCE FOR PROP-**
17 **ERTY FOR WHICH SUCH COVERAGE IS OTH-**
18 **ERWISE UNAVAILABLE.**

19 (a) IN GENERAL.—Subsection (c) of section 501 (re-
20 lating to exemption from tax on corporations, certain
21 trusts, etc.) is amended by adding at the end the following
22 new paragraph:

23 “(28)(A) Any association created before Janu-
24 ary 1, 1999, by State law and organized and oper-
25 ated exclusively to provide property and casualty in-

1 surance coverage for property located within the
2 State for which the State has determined that cov-
3 erage in the authorized insurance market is limited
4 or unavailable at reasonable rates, if—

5 “(i) no part of the net earnings of which
6 inures to the benefit of any private shareholder
7 or individual,

8 “(ii) except as provided in clause (v), no
9 part of the assets of which may be used for, or
10 diverted to, any purpose other than—

11 “(I) to satisfy, in whole or in part, the
12 liability of the association for, or with re-
13 spect to, claims made on policies written
14 by the association,

15 “(II) to invest in investments author-
16 ized by applicable law,

17 “(III) to pay reasonable and nec-
18 essary administration expenses in connec-
19 tion with the establishment and operation
20 of the association and the processing of
21 claims against the association, or

22 “(IV) to make remittances pursuant
23 to State law to be used by the State to
24 provide for the payment of claims on poli-
25 cies written by the association, purchase

1 reinsurance covering losses under such
2 policies, or to support governmental pro-
3 grams to prepare for or mitigate the ef-
4 fects of natural catastrophic events,

5 “(iii) the State law governing the associa-
6 tion permits the association to levy assessments
7 on insurance companies authorized to sell prop-
8 erty and casualty insurance in the State, or on
9 property and casualty insurance policyholders
10 with insurable interests in property located in
11 the State to fund deficits of the association, in-
12 cluding the creation of reserves,

13 “(iv) the plan of operation of the associa-
14 tion is subject to approval by the chief executive
15 officer or other executive branch official of the
16 State, by the State legislature, or both, and

17 “(v) the assets of the association revert
18 upon dissolution to the State, the State’s des-
19 ignee, or an entity designated by the State law
20 governing the association, or State law does not
21 permit the dissolution of the association.

22 “(B)(i) An entity described in clause (ii) shall
23 be disregarded as a separate entity and treated as
24 part of the association described in subparagraph
25 (A) from which it receives remittances described in

1 clause (ii) if an election is made within 30 days after
2 the date that such association is determined to be
3 exempt from tax.

4 “(ii) An entity is described in this clause if it
5 is an entity or fund created before January 1, 1999,
6 pursuant to State law and organized and operated
7 exclusively to receive, hold, and invest remittances
8 from an association described in subparagraph (A)
9 and exempt from tax under subsection (a) and to
10 make disbursements to pay claims on insurance con-
11 tracts issued by such association, and to make dis-
12 bursements to support governmental programs to
13 prepare for or mitigate the effects of natural cata-
14 strophic events.”

15 (b) UNRELATED BUSINESS TAXABLE INCOME.—
16 Subsection (a) of section 512 (relating to unrelated busi-
17 ness taxable income) is amended by adding at the end the
18 following new paragraph:

19 “(6) SPECIAL RULE APPLICABLE TO ORGANIZA-
20 TIONS DESCRIBED IN SECTION 501(C)(28).—In the
21 case of an organization described in section
22 501(c)(28), the term ‘unrelated business taxable in-
23 come’ means taxable income for a taxable year com-
24 puted without the application of section 501(c)(28)
25 if, at the end of the immediately preceding taxable

1 year, the organization's net equity exceeded 15 per-
2 cent of the total coverage in force under insurance
3 contracts issued by the organization and outstanding
4 at the end of such preceding year.”

5 (c) TRANSITIONAL RULE.—No income or gain shall
6 be recognized by an association as a result of a change
7 in status to that of an association described by section
8 501(c)(28) of the Internal Revenue Code of 1986, as
9 amended by subsection (a).

10 (d) EFFECTIVE DATE.—The amendment made by
11 subsection (a) shall apply to taxable years beginning after
12 December 31, 1999.

13 **SEC. 802. MODIFICATIONS TO SECTION 512(b)(13).**

14 (a) IN GENERAL.—Paragraph (13) of section 512(b)
15 is amended by redesignating subparagraph (E) as sub-
16 paragraph (F) and by inserting after subparagraph (D)
17 the following new paragraph:

18 “(E) PARAGRAPH TO APPLY ONLY TO EX-
19 CESS PAYMENTS.—

20 “(i) IN GENERAL.—Subparagraph (A)
21 shall apply only to the portion of a speci-
22 fied payment received by the controlling
23 organization which exceeds the amount
24 which would have been paid if such pay-

1 ment met the requirements prescribed
2 under section 482.

3 “(ii) ADDITION TO TAX FOR VALU-
4 ATION MISSTATEMENTS.—The tax imposed
5 by this chapter on the controlling organiza-
6 tion shall be increased by an amount equal
7 to 20 percent of such excess.”

8 (b) EFFECTIVE DATE.—

9 (1) IN GENERAL.—The amendment made by
10 this section shall apply to payments received or ac-
11 crued after December 31, 1999.

12 (2) PAYMENTS SUBJECT TO BINDING CONTRACT
13 TRANSITION RULE.—If the amendments made by
14 section 1041 of the Taxpayer Relief Act of 1997 do
15 not apply to any amount received or accrued after
16 the date of the enactment of this Act under any con-
17 tract described in subsection (b)(2) of such section,
18 such amendments also shall not apply to amounts
19 received or accrued under such contract before Jan-
20 uary 1, 2000.

21 **SEC. 803. SIMPLIFICATION OF LOBBYING EXPENDITURE**
22 **LIMITATION.**

23 (a) REPEAL OF GRASSROOTS EXPENDITURE
24 LIMIT.—Paragraph (1) of section 501(h) (relating to ex-

1 penditures by public charities to influence legislation) is
2 amended to read as follows:

3 “(1) GENERAL RULE.—In the case of an orga-
4 nization to which this subsection applies, exemption
5 from taxation under subsection (a) shall be denied
6 because a substantial part of the activities of such
7 organization consists of carrying on propaganda, or
8 otherwise attempting, to influence legislation, but
9 only if such organization normally makes lobbying
10 expenditures in excess of the lobbying ceiling amount
11 for such organization for each taxable year.”

12 (b) CONFORMING AMENDMENTS.—

13 (1) Section 501(h)(2) is amended by striking
14 subparagraphs (C) and (D).

15 (2) Section 4911(b) is amended to read as fol-
16 lows:

17 “(b) EXCESS LOBBYING EXPENDITURES.—For pur-
18 poses of this section, the term ‘excess lobbying expendi-
19 tures’ means, for a taxable year, the amount by which the
20 lobbying expenditures made by the organization during the
21 taxable year exceed the lobbying nontaxable amount for
22 such organization for such taxable year.”

23 (3) Section 4911(c) is amended by striking
24 paragraphs (3) and (4).

1 (4) Paragraph (1)(A) of section 4911(f) is
2 amended by striking “limits of section 501(h)(1)
3 have” and inserting “limit of section 501(h)(1)
4 has”.

5 (5) Paragraph (1)(C) of section 4911(f) is
6 amended by striking “limits of section 501(h)(1)
7 are” and inserting “limit of section 501(h)(1) is”.

8 (6) Paragraphs (4)(A) and (4)(B) of section
9 4911(f) are each amended by striking “limits of sec-
10 tion 501(h)(1)” and inserting “limit of section
11 501(h)(1)”.

12 (7) Paragraph (8) of section 6033(b) (relating
13 to certain organizations described in section
14 501(c)(3)) is amended by inserting “and” at the end
15 of subparagraph (A) and by striking subparagraphs
16 (C) and (D).

17 (c) EFFECTIVE DATE.—The amendments made by
18 this section shall apply to taxable years beginning after
19 December 31, 1999.

20 **SEC. 804. TAX-FREE DISTRIBUTIONS FROM INDIVIDUAL RE-**
21 **TIREMENT ACCOUNTS FOR CHARITABLE**
22 **PURPOSES.**

23 (a) IN GENERAL.—Subsection (d) of section 408 (re-
24 lating to individual retirement accounts) is amended by
25 adding at the end the following new paragraph:

1 “(8) DISTRIBUTIONS FOR CHARITABLE PUR-
2 POSES.—

3 “(A) IN GENERAL.—In the case of a quali-
4 fied charitable distribution from an individual
5 retirement account to an organization described
6 in section 170(c), no amount shall be includible
7 in the gross income of the distributee.

8 “(B) SPECIAL RULES RELATING TO CHARI-
9 TABLE REMAINDER TRUSTS, POOLED INCOME
10 FUNDS, AND CHARITABLE GIFT ANNUITIES.—

11 “(i) IN GENERAL.—In the case of a
12 qualified charitable distribution from an
13 individual retirement account—

14 “(I) to a charitable remainder
15 annuity trust or a charitable remain-
16 der unitrust (as such terms are de-
17 fined in section 664(d)),

18 “(II) to a pooled income fund (as
19 defined in section 642(c)(5)), or

20 “(III) for the issuance of a chari-
21 table gift annuity (as defined in sec-
22 tion 501(m)(5)),

23 no amount shall be includible in gross in-
24 come of the distributee. The preceding sen-
25 tence shall apply only if no person holds

1 any interest in the amounts in the trust,
2 fund, or annuity attributable to such dis-
3 tribution other than one or more of the fol-
4 lowing: the individual for whose benefit
5 such account is maintained, the spouse of
6 such individual, or any organization de-
7 scribed in section 170(c).

8 “(ii) DETERMINATION OF INCLUSION
9 OF AMOUNTS DISTRIBUTED.—In determin-
10 ing the amount includible in the gross in-
11 come of the distributee of a distribution
12 from a trust described in clause (i)(I) or
13 an annuity (as described in clause (i)(III)),
14 the portion of any qualified charitable dis-
15 tribution to such trust or for such annuity
16 which would (but for this subparagraph)
17 have been includible in gross income—

18 “(I) in the case of any such
19 trust, shall be treated as income de-
20 scribed in section 664(b)(1), or

21 “(II) in the case of any such an-
22 nuity, shall not be treated as an in-
23 vestment in the contract.

24 “(iii) NO INCLUSION FOR DISTRIBUTION
25 TO POOLED INCOME FUND.—No

1 amount shall be includible in the gross in-
2 come of a pooled income fund (as so de-
3 fined) by reason of a qualified charitable
4 distribution to such fund.

5 “(C) QUALIFIED CHARITABLE DISTRIBUTION.—For purposes of this paragraph, the
6 term ‘qualified charitable distribution’ means
7 any distribution from an individual retirement
8 account—
9

10 “(i) which is made on or after the
11 date that the individual for whose benefit
12 the account is maintained has attained age
13 70½, and

14 “(ii) which is a charitable contribution
15 (as defined in section 170(c)) made di-
16 rectly from the account to—

17 “(I) an organization described in
18 section 170(c), or

19 “(II) a trust, fund, or annuity
20 described in subparagraph (B).

21 “(D) DENIAL OF DEDUCTION.—The
22 amount allowable as a deduction to the tax-
23 payer for the taxable year under section 170 for
24 qualified charitable distributions shall be re-
25 duced (but not below zero) by the sum of the

1 amounts of the qualified charitable distributions
2 during such year which (but for this paragraph)
3 would have been includible in the gross income
4 of the taxpayer for such year.”

5 (b) EFFECTIVE DATE.—The amendment made by
6 subsection (a) shall apply to taxable years beginning after
7 December 31, 2000.

8 **SEC. 805. MILEAGE REIMBURSEMENTS TO CHARITABLE**
9 **VOLUNTEERS EXCLUDED FROM GROSS IN-**
10 **COME.**

11 (a) IN GENERAL.—Part III of subchapter B of chap-
12 ter 1 is amended by inserting after section 138 the follow-
13 ing new section:

14 **“SEC. 138A. MILEAGE REIMBURSEMENTS TO CHARITABLE**
15 **VOLUNTEERS.**

16 “(a) IN GENERAL.—Gross income of an individual
17 does not include amounts received, from an organization
18 described in section 170(c), as reimbursement of operating
19 expenses with respect to use of a passenger automobile
20 for the benefit of such organization for which a deduction
21 would otherwise be allowable under section 170. The pre-
22 ceding sentence shall apply only to the extent that such
23 reimbursement would be deductible under section 274(d)
24 (determined by applying the standard business mileage
25 rate established pursuant to section 274(d)) if the organi-

1 zation were not so described and such individual were an
2 employee of such organization.

3 “(b) NO DOUBLE BENEFIT.—Subsection (a) shall
4 not apply with respect to any expenses if the individual
5 claims a deduction or credit for such expenses under any
6 other provision of this title.

7 “(c) EXEMPTION FROM REPORTING REQUIRE-
8 MENTS.—Section 6041 shall not apply with respect to re-
9 imbursements excluded from income under subsection
10 (a).”

11 (b) CLERICAL AMENDMENT.—The table of sections
12 for part III of subchapter B of chapter 1 is amended by
13 inserting after the item relating to section 138 the follow-
14 ing new items:

“Sec. 138A. Reimbursement for use of passenger automobile for
charity.”

15 (c) EFFECTIVE DATE.—The amendments made by
16 this section shall apply to taxable years beginning after
17 December 31, 1999.

18 **SEC. 806. CHARITABLE CONTRIBUTION DEDUCTION FOR**
19 **CERTAIN EXPENSES INCURRED IN SUPPORT**
20 **OF NATIVE ALASKAN SUBSISTENCE WHAL-**
21 **ING.**

22 (a) IN GENERAL.—Section 170 (relating to chari-
23 table, etc., contributions and gifts) is amended by redesi-

1 nating subsection (m) as subsection (n) and by inserting
2 after subsection (l) the following new subsection:

3 “(m) EXPENSES PAID BY CERTAIN WHALING CAP-
4 TAINS IN SUPPORT OF NATIVE ALASKAN SUBSISTENCE
5 WHALING.—

6 “(1) IN GENERAL.—In the case of an individual
7 who is recognized by the Alaska Eskimo Whaling
8 Commission as a whaling captain charged with the
9 responsibility of maintaining and carrying out sanc-
10 tioned whaling activities and who engages in such
11 activities during the taxable year, the amount de-
12 scribed in paragraph (2) (to the extent such amount
13 does not exceed \$7,500 for the taxable year) shall be
14 treated for purposes of this section as a charitable
15 contribution.

16 “(2) AMOUNT DESCRIBED.—

17 “(A) IN GENERAL.—The amount described
18 in this paragraph is the aggregate of the rea-
19 sonable and necessary whaling expenses paid by
20 the taxpayer during the taxable year in carrying
21 out sanctioned whaling activities.

22 “(B) WHALING EXPENSES.—For purposes
23 of subparagraph (A), the term ‘whaling ex-
24 penses’ includes expenses for—

1 “(10) TIME WHEN CERTAIN CONTRIBUTIONS
2 DEEMED MADE.—

3 “(A) IN GENERAL.—At the election of the
4 taxpayer, a qualified low-income school con-
5 tribution shall be deemed to be made on the
6 last day of the preceding taxable year if the
7 contribution is made on account of such taxable
8 year and is made not later than the time pre-
9 scribed by law for filing the return for such tax-
10 able year (not including extensions thereof).
11 The election may be made at the time of the fil-
12 ing of the return for such table year, and shall
13 be made and substantiated in such manner as
14 the Secretary shall by regulations prescribe.

15 “(B) QUALIFIED LOW-INCOME SCHOOL
16 CONTRIBUTION.—For purposes of subpara-
17 graph (A), the term ‘qualified low-income school
18 contribution’ means a charitable contribution to
19 an educational organization described in sub-
20 section (b)(1)(A)(ii)—

21 “(i) which is a public, private, or sec-
22 tarian school which provides elementary or
23 secondary education (through grade 12),
24 as determined under State law, and

1 “(ii) with respect to which at least 50
2 percent of the students attending such
3 school are eligible for free or reduced-cost
4 lunches under the school lunch program es-
5 tablished under the National School Lunch
6 Act.”

7 (b) EFFECTIVE DATE.—The amendment made by
8 this section shall apply to taxable years beginning after
9 December 31, 1999.

10 **SEC. 808. DEDUCTION FOR PORTION OF CHARITABLE CON-**
11 **TRIBUTIONS TO BE ALLOWED TO INDIVID-**
12 **UALS WHO DO NOT ITEMIZE DEDUCTIONS.**

13 (a) IN GENERAL.—Section 170 (relating to chari-
14 table, etc., contributions and gifts), as amended by section
15 806, is amended by redesignating subsection (n) as sub-
16 section (o) and by inserting after subsection (m) the fol-
17 lowing new subsection:

18 “(n) DEDUCTION FOR INDIVIDUALS NOT ITEMIZING
19 DEDUCTIONS.—In the case of an individual who does not
20 itemize his deductions for the taxable year, there shall be
21 taken into account as a direct charitable deduction under
22 section 63 an amount equal to the lesser of—

23 “(1) the amount allowable as a deduction under
24 subsection (a) for the taxable year, or

25 “(2) \$50 (\$100 in the case of a joint return).”

1 (b) DIRECT CHARITABLE DEDUCTION.—

2 (1) IN GENERAL.—Subsection (b) of section 63
3 is amended by striking “and” at the end of para-
4 graph (1), by striking the period at the end of para-
5 graph (2) and inserting “, and”, and by adding at
6 the end thereof the following new paragraph:

7 “(3) the direct charitable deduction.”

8 (2) DEFINITION.—Section 63 is amended by re-
9 designating subsection (g) as subsection (h) and by
10 inserting after subsection (f) the following new sub-
11 section:

12 “(g) DIRECT CHARITABLE DEDUCTION.—For pur-
13 poses of this section, the term ‘direct charitable deduction’
14 means that portion of the amount allowable under section
15 170(a) which is taken as a direct charitable deduction for
16 the taxable year under section 170(n).”

17 (3) CONFORMING AMENDMENT.—Subsection (d)
18 of section 63 is amended by striking “and” at the
19 end of paragraph (1), by striking the period at the
20 end of paragraph (2) and inserting “, and”, and by
21 adding at the end thereof the following new para-
22 graph:

23 “(3) the direct charitable deduction.”

1 (c) EFFECTIVE DATE.—The amendments made by
 2 this section shall apply to taxable years beginning after
 3 December 31, 1999 and ending before January 1, 2002.

4 **SEC. 809. INCREASE IN LIMIT ON CHARITABLE CONTRIBU-**
 5 **TIONS AS PERCENTAGE OF AGI.**

6 (a) IN GENERAL.—

7 (1) INDIVIDUAL LIMIT.—Section 170(b)(1) (re-
 8 lating to percentage limitations) is amended—

9 (A) by striking “50 percent” in subpara-
 10 graph (A) and inserting “the applicable per-
 11 centage”, and

12 (B) by striking “30 percent” each place it
 13 appears in subparagraph (C) and inserting “the
 14 applicable percentage”.

15 (2) CORPORATE LIMIT.—Section 170(b)(2) is
 16 amended by striking “10 percent” and inserting
 17 “the applicable percentage”.

18 (b) APPLICABLE PERCENTAGE.—Section 170(b) is
 19 amended by adding at the end the following new para-
 20 graph:

21 “(3) APPLICABLE PERCENTAGE.—For purposes
 22 of this subsection, the applicable percentage shall be
 23 determined under the following tables:

24 “(A) In the case of paragraph (1)(A):

“For taxable year—	The applicable percentage is—
2002	52
2003	54

263

2004	56
2005	58
2006	60
2007 and thereafter	70.

1 “(B) In the case of paragraph (1)(C):

“For taxable year—	The applicable percentage is—
2002	32
2003	34
2004	36
2005	38
2006	40
2007 and thereafter	50.

2 “(C) In the case of paragraph (2):

“For taxable year—	The applicable percentage is—
2002	12
2003	14
2004	16
2005	18
2006 and thereafter	20.”

3 (c) CONFORMING AMENDMENT.—Section
4 170(d)(1)(A) is amended by striking “50 percent” each
5 place it appears and inserting “the applicable percentage
6 in effect under subsection (b)(1)(A)”.

7 (d) EFFECTIVE DATE.—The amendments made by
8 this section shall apply to taxable years beginning after
9 December 31, 2001.

10 **SEC. 810. LIMITED EXCEPTION TO EXCESS BUSINESS HOLD-**
11 **INGS RULE.**

12 (a) IN GENERAL.—Section 4943(c)(2) (relating to
13 permitted holdings in a corporation) is amended by adding
14 at the end the following new subparagraphs:

15 “(D) RULE WHERE VOTING STOCK IS PUB-
16 LICLY TRADED.—

1 “(i) IN GENERAL.—If—

2 “(I) the private foundation and
3 all disqualified persons together do
4 not own more than the applicable per-
5 centage of the voting stock and not
6 more than the applicable percentage
7 in value of all outstanding shares of
8 all classes of stock of an incorporated
9 business enterprise,

10 “(II) the voting stock owned by
11 the private foundation and all dis-
12 qualified persons together is stock for
13 which market quotations are readily
14 available on an established securities
15 market, and

16 “(III) the requirements of clause
17 (ii) are met,

18 then subparagraph (A) shall be applied by
19 substituting ‘the applicable percentage’ for
20 ‘20 percent’.

21 “(ii) REQUIREMENTS TO BE MET.—
22 The requirements of this clause are met
23 during any taxable year—

24 “(I) in which disqualified persons
25 with respect to the private foundation

1 do not receive compensation (as an
2 employee or otherwise) from the cor-
3 poration or engage in any act with
4 such corporation which would con-
5 stitute self-dealing within the meaning
6 of section 4941(d) if such corporation
7 were a private foundation and if each
8 such disqualified person were a dis-
9 qualified person with respect to such
10 corporation,

11 “(II) in which disqualified per-
12 sons with respect to such private
13 foundation do not own in the aggre-
14 gate more than 2 percent of the vot-
15 ing stock and not more than 2 percent
16 in value of all outstanding shares of
17 all classes of stock in such corpora-
18 tion, and

19 “(III) for which there is submit-
20 ted with the annual return of the pri-
21 vate foundation for such year (filed
22 within the time prescribed by law, in-
23 cluding extensions, for filing such re-
24 turn) a certification which is signed
25 by all the members of an audit com-

1 mittee of the Board of Directors of
2 such corporation consisting of a ma-
3 jority of persons who are not disquali-
4 fied persons with respect to such pri-
5 vate foundation and which certifies
6 that such members, after due inquiry,
7 are not aware that any disqualified
8 person has received compensation
9 from such corporation or has engaged
10 in any act with such corporation that
11 would constitute self-dealing within
12 the meaning of section 4941(d) if
13 such corporation were a private foun-
14 dation and if each such disqualified
15 person were a disqualified person with
16 respect to such corporation.

17 For purposes of this clause, the fact that
18 a disqualified person has received com-
19 pensation from such corporation or has en-
20 gaged in any act with such corporation
21 which would constitute self-dealing within
22 the meaning of section 4941(d) shall be
23 disregarded if such receipt or act is cor-
24 rected not later than the due date (not in-
25 cluding extensions thereof) for the filing of

1 the private foundation’s annual return for
 2 the year in which the receipt or act occurs
 3 and on the terms that would be necessary
 4 to correct such receipt or act and thereby
 5 avoid imposition of tax under section
 6 4941(b).

7 “(E) APPLICABLE PERCENTAGE.—For
 8 purposes of this paragraph, the applicable per-
 9 centage shall be determined under the following
 10 table:

“For taxable year—	The applicable percentage is—
2007	40
2008 and thereafter	49.”

11 (b) EFFECTIVE DATE.—The amendment made by
 12 this section shall apply to foundations established by be-
 13 quest of decedents dying after December 31, 2006.

14 **TITLE IX—INTERNATIONAL TAX**
 15 **RELIEF**

16 **SEC. 901. INTEREST ALLOCATION RULES.**

17 (a) ELECTION TO ALLOCATE INTEREST ON A
 18 WORLDWIDE BASIS.—Subsection (e) of section 864 (relat-
 19 ing to rules for allocating interest, etc.) is amended by
 20 redesignating paragraphs (6) and (7) as paragraphs (7)
 21 and (8), respectively, and by inserting after paragraph (5)
 22 the following new paragraph:

23 “(6) ELECTION TO ALLOCATE INTEREST ON A
 24 WORLDWIDE BASIS.—

1 “(A) IN GENERAL.—Except as provided in
2 this paragraph, this subsection shall be applied
3 by treating a worldwide affiliated group for
4 which an election is in effect under this para-
5 graph as an affiliated group solely for purposes
6 of allocating and apportioning interest expense
7 of each domestic corporation which is a member
8 of such group.

9 “(B) WORLDWIDE AFFILIATED GROUP.—
10 For purposes of this paragraph, the term
11 ‘worldwide affiliated group’ means the group of
12 corporations which consists of—

13 “(i) all corporations in an affiliated
14 group (as defined in paragraph (5)(A), ex-
15 cept that section 1504 shall also be applied
16 without regard to subsection (b)(2) there-
17 of), and

18 “(ii) all foreign corporations (other
19 than a FSC, as defined in section 922(a))
20 which would be a member of such affiliated
21 group if paragraph (3) of section 1504 (b)
22 did not apply.

23 “(C) TREATMENT OF WORLDWIDE AFFILI-
24 ATED GROUP.—For purposes of applying para-
25 graph (1), the taxable income of the domestic

1 members of a worldwide affiliated group from
2 sources outside the United States shall be de-
3 termined by allocating and apportioning the in-
4 terest expense of such domestic members to
5 such income in an amount equal to the excess
6 (if any) of—

7 “(i) the total interest expense of the
8 worldwide affiliated group multiplied by
9 the ratio which the foreign assets of the
10 worldwide affiliated group bears to all the
11 assets of the worldwide affiliated group,
12 over

13 “(ii) the interest expense of all foreign
14 corporations which are members of the
15 worldwide affiliated group to the extent
16 such interest expense of such foreign cor-
17 porations would have been allocated and
18 apportioned to foreign source income if
19 this subsection were applied to a group
20 consisting of all the foreign corporations in
21 such worldwide affiliated group.

22 “(D) ELECTION.—An election under this
23 paragraph with respect to any worldwide affili-
24 ated group may be made only by the common
25 parent of the affiliated group referred to in sub-

1 paragraph (B)(i) and may be made only for the
2 first taxable year beginning after December 31,
3 2003, in which a worldwide affiliated group ex-
4 ists which includes such affiliated group and at
5 least 1 corporation described in subparagraph
6 (B)(ii). Such an election, once made, shall apply
7 to such common parent and all other corpora-
8 tions which are members of such worldwide af-
9 filiated group for such taxable year and all sub-
10 sequent years unless revoked with the consent
11 of the Secretary.”

12 (b) ELECTION TO EXPAND FINANCIAL INSTITUTION
13 GROUP OF WORLDWIDE GROUP.—Section 864 is amended
14 by redesignating subsection (f) as subsection (g) and by
15 inserting after subsection (e) the following new subsection:

16 “(f) ELECTION TO EXPAND FINANCIAL INSTITUTION
17 GROUP OF WORLDWIDE GROUP.—

18 “(1) IN GENERAL.—If a worldwide affiliated
19 group for which an election under subsection (e)(6)
20 is in effect elects the application of this subsection,
21 all financial corporations which—

22 “(A) are members of such worldwide affili-
23 ated group, but

24 “(B) are not corporations described in sub-
25 section (e)(5)(C),

1 shall be treated as described in subsection (e)(5)(C)
2 for purposes of applying subsection (e)(5)(B). Sub-
3 section (e) shall apply to any such group in the same
4 manner as subsection (e) applies to the pre-election
5 worldwide affiliated group of which such group is a
6 part.

7 “(2) FINANCIAL CORPORATION.—For purposes
8 of this subsection, the term ‘financial corporation’
9 means any corporation if at least 80 percent of its
10 gross income is income described in section
11 904(d)(2)(C)(ii) and the regulations thereunder
12 which is derived from transactions with persons not
13 bearing a relationship described in section 267(b) or
14 707(b)(1) to the corporation.

15 “(3) ANTIABUSE RULES.—In the case of a cor-
16 poration which is a member of an electing financial
17 institution group, to the extent that such corpora-
18 tion—

19 “(A) distributes dividends or makes other
20 distributions with respect to its stock after the
21 date of the enactment of this paragraph to any
22 member of the pre-election worldwide affiliated
23 group (other than to a member of the electing
24 financial institution group) in excess of the
25 greater of—

1 “(i) its average annual dividend (ex-
2 pressed as a percentage of current earn-
3 ings and profits) during the 5-taxable-year
4 period ending with the taxable year preced-
5 ing the taxable year, or

6 “(ii) 25 percent of its average annual
7 earnings and profits for such 5 taxable
8 year period, or

9 “(B) deals with any person in any manner
10 not clearly reflecting the income of the corpora-
11 tion (as determined under principles similar to
12 the principles of section 482),

13 an amount of indebtedness of the electing financial
14 institution group equal to the excess distribution or
15 the understatement or overstatement of income, as
16 the case may be, shall be recharacterized (for the
17 taxable year and subsequent taxable years) for pur-
18 poses of this subsection as indebtedness of the
19 worldwide affiliated group (excluding the electing fi-
20 nancial institution group). If a corporation has not
21 been in existence for 5 taxable years, this subpara-
22 graph shall be applied with respect to the period it
23 was in existence.

24 “(4) ELECTION.—An election under this sub-
25 section with respect to any financial institution

1 group may be made only by the common parent of
2 the pre-election worldwide affiliated group and may
3 be made only for the first taxable year beginning
4 after December 31, 2003, in which such affiliated
5 group includes 1 or more financial corporations de-
6 scribed in paragraph (1)(B). Such an election, once
7 made, shall apply to all financial corporations which
8 are members of the electing financial institution
9 group for such taxable year and all subsequent years
10 unless revoked with the consent of the Secretary.

11 “(5) DEFINITIONS RELATING TO GROUPS.—For
12 purposes of this subsection—

13 “(A) PRE-ELECTION WORLDWIDE AFFILI-
14 ATED GROUP.—The term ‘pre-election world-
15 wide affiliated group’ means, with respect to a
16 corporation, the worldwide affiliated group of
17 which such corporation would (but for an elec-
18 tion under this subsection) be a member for
19 purposes of applying subsection (e).

20 “(B) ELECTING FINANCIAL INSTITUTION
21 GROUP.—The term ‘electing financial institu-
22 tion group’ means the group of corporations to
23 which subsection (e) applies separately by rea-
24 son of the application of subsection (e)(5)(B)

1 and which includes financial corporations by
2 reason of an election under paragraph (1).

3 “(6) REGULATIONS.—The Secretary shall pre-
4 scribe such regulations as may be appropriate to
5 carry out this subsection and subsection (e), includ-
6 ing regulations—

7 “(A) providing for the direct allocation of
8 interest expense in other circumstances where
9 such allocation would be appropriate to carry
10 out the purposes of this subsection,

11 “(B) preventing assets or interest expense
12 from being taken into account more than once,
13 and

14 “(C) dealing with changes in members of
15 any group (through acquisitions or otherwise)
16 treated under this subsection as an affiliated
17 group for purposes of subsection (e).”

18 (c) EFFECTIVE DATE.—The amendments made by
19 this section shall apply to taxable years beginning after
20 December 31, 2003.

21 **SEC. 902. LOOK-THRU RULES TO APPLY TO DIVIDENDS**
22 **FROM NONCONTROLLED SECTION 902 COR-**
23 **PORATIONS.**

24 (a) IN GENERAL.—Section 904(d)(4) (relating to ap-
25 plication of look-thru rules to dividends from noncon-

1 trolled section 902 corporations) is amended to read as
2 follows:

3 “(4) LOOK-THRU APPLIES TO DIVIDENDS FROM
4 NONCONTROLLED SECTION 902 CORPORATIONS.—

5 “(A) IN GENERAL.—For purposes of this
6 subsection, any dividend from a noncontrolled
7 section 902 corporation with respect to the tax-
8 payer shall be treated as income in a separate
9 category in proportion to the ratio of—

10 “(i) the portion of earnings and prof-
11 its attributable to income in such category,
12 to

13 “(ii) the total amount of earnings and
14 profits.

15 “(B) SPECIAL RULES.—For purposes of
16 this paragraph—

17 “(i) IN GENERAL.—Rules similar to
18 the rules of paragraph (3)(F) shall apply,
19 except that the term ‘separate category’
20 shall include the category of income de-
21 scribed in paragraph (1)(I).

22 “(ii) EARNINGS AND PROFITS.—

23 “(I) IN GENERAL.—The rules of
24 section 316 shall apply.

1 “(II) REGULATIONS.—The Sec-
2 retary may prescribe regulations re-
3 garding the treatment of distributions
4 out of earnings and profits for periods
5 before the taxpayer’s acquisition of
6 the stock to which the distributions
7 relate.

8 “(iii) DIVIDENDS NOT ALLOCABLE TO
9 SEPARATE CATEGORY.—The portion of any
10 dividend from a noncontrolled section 902
11 corporation which is not treated as income
12 in a separate category under subparagraph
13 (A) shall be treated as a dividend to which
14 subparagraph (A) does not apply.

15 “(iv) LOOK-THRU WITH RESPECT TO
16 CARRYFORWARDS OF CREDIT.—Rules simi-
17 lar to subparagraph (A) also shall apply to
18 any carryforward under subsection (c)
19 from a taxable year beginning before Janu-
20 ary 1, 2003, of tax allocable to a dividend
21 from a noncontrolled section 902 corpora-
22 tion with respect to the taxpayer.”

23 (b) CONFORMING AMENDMENTS.—

24 (1) Subparagraph (E) of section 904(d)(1), as
25 in effect both before and after the amendments

1 made by section 1105 of the Taxpayer Relief Act of
2 1997, is hereby repealed.

3 (2) Section 904(d)(2)(C)(iii), as so in effect, is
4 amended by striking subclause (II) and by redesignig-
5 nating subclause (III) as subclause (II).

6 (3) The last sentence of section 904(d)(2)(D),
7 as so in effect, is amended to read as follows: “Such
8 term does not include any financial services income.”

9 (4) Section 904(d)(2)(E) is amended by strik-
10 ing clauses (ii) and (iv) and by redesignating clause
11 (iii) as clause (ii).

12 (5) Section 904(d)(3)(F) is amended by strik-
13 ing “(D), or (E)” and inserting “or (D)”.

14 (6) Section 864(d)(5)(A)(i) is amended by
15 striking “(C)(iii)(III)” and inserting “(C)(iii)(II)”.

16 (c) EFFECTIVE DATE.—The amendments made by
17 this section shall apply to taxable years beginning after
18 December 31, 2002.

19 **SEC. 903. CLARIFICATION OF TREATMENT OF PIPELINE**
20 **TRANSPORTATION INCOME.**

21 (a) IN GENERAL.—Section 954(g)(1) (defining for-
22 eign base company oil related income) is amended by strik-
23 ing “or” at the end of subparagraph (A), by striking the
24 period at the end of subparagraph (B) and inserting “,

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

3 “(C) the pipeline transportation of oil or
4 gas within such foreign country.”

5 (b) EFFECTIVE DATE.—The amendment made by
6 this section shall apply to taxable years of controlled for-
7 eign corporations beginning after December 31, 2002, and
8 taxable years of United States shareholders with or within
9 which such taxable years of controlled foreign corporations
10 end.

11 **SEC. 904. SUBPART F TREATMENT OF INCOME FROM**
12 **TRANSMISSION OF HIGH VOLTAGE ELEC-**
13 **TRICITY.**

14 (a) IN GENERAL.—Paragraph (2) of section 954(e)
15 (relating to foreign base company services income) is
16 amended by striking “or” at the end of subparagraph (A),
17 by striking the period at the end of subparagraph (B) and
18 inserting “, or”, and by inserting after subparagraph (B)
19 the following new subparagraph:

20 “(C) the transmission of high voltage elec-
21 tricity.”

22 (b) EFFECTIVE DATE.—The amendment made by
23 this section shall apply to taxable years of controlled for-
24 eign corporations beginning after December 31, 2002, and
25 taxable years of United States shareholders with or within

1 which such taxable years of controlled foreign corporations
2 end.

3 **SEC. 905. ADVANCE PRICING AGREEMENTS TREATED AS**
4 **CONFIDENTIAL TAXPAYER INFORMATION.**

5 (a) IN GENERAL.—

6 (1) TREATMENT AS RETURN INFORMATION.—

7 Paragraph (2) of section 6103(b) (defining return
8 information) is amended by striking “and” at the
9 end of subparagraph (A), by inserting “and” at the
10 end of subparagraph (B), and by inserting after sub-
11 paragraph (B) the following new subparagraph:

12 “(C) any advance pricing agreement en-
13 tered into by a taxpayer and the Secretary and
14 any background information related to such
15 agreement or any application for an advance
16 pricing agreement.”

17 (2) EXCEPTION FROM PUBLIC INSPECTION AS

18 WRITTEN DETERMINATION.—Paragraph (1) of sec-
19 tion 6110(b) (defining written determination) is
20 amended by adding at the end the following new
21 sentence: “Such term shall not include any advance
22 pricing agreement entered into by a taxpayer and
23 the Secretary and any background information relat-
24 ed to such agreement or any application for an ad-
25 vance pricing agreement.”

1 (3) EFFECTIVE DATE.—The amendments made
2 by this subsection shall take effect on the date of the
3 enactment of this Act.

4 (b) ANNUAL REPORT REGARDING ADVANCE PRICING
5 AGREEMENTS.—

6 (1) IN GENERAL.—Not later than 90 days after
7 the end of each calendar year, the Secretary of the
8 Treasury shall prepare and publish a report regard-
9 ing advance pricing agreements.

10 (2) CONTENTS OF REPORT.—The report shall
11 include the following for the calendar year to which
12 such report relates:

13 (A) Information about the structure, com-
14 position, and operation of the advance pricing
15 agreement program office.

16 (B) A copy of each model advance pricing
17 agreement.

18 (C) The number of—

19 (i) applications filed during such cal-
20 endar year for advanced pricing agree-
21 ments;

22 (ii) advance pricing agreements exe-
23 cuted cumulatively to date and during such
24 calendar year;

1 (iii) renewals of advanced pricing
2 agreements issued;

3 (iv) pending requests for advance pric-
4 ing agreements;

5 (v) pending renewals of advance pric-
6 ing agreements;

7 (vi) for each of the items in clauses
8 (ii) through (v), the number that are uni-
9 lateral, bilateral, and multilateral, respec-
10 tively;

11 (vii) advance pricing agreements re-
12 voked or canceled, and the number of with-
13 draws from the advance pricing agree-
14 ment program; and

15 (viii) advanced pricing agreements fi-
16 nalized or renewed by industry.

17 (D) General descriptions of—

18 (i) the nature of the relationships be-
19 tween the related organizations, trades, or
20 businesses covered by advance pricing
21 agreements;

22 (ii) the covered transactions and the
23 business functions performed and risks as-
24 sumed by such organizations, trades, or
25 businesses;

- 1 (iii) the related organizations, trades,
2 or businesses whose prices or results are
3 tested to determine compliance with trans-
4 fer pricing methodologies prescribed in ad-
5 vanced pricing agreements;
- 6 (iv) methodologies used to evaluate
7 tested parties and transactions and the cir-
8 cumstances leading to the use of those
9 methodologies;
- 10 (v) critical assumptions made and
11 sources of comparables used;
- 12 (vi) comparable selection criteria and
13 the rationale used in determining such cri-
14 teria;
- 15 (vii) the nature of adjustments to
16 comparables or tested parties;
- 17 (viii) the nature of any ranges agreed
18 to, including information regarding when
19 no range was used and why, when inter-
20 quartile ranges were used, and when there
21 was a statistical narrowing of the
22 comparables;
- 23 (ix) adjustment mechanisms provided
24 to rectify results that fall outside of the

1 agreed upon advance pricing agreement
2 range;

3 (x) the various term lengths for ad-
4 vance pricing agreements, including roll-
5 back years, and the number of advance
6 pricing agreements with each such term
7 length;

8 (xi) the nature of documentation re-
9 quired; and

10 (xii) approaches for sharing of cur-
11 rency or other risks.

12 (E) Statistics regarding the amount of
13 time taken to complete new and renewal ad-
14 vance pricing agreements.

15 (3) CONFIDENTIALITY.—The reports required
16 by this subsection shall be treated as authorized by
17 the Internal Revenue Code of 1986 for purposes of
18 section 6103 of such Code, but the reports shall not
19 include information—

20 (A) which would not be permitted to be
21 disclosed under section 6110(c) of such Code if
22 such report were a written determination as de-
23 fined in section 6110 of such Code, or

1 (B) which can be associated with, or other-
2 wise identify, directly or indirectly, a particular
3 taxpayer.

4 (4) FIRST REPORT.—The report for calendar
5 year 1999 shall include prior calendar years after
6 1990.

7 (c) USER FEE.—Section 7527, as added by this Act,
8 is amended by redesignating subsection (c) as subsection
9 (d) and by inserting after subsection (b) the following new
10 subsection:

11 “(c) ADVANCE PRICING AGREEMENTS.—

12 “(1) IN GENERAL.—In addition to any fee oth-
13 erwise imposed under this section, the fee imposed
14 for requests for advance pricing agreements shall be
15 increased by \$500.

16 “(2) REDUCED FEE FOR SMALL BUSINESSES.—
17 The Secretary shall provide an appropriate reduction
18 in the amount imposed by reason of paragraph (1)
19 for requests for advance pricing agreements for
20 small businesses.”

21 (d) REGULATIONS.—The Secretary of the Treasury
22 or the Secretary’s delegate shall prescribe such regulations
23 as may be necessary or appropriate to carry out the pur-
24 poses of section 6103(b)(2)(C), and the last sentence of

1 section 6110(b)(1), of the Internal Revenue Code of 1986,
2 as added by this section.

3 **SEC. 906. AIRLINE MILEAGE AWARDS TO CERTAIN FOREIGN**
4 **PERSONS.**

5 (a) IN GENERAL.—The last sentence of section
6 4261(e)(3)(C) (relating to regulations) is amended by in-
7 serting “and mileage awards which are issued to individ-
8 uals whose mailing addresses on record with the person
9 providing the right to air transportation are outside the
10 United States” before the period at the end thereof.

11 (b) EFFECTIVE DATE.—The amendment made by
12 this section shall apply to amounts paid after December
13 31, 1999.

14 **SEC. 907. REPEAL OF FOREIGN TAX CREDIT LIMITATION**
15 **UNDER ALTERNATIVE MINIMUM TAX.**

16 (a) IN GENERAL.—Section 59(a) (relating to alter-
17 native minimum tax foreign tax credit) is amended by
18 striking paragraph (2) and by redesignating paragraphs
19 (3) and (4) as paragraphs (2) and (3), respectively.

20 (b) CONFORMING AMENDMENT.—Section
21 53(d)(1)(B)(i)(II) is amended by striking “and if section
22 59(a)(2) did not apply”.

23 (c) EFFECTIVE DATE.—The amendments made by
24 this section shall apply to taxable years beginning after
25 December 31, 2004.

1 **SEC. 908. TREATMENT OF MILITARY PROPERTY OF FOR-**
2 **EIGN SALES CORPORATIONS.**

3 (a) IN GENERAL.—Section 923(a) (defining exempt
4 foreign trade income) is amended by striking paragraph
5 (5) and by redesignating paragraph (6) as paragraph (5).

6 (b) EFFECTIVE DATE.—The amendment made by
7 this section shall apply to taxable years beginning after
8 December 31, 2004.

9 **TITLE X—HOUSING AND REAL**
10 **ESTATE TAX RELIEF PROVI-**
11 **SIONS**

12 **Subtitle A—Low-Income Housing**
13 **Credit**

14 **SEC. 1001. MODIFICATION OF STATE CEILING ON LOW-IN-**
15 **COME HOUSING CREDIT.**

16 (a) IN GENERAL.—Clauses (i) and (ii) of section
17 42(h)(3)(C) (relating to State housing credit ceiling) are
18 amended to read as follows:

19 “(i) the unused State housing credit
20 ceiling (if any) of such State for the pre-
21 ceding calendar year,

22 “(ii) the greater of—

23 “(I) the applicable amount under
24 subparagraph (H) multiplied by the
25 State population, or

26 “(II) \$2,000,000.”

1 (b) APPLICABLE AMOUNT.—Paragraph (3) of section
 2 42(h) (relating to housing credit dollar amount for agen-
 3 cies) is amended by adding at the end the following new
 4 subparagraph:

5 “(H) APPLICABLE AMOUNT OF STATE
 6 CEILING.—For purposes of subparagraph
 7 (C)(ii), the applicable amount shall be deter-
 8 mined under the following table:

“For calendar year—	The applicable amount is—
2001	\$1.35
2002	1.45
2003	1.55
2004	1.65
2005 and thereafter	1.75.”

9 (c) CONFORMING AMENDMENTS.—

10 (1) Section 42(h)(3)(C), as amended by sub-
 11 section (a), is amended—

12 (A) by striking “clause (ii)” in the matter
 13 following clause (iv) and inserting “clause (i)”,
 14 and

15 (B) by striking “clauses (i)” in the matter
 16 following clause (iv) and inserting “clauses
 17 (ii)”.

18 (2) Section 42(h)(3)(D)(ii) is amended—

19 (A) by striking “subparagraph (C)(ii)” and
 20 inserting “subparagraph (C)(i)”, and

21 (B) by striking “clauses (i)” in subclause
 22 (II) and inserting “clauses (ii)”.

1 (d) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to calendar years after 2000.

3 **Subtitle B—Historic Homes**

4 **SEC. 1011. TAX CREDIT FOR RENOVATING HISTORIC**
5 **HOMES.**

6 (a) IN GENERAL.—Subpart A of part IV of sub-
7 chapter A of chapter 1 (relating to nonrefundable personal
8 credits) is amended by inserting after section 25A the fol-
9 lowing new section:

10 **“SEC. 25B. HISTORIC HOMEOWNERSHIP REHABILITATION**
11 **CREDIT.**

12 “(a) GENERAL RULE.—In the case of an individual,
13 there shall be allowed as a credit against the tax imposed
14 by this chapter for the taxable year an amount equal to
15 20 percent of the qualified rehabilitation expenditures
16 made by the taxpayer with respect to a qualified historic
17 home.

18 “(b) DOLLAR LIMITATION.—The credit allowed by
19 subsection (a) with respect to any residence of a taxpayer
20 shall not exceed \$20,000 (\$10,000 in the case of a married
21 individual filing a separate return).

22 “(c) QUALIFIED REHABILITATION EXPENDITURE.—
23 For purposes of this section—

1 “(1) IN GENERAL.—The term ‘qualified reha-
2 bilitation expenditure’ means any amount properly
3 chargeable to capital account—

4 “(A) in connection with the certified reha-
5 bilitation of a qualified historic home, and

6 “(B) for property for which depreciation
7 would be allowable under section 168 if the
8 qualified historic home were used in a trade or
9 business.

10 “(2) CERTAIN EXPENDITURES NOT IN-
11 CLUDED.—

12 “(A) EXTERIOR.—Such term shall not in-
13 clude any expenditure in connection with the re-
14 habilitation of a building unless at least 5 per-
15 cent of the total expenditures made in the reha-
16 bilitation process are allocable to the rehabilita-
17 tion of the exterior of such building.

18 “(B) OTHER RULES TO APPLY.—Rules
19 similar to the rules of clauses (ii) and (iii) of
20 section 47(c)(2)(B) shall apply.

21 “(3) MIXED USE OR MULTIFAMILY BUILDING.—
22 If only a portion of a building is used as the prin-
23 cipal residence of the taxpayer, only qualified reha-
24 bilitation expenditures which are properly allocable

1 to such portion shall be taken into account under
2 this section.

3 “(d) CERTIFIED REHABILITATION.—For purposes of
4 this section:

5 “(1) IN GENERAL.—Except as otherwise pro-
6 vided in this subsection, the term ‘certified rehabili-
7 tation’ has the meaning given such term by section
8 47(c)(2)(C).

9 “(2) FACTORS TO BE CONSIDERED IN THE
10 CASE OF TARGETED AREA RESIDENCES, ETC.—

11 “(A) IN GENERAL.—For purposes of ap-
12 plying section 47(c)(2)(C) under this section
13 with respect to the rehabilitation of a building
14 to which this paragraph applies, consideration
15 shall be given to—

16 “(i) the feasibility of preserving exist-
17 ing architectural and design elements of
18 the interior of such building,

19 “(ii) the risk of further deterioration
20 or demolition of such building in the event
21 that certification is denied because of the
22 failure to preserve such interior elements,
23 and

1 “(iii) the effects of such deterioration
2 or demolition on neighboring historic prop-
3 erties.

4 “(B) BUILDINGS TO WHICH THIS PARA-
5 GRAPH APPLIES.—This paragraph shall apply
6 with respect to any building—

7 “(i) any part of which is a targeted
8 area residence within the meaning of sec-
9 tion 143(j)(1), or

10 “(ii) which is located within an enter-
11 prise community or empowerment zone as
12 designated under section 1391,

13 but shall not apply with respect to any building
14 which is listed in the National Register.

15 “(3) APPROVED STATE PROGRAM.—The term
16 ‘certified rehabilitation’ includes a certification made
17 by—

18 “(A) a State Historic Preservation Officer
19 who administers a State Historic Preservation
20 Program approved by the Secretary of the Inte-
21 rior pursuant to section 101(b)(1) of the Na-
22 tional Historic Preservation Act, as in effect on
23 July 21, 1999, or

24 “(B) a local government, certified pursuant
25 to section 101(c)(1) of the National Historic

1 Preservation Act, as in effect on July 21, 1999,
2 and authorized by a State Historic Preservation
3 Officer, or the Secretary of the Interior where
4 there is no approved State program),
5 subject to such terms and conditions as may be
6 specified by the Secretary of the Interior for the re-
7 habilitation of buildings within the jurisdiction of
8 such officer (or local government) for purposes of
9 this section.

10 “(e) DEFINITIONS AND SPECIAL RULES.—For pur-
11 poses of this section—

12 “(1) QUALIFIED HISTORIC HOME.—The term
13 ‘qualified historic home’ means a certified historic
14 structure—

15 “(A) which has been substantially rehabili-
16 tated, and

17 “(B) which (or any portion of which)—

18 “(i) is owned by the taxpayer, and

19 “(ii) is used (or will, within a reason-
20 able period, be used) by such taxpayer as
21 his principal residence.

22 “(2) SUBSTANTIALLY REHABILITATED.—The
23 term ‘substantially rehabilitated’ has the meaning
24 given such term by section 47(c)(1)(C); except that,

1 in the case of any building described in subsection
2 (d)(2), clause (i)(I) thereof shall not apply.

3 “(3) PRINCIPAL RESIDENCE.—The term ‘prin-
4 cipal residence’ has the same meaning as when used
5 in section 121.

6 “(4) CERTIFIED HISTORIC STRUCTURE.—

7 “(A) IN GENERAL.—The term ‘certified
8 historic structure’ means any building (and its
9 structural components) which—

10 “(i) is listed in the National Register,

11 or

12 “(ii) is located in a registered historic
13 district (as defined in section 47(c)(3)(B))
14 within which only qualified census tracts
15 (or portions thereof) are located, and is
16 certified by the Secretary of the Interior to
17 the Secretary as being of historic signifi-
18 cance to the district.

19 “(B) CERTAIN STRUCTURES INCLUDED.—

20 Such term includes any building (and its struc-
21 tural components) which is designated as being
22 of historic significance under a statute of a
23 State or local government, if such statute is
24 certified by the Secretary of the Interior to the
25 Secretary as containing criteria which will sub-

1 stantially achieve the purpose of preserving and
2 rehabilitating buildings of historic significance.

3 “(C) QUALIFIED CENSUS TRACTS.—For
4 purposes of subparagraph (A)(ii)—

5 “(i) IN GENERAL.—The term ‘quali-
6 fied census tract’ means a census tract in
7 which the median family income is less
8 than twice the statewide median family in-
9 come.

10 “(ii) DATA USED.—The determination
11 under clause (i) shall be made on the basis
12 of the most recent decennial census for
13 which data are available.

14 “(5) REHABILITATION NOT COMPLETE BEFORE
15 CERTIFICATION.—A rehabilitation shall not be treat-
16 ed as complete before the date of the certification re-
17 ferred to in subsection (d).

18 “(6) LESSEES.—A taxpayer who leases his
19 principal residence shall, for purposes of this section,
20 be treated as the owner thereof if the remaining
21 term of the lease (as of the date determined under
22 regulations prescribed by the Secretary) is not less
23 than such minimum period as the regulations re-
24 quire.

1 “(7) TENANT-STOCKHOLDER IN COOPERATIVE
2 HOUSING CORPORATION.—If the taxpayer holds
3 stock as a tenant-stockholder (as defined in section
4 216) in a cooperative housing corporation (as de-
5 fined in such section), such stockholder shall be
6 treated as owning the house or apartment which the
7 taxpayer is entitled to occupy as such stockholder.

8 “(8) ALLOCATION OF EXPENDITURES RELAT-
9 ING TO EXTERIOR OF BUILDING CONTAINING COOP-
10 ERATIVE OR CONDOMINIUM UNITS.—The percentage
11 of the total expenditures made in the rehabilitation
12 of a building containing cooperative or condominium
13 residential units allocated to the rehabilitation of the
14 exterior of the building shall be attributed propor-
15 tionately to each cooperative or condominium resi-
16 dential unit in such building for which a credit
17 under this section is claimed.

18 “(f) WHEN EXPENDITURES TAKEN INTO AC-
19 COUNT.—In the case of a building other than a building
20 to which subsection (g) applies, qualified rehabilitation ex-
21 penditures shall be treated for purposes of this section as
22 made on the date the rehabilitation is completed.

23 “(g) ALLOWANCE OF CREDIT FOR PURCHASE OF RE-
24 HABILITATED HISTORIC HOME.—

1 “(1) IN GENERAL.—In the case of a qualified
2 purchased historic home, the taxpayer shall be treat-
3 ed as having made (on the date of purchase) the
4 qualified rehabilitation expenditures made by the
5 seller of such home. For purposes of the preceding
6 sentence, expenditures made by the seller shall be
7 deemed to be qualified rehabilitation expenditures if
8 such expenditures, if made by the purchaser, would
9 be qualified rehabilitation expenditures.

10 “(2) QUALIFIED PURCHASED HISTORIC
11 HOME.—For purposes of this subsection, the term
12 ‘qualified purchased historic home’ means any sub-
13 stantially rehabilitated certified historic structure
14 purchased by the taxpayer if—

15 “(A) the taxpayer is the first purchaser of
16 such structure after the date rehabilitation is
17 completed, and the purchase occurs within 5
18 years after such date,

19 “(B) the structure (or a portion thereof)
20 will, within a reasonable period, be the principal
21 residence of the taxpayer,

22 “(C) no credit was allowed to the seller
23 under this section or section 47 with respect to
24 such rehabilitation, and

1 “(D) the taxpayer is furnished with such
2 information as the Secretary determines is nec-
3 essary to determine the credit under this sub-
4 section.

5 “(h) HISTORIC REHABILITATION MORTGAGE CREDIT
6 CERTIFICATE.—

7 “(1) IN GENERAL.—The taxpayer may elect, in
8 lieu of the credit otherwise allowable under this sec-
9 tion, to receive a historic rehabilitation mortgage
10 credit certificate. An election under this paragraph
11 shall be made—

12 “(A) in the case of a building to which
13 subsection (g) applies, at the time of purchase,
14 or

15 “(B) in any other case, at the time reha-
16 bilitation is completed.

17 “(2) HISTORIC REHABILITATION MORTGAGE
18 CREDIT CERTIFICATE.—For purposes of this sub-
19 section, the term ‘historic rehabilitation mortgage
20 credit certificate’ means a certificate—

21 “(A) issued to the taxpayer, in accordance
22 with procedures prescribed by the Secretary,
23 with respect to a certified rehabilitation,

24 “(B) the face amount of which shall be
25 equal to the credit which would (but for this

1 subsection) be allowable under subsection (a) to
2 the taxpayer with respect to such rehabilitation,

3 “(C) which may only be transferred by the
4 taxpayer to a lending institution (including a
5 non-depository institution) in connection with a
6 loan—

7 “(i) that is secured by the building
8 with respect to which the credit relates,
9 and

10 “(ii) the proceeds of which may not be
11 used for any purpose other than the acqui-
12 sition or rehabilitation of such building,
13 and

14 “(D) in exchange for which such lending
15 institution 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 res-
2 idence within the meaning of section
3 143(j)(1), or

4 “(II) which is located in an en-
5 terprise community or empowerment
6 zone as designated under section
7 1391,

8 a payment which is substantially equivalent
9 to such specified amount to be used to re-
10 duce the taxpayer’s cost of purchasing the
11 building (and only the remainder of such
12 face amount shall be taken into account
13 under clause (i)).

14 “(3) METHOD OF DISCOUNTING.—The present
15 value under paragraph (2)(D)(i) shall be deter-
16 mined—

17 “(A) for a period equal to the term of the
18 loan referred to in subparagraph (D)(i),

19 “(B) by using the convention that any pay-
20 ment on such loan in any taxable year within
21 such period is deemed to have been made on
22 the last day of such taxable year,

23 “(C) by using a discount rate equal to 65
24 percent of the average of the annual Federal
25 mid-term rate and the annual Federal long-

1 term rate applicable under section 1274(d)(1)
2 to the month in which the taxpayer makes an
3 election under paragraph (1) and compounded
4 annually, and

5 “(D) by assuming that the credit allowable
6 under this section for any year is received on
7 the last day of such year.

8 “(4) USE OF CERTIFICATE BY LENDER.—The
9 amount of the credit specified in the certificate shall
10 be allowed to the lender only to offset the regular
11 tax (as defined in section 55(c)) of such lender. The
12 lender may carry forward all unused amounts under
13 this subsection until exhausted.

14 “(5) HISTORIC REHABILITATION MORTGAGE
15 CREDIT CERTIFICATE NOT TREATED AS TAXABLE IN-
16 COME.—Notwithstanding any other provision of law,
17 no benefit accruing to the taxpayer through the use
18 of an historic rehabilitation mortgage credit certifi-
19 cate shall be treated as taxable income for purposes
20 of this title.

21 “(i) RECAPTURE.—

22 “(1) IN GENERAL.—If, before the end of the 5-
23 year period beginning on the date on which the reha-
24 bilitation of the building is completed (or, if sub-
25 section (g) applies, the date of purchase of such

1 building by the taxpayer, or, if subsection (h) ap-
 2 plies, the 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 percent-
 10 age of the credit allowed under this section for all
 11 prior taxable years with respect to such rehabilita-
 12 tion.

13 “(2) RECAPTURE PERCENTAGE.—For purposes
 14 of paragraph (1), the recapture percentage shall be
 15 determined in accordance with the following table:

“If the disposition or ces- The recapture percentage is—	
sation occurs within—	
(i) One full year after the taxpayer becomes entitled to the credit.	100
(ii) One full year after the close of the period described in clause (i).	80
(iii) One full year after the close of the period described in clause (ii).	60
(iv) One full year after the close of the period described in clause (iii).	40
(v) One full year after the close of the period described in clause (iv).	20.”

16 “(j) BASIS ADJUSTMENTS.—For purposes of this
 17 subtitle, if a credit is allowed under this section for any
 18 expenditure with respect to any property (including any
 19 purchase under subsection (g) and any transfer under sub-
 20 section (h)), the increase in the basis of such property

1 which would (but for this subsection) result from such ex-
2 penditure shall be reduced by the amount of the credit
3 so allowed.

4 “(k) DENIAL OF DOUBLE BENEFIT.—No credit shall
5 be allowed under this section for any amount for which
6 credit is allowed under section 47.

7 “(l) REGULATIONS.—The Secretary shall prescribe
8 such regulations as may be appropriate to carry out the
9 purposes of this section, including regulations where less
10 than all of a building is used as a principal residence and
11 where more than 1 taxpayer use the same dwelling unit
12 as their principal residence.”

13 (b) CONFORMING AMENDMENT.—Subsection (a) of
14 section 1016 is amended by striking “and” at the end of
15 paragraph (26), by striking the period at the end of para-
16 graph (27) and inserting “, and”, and by adding at the
17 end the following new item:

18 “(28) to the extent provided in section 25B(j).”

19 (c) CLERICAL AMENDMENT.—The table of sections
20 for subpart A of part IV of subchapter A of chapter 1
21 is amended by inserting after the item relating to section
22 25A the following new item:

“Sec. 25B. Historic homeownership rehabilitation credit.”

23 (d) EFFECTIVE DATE.—The amendments made by
24 this section shall apply to expenses paid or incurred in
25 taxable 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
18 securities of any 1 issuer,

19 “(II) the trust does not hold securities
20 possessing more than 10 percent of the
21 total voting power of the outstanding secu-
22 rities of any 1 issuer, and

23 “(III) the trust does not hold securi-
24 ties having a value of more than 10 per-

1 cent of the total value of the outstanding
2 securities 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 APPLY-
7 ING PARAGRAPH (4).—Securities of an issuer which
8 are straight debt (as defined in section 1361(c)(5)
9 without regard to subparagraph (B)(iii) thereof)
10 shall not be taken into account in applying para-
11 graph (4)(B)(ii)(III) if—

12 “(A) the issuer is an individual, or

13 “(B) the only securities of such issuer
14 which are held by the trust or a taxable REIT
15 subsidiary of the trust are straight debt (as so
16 defined), 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
23 NOT TREATED AS IMPERMISSIBLE TENANT SERVICE IN-
24 COME.—Clause (i) of section 856(d)(7)(C) (relating to ex-
25 ceptions to impermissible tenant service income) is amend-

1 ed by inserting “or through a taxable REIT subsidiary
2 of such trust” after “income”.

3 (b) CERTAIN INCOME FROM TAXABLE REIT SUB-
4 SIDIARIES NOT EXCLUDED FROM RENTS FROM REAL
5 PROPERTY.—

6 (1) IN GENERAL.—Subsection (d) of section
7 856 (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 SUB-
11 SIDIARIES.—For purposes of this subsection,
12 amounts paid to a real estate investment trust by a
13 taxable REIT subsidiary of such trust shall not be
14 excluded from rents from real property by reason of
15 paragraph (2)(B) if the requirements of subpara-
16 graph (A) or (B) are met.

17 “(A) LIMITED RENTAL EXCEPTION.—The
18 requirements 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
21 persons 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
7 FACILITIES.—The requirements of this subpara-
8 graph are met with respect to an interest in
9 real property which is a qualified lodging facil-
10 ity leased by the trust to a taxable REIT sub-
11 sidiary of the trust if the property is operated
12 on behalf of such subsidiary by a person who is
13 an eligible independent contractor.

14 “(9) ELIGIBLE INDEPENDENT CONTRACTOR.—
15 For purposes of paragraph (8)(B)—

16 “(A) IN GENERAL.—The term ‘eligible
17 independent contractor’ means, with respect to
18 any qualified lodging facility, any independent
19 contractor if, at the time such contractor enters
20 into a management agreement or other similar
21 service contract with the taxable REIT subsidi-
22 ary to operate the facility, such contractor (or
23 any related person) is actively engaged in the
24 trade or business of operating qualified lodging
25 facilities for any person who is not a related

1 person with respect to the real estate invest-
2 ment trust or the 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 independ-
6 ent contractor with respect to any qualified
7 lodging facility by reason of any of the follow-
8 ing:

9 “(i) The taxable REIT subsidiary
10 bears the expenses for the operation of the
11 facility pursuant to the management agree-
12 ment or other similar service contract.

13 “(ii) The taxable REIT subsidiary re-
14 ceives the revenues from the operation of
15 such facility, net of expenses for such oper-
16 ation and fees payable to the operator pur-
17 suant to such agreement or contract.

18 “(iii) The real estate investment trust
19 receives income from such person with re-
20 spect to another property that is attrib-
21 utable to a lease of such other property to
22 such person that was in effect as on the
23 later of—

24 “(I) January 1, 1999, or

1 “(II) the earliest date that any
2 taxable REIT subsidiary of such trust
3 entered into a management agreement
4 or other similar service contract with
5 such person with respect to such
6 qualified lodging facility.

7 “(C) RENEWALS, ETC., OF EXISTING
8 LEASES.—For purposes of subparagraph
9 (B)(iii)—

10 “(i) a lease shall be treated as in ef-
11 fect on January 1, 1999, without regard to
12 its renewal after such date, so long as such
13 renewal is pursuant to the terms of such
14 lease as in effect on whichever of the dates
15 under subparagraph (B)(iii) is the latest,
16 and

17 “(ii) a lease of a property entered into
18 after whichever of the dates under sub-
19 paragraph (B)(iii) is the latest shall be
20 treated as in effect on such date if—

21 “(I) on such date, a lease of such
22 property from the trust was in effect,
23 and

24 “(II) under the terms of the new
25 lease, such trust receives a substan-

1 tially similar or lesser benefit in com-
2 parison to the lease referred to in sub-
3 clause (I).

4 “(D) QUALIFIED LODGING FACILITY.—For
5 purposes of this paragraph—

6 “(i) IN GENERAL.—The term ‘quali-
7 fied lodging facility’ means any lodging fa-
8 cility unless wagering activities are con-
9 ducted at or in connection with such facil-
10 ity by any person who is engaged in the
11 business of accepting wagers and who is le-
12 gally authorized to engage in such business
13 at or in connection with such facility.

14 “(ii) LODGING FACILITY.—The term
15 ‘lodging facility’ means a hotel, motel, or
16 other establishment more than one-half of
17 the dwelling units in which are used on a
18 transient basis.

19 “(iii) CUSTOMARY AMENITIES AND FA-
20 CILITIES.—The term ‘lodging facility’ in-
21 cludes customary amenities and facilities
22 operated as part of, or associated with, the
23 lodging facility so long as such amenities
24 and facilities are customary for other prop-
25 erties of a comparable size and class owned

1 “(B) such trust and such corporation joint-
2 ly elect that such corporation shall be treated as
3 a taxable REIT subsidiary of such trust for
4 purposes of this part.

5 Such an election, once made, shall be irrevocable un-
6 less both such trust and corporation consent to its
7 revocation. Such election, and any revocation there-
8 of, may be made without the consent of the Sec-
9 retary.

10 “(2) 35 PERCENT OWNERSHIP IN ANOTHER
11 TAXABLE REIT SUBSIDIARY.—The term ‘taxable
12 REIT subsidiary’ includes, with respect to any real
13 estate investment trust, any corporation (other than
14 a real estate investment trust) with respect to which
15 a taxable REIT subsidiary of such trust owns di-
16 rectly or indirectly—

17 “(A) securities possessing more than 35
18 percent of the total voting power of the out-
19 standing securities of such corporation, or

20 “(B) securities having a value of more
21 than 35 percent of the total value of the out-
22 standing securities of such corporation.

23 The preceding sentence shall not apply to a qualified
24 REIT subsidiary (as defined in subsection (i)(2)).

1 The rule of section 856(c)(7) shall apply for pur-
2 poses of subparagraph (B).

3 “(3) EXCEPTIONS.—The term ‘taxable REIT
4 subsidiary’ shall not include—

5 “(A) any corporation which directly or in-
6 directly operates or manages a lodging facility
7 or a health care facility, and

8 “(B) any corporation which directly or in-
9 directly provides to any other person (under a
10 franchise, license, or otherwise) rights to any
11 brand name under which any lodging facility or
12 health care facility is operated.

13 Subparagraph (B) shall not apply to rights provided
14 to an eligible independent contractor to operate or
15 manage a lodging facility if such rights are held by
16 such corporation as a franchisee, licensee, or in a
17 similar capacity and such lodging facility is either
18 owned by such corporation or is leased to such cor-
19 poration from the real estate investment trust.

20 “(4) DEFINITIONS.—For purposes of paragraph
21 (3)—

22 “(A) LODGING FACILITY.—The term ‘lodg-
23 ing facility’ has the meaning given to such term
24 by paragraph (9)(D)(ii).

1 “(B) HEALTH CARE FACILITY.—The term
2 ‘health care facility’ has the meaning given to
3 such term by subsection (e)(6)(D)(ii).”

4 (b) CONFORMING AMENDMENT.—Paragraph (2) of
5 section 856(i) is amended by adding at the end the follow-
6 ing new sentence: “Such term shall not include a taxable
7 REIT subsidiary.”

8 **SEC. 1024. LIMITATION ON EARNINGS STRIPPING.**

9 Paragraph (3) of section 163(j) (relating to limitation
10 on deduction for interest on certain indebtedness) is
11 amended by striking “and” at the end of subparagraph
12 (A), by striking the period at the end of subparagraph
13 (B) and inserting “, and”, and by adding at the end the
14 following new subparagraph:

15 “(C) any interest paid or accrued (directly
16 or indirectly) by a taxable REIT subsidiary (as
17 defined in section 856(l)) of a real estate invest-
18 ment trust to such trust.”

19 **SEC. 1025. 100 PERCENT TAX ON IMPROPERLY ALLOCATED**
20 **AMOUNTS.**

21 (a) IN GENERAL.—Subsection (b) of section 857 (re-
22 lating to method of taxation of real estate investment
23 trusts and holders of shares or certificates of beneficial
24 interest) is amended by redesignating paragraphs (7) and

1 (8) as paragraphs (8) and (9), respectively, and by insert-
2 ing after paragraph (6) the following new paragraph:

3 “(7) INCOME FROM REDETERMINED RENTS, RE-
4 DETERMINED DEDUCTIONS, AND EXCESS INTER-
5 EST.—

6 “(A) IMPOSITION OF TAX.—There is here-
7 by imposed for each taxable year of the real es-
8 tate investment trust a tax equal to 100 percent
9 of redetermined rents, redetermined deductions,
10 and excess interest.

11 “(B) REDETERMINED RENTS.—

12 “(i) IN GENERAL.—The term ‘redeter-
13 mined rents’ means rents from real prop-
14 erty (as defined in subsection 856(d)) the
15 amount of which would (but for subpara-
16 graph (E)) be reduced on distribution, ap-
17 portionment, or allocation under section
18 482 to clearly reflect income as a result of
19 services furnished or rendered by a taxable
20 REIT subsidiary of the real estate invest-
21 ment trust to a tenant of such trust.

22 “(ii) EXCEPTION FOR CERTAIN SERV-
23 ICES.—Clause (i) shall not apply to
24 amounts received directly or indirectly by a
25 real estate investment trust for services de-

1 scribed in paragraph (1)(B) or (7)(C)(i) of
2 section 856(d).

3 “(iii) EXCEPTION FOR DE MINIMIS
4 AMOUNTS.—Clause (i) shall not apply to
5 amounts described in section 856(d)(7)(A)
6 with respect to a property to the extent
7 such amounts do not exceed the one per-
8 cent threshold described in section
9 856(d)(7)(B) with respect to such prop-
10 erty.

11 “(iv) EXCEPTION FOR COMPARABLY
12 PRICED SERVICES.—Clause (i) shall not
13 apply to any service rendered by a taxable
14 REIT subsidiary of a real estate invest-
15 ment trust to a tenant of such trust if—

16 “(I) such subsidiary renders a
17 significant amount of similar services
18 to persons other than such trust and
19 tenants of such trust who are unre-
20 lated (within the meaning of section
21 856(d)(8)(F)) to such subsidiary,
22 trust, and tenants, but

23 “(II) only to the extent the
24 charge for such service so rendered is
25 substantially comparable to the charge

1 for the similar services rendered to
2 persons referred to in subclause (I).

3 “(v) EXCEPTION FOR CERTAIN SEPA-
4 RATELY CHARGED SERVICES.—Clause (i)
5 shall not apply to any service rendered by
6 a taxable REIT subsidiary of a real estate
7 investment trust to a tenant of such trust
8 if—

9 “(I) the rents paid to the trust
10 by tenants (leasing at least 25 percent
11 of the net leasable space in the trust’s
12 property) who are not receiving such
13 service from such subsidiary are sub-
14 stantially comparable to the rents
15 paid by tenants leasing comparable
16 space who are receiving such service
17 from such subsidiary, and

18 “(II) the charge for such service
19 from such subsidiary is separately
20 stated.

21 “(vi) EXCEPTION FOR CERTAIN SERV-
22 ICES BASED ON SUBSIDIARY’S INCOME
23 FROM THE SERVICES.—Clause (i) shall not
24 apply to any service rendered by a taxable
25 REIT subsidiary of a real estate invest-

1 ment trust to a tenant of such trust if the
2 gross income of such subsidiary from such
3 service is not less than 150 percent of such
4 subsidiary's direct cost in furnishing or
5 rendering the service.

6 “(vii) EXCEPTIONS GRANTED BY SEC-
7 RETARY.—The Secretary may waive the
8 tax otherwise imposed by subparagraph
9 (A) if the trust establishes to the satisfac-
10 tion of the Secretary that rents charged to
11 tenants were established on an arms'
12 length basis even though a taxable REIT
13 subsidiary of the trust provided services to
14 such tenants.

15 “(C) REDETERMINED DEDUCTIONS.—The
16 term ‘redetermined deductions’ means deduc-
17 tions (other than redetermined rents) of a tax-
18 able REIT subsidiary of a real estate invest-
19 ment trust if the amount of such deductions
20 would (but for subparagraph (E)) be increased
21 on distribution, apportionment, or allocation
22 under section 482 to clearly reflect income as
23 between such subsidiary and such trust.

24 “(D) EXCESS INTEREST.—The term ‘ex-
25 cess interest’ means any deductions for interest

1 payments by a taxable REIT subsidiary of a
2 real estate investment trust to such trust to the
3 extent that the interest payments are in excess
4 of a rate that is commercially reasonable.

5 “(E) COORDINATION WITH SECTION 482.—
6 The imposition of tax under subparagraph (A)
7 shall be in lieu of any distribution, apportion-
8 ment, or allocation under section 482.

9 “(F) REGULATORY AUTHORITY.—The Sec-
10 retary shall prescribe such regulations as may
11 be necessary or appropriate to carry out the
12 purposes of this paragraph. Until the Secretary
13 prescribes such regulations, real estate invest-
14 ment trusts and their taxable REIT subsidi-
15 aries may base their allocations on any reason-
16 able method.”

17 (b) AMOUNT SUBJECT TO TAX NOT REQUIRED TO
18 BE DISTRIBUTED.—Subparagraph (E) of section
19 857(b)(2) (relating to real estate investment trust taxable
20 income) is amended by striking “paragraph (5)” and in-
21 serting “paragraphs (5) and (7)”.

22 **SEC. 1026. EFFECTIVE DATE.**

23 (a) IN GENERAL.—The amendments made by this
24 part shall apply to taxable years beginning after December
25 31, 2000.

1 (b) TRANSITIONAL RULES RELATED TO SECTION
2 1021.—

3 (1) EXISTING ARRANGEMENTS.—

4 (A) IN GENERAL.—Except as otherwise
5 provided in this paragraph, the amendment
6 made by section 1021 shall not apply to a real
7 estate investment trust with respect to—

8 (i) securities of a corporation held di-
9 rectly or indirectly by such trust on July
10 12, 1999,

11 (ii) securities of a corporation held by
12 an entity on July 12, 1999, if such trust
13 acquires control of such entity pursuant to
14 a written binding contract in effect on such
15 date and at all times thereafter before such
16 acquisition,

17 (iii) securities received by such trust
18 (or a successor) in exchange for, or with
19 respect to, securities described in clause (i)
20 or (ii) in a transaction in which gain or
21 loss is not recognized, and

22 (iv) securities acquired directly or in-
23 directly by such trust as part of a reorga-
24 nization (as defined in section 368(a)(1) of
25 the Internal Revenue Code of 1986) with

1 respect to such trust if such securities are
2 described in clause (i), (ii), or (iii) with re-
3 spect to any other real estate investment
4 trust.

5 (B) NEW TRADE OR BUSINESS OR SUB-
6 STANTIAL NEW ASSETS.—Subparagraph (A)
7 shall cease to apply to securities of a corpora-
8 tion as of the first day after July 12, 1999, on
9 which such corporation engages in a substantial
10 new line of business, or acquires any substantial
11 asset, other than—

12 (i) pursuant to a binding contract in
13 effect on such date and at all times there-
14 after before the acquisition of such asset,

15 (ii) in a transaction in which gain or
16 loss is not recognized by reason of section
17 1031 or 1033 of the Internal Revenue
18 Code of 1986, or

19 (iii) in a reorganization (as so de-
20 fined) with another corporation the securi-
21 ties of which are described in paragraph
22 (1)(A) of this subsection.

23 (2) TAX-FREE CONVERSION.—If—

24 (A) at the time of an election for a cor-
25 poration to become a taxable REIT subsidiary,

1 the amendment made by section 1021 does not
2 apply to such corporation by reason of para-
3 graph (1), and

4 (B) such election first takes effect before
5 January 1, 2004,

6 such election shall be treated as a reorganization
7 qualifying under section 368(a)(1)(A) of such Code.

8 **PART II—HEALTH CARE REITS**

9 **SEC. 1031. HEALTH CARE REITS.**

10 (a) SPECIAL FORECLOSURE RULE FOR HEALTH
11 CARE PROPERTIES.—Subsection (e) of section 856 (relat-
12 ing to special rules for foreclosure property) is amended
13 by adding at the end the following new paragraph:

14 “(6) SPECIAL RULE FOR QUALIFIED HEALTH
15 CARE PROPERTIES.—For purposes of this sub-
16 section—

17 “(A) ACQUISITION AT EXPIRATION OF
18 LEASE.—The term ‘foreclosure property’ shall
19 include any qualified health care property ac-
20 quired by a real estate investment trust as the
21 result of the termination of a lease of such
22 property (other than a termination by reason of
23 a default, or the imminence of a default, on the
24 lease).

1 “(B) GRACE PERIOD.—In the case of a
2 qualified health care property which is fore-
3 closure property solely by reason of subpara-
4 graph (A), in lieu of applying paragraphs (2)
5 and (3)—

6 “(i) the qualified health care property
7 shall cease to be foreclosure property as of
8 the close of the second taxable year after
9 the taxable year in which such trust ac-
10 quired such property, and

11 “(ii) if the real estate investment
12 trust establishes to the satisfaction of the
13 Secretary that an extension of the grace
14 period in clause (i) is necessary to the or-
15 derly leasing or liquidation of the trust’s
16 interest in such qualified health care prop-
17 erty, the Secretary may grant 1 or more
18 extensions of the grace period for such
19 qualified health care property.

20 Any such extension shall not extend the grace
21 period beyond the close of the 6th year after
22 the taxable year in which such trust acquired
23 such qualified health care property.

24 “(C) INCOME FROM INDEPENDENT CON-
25 TRACTORS.—For purposes of applying para-

1 graph (4)(C) with respect to qualified health
2 care property which is foreclosure property by
3 reason of subparagraph (A) or paragraph (1),
4 income derived or received by the trust from an
5 independent contractor shall be disregarded to
6 the extent such income is attributable to—

7 “(i) any lease of property in effect on
8 the date the real estate investment trust
9 acquired the qualified health care property
10 (without regard to its renewal after such
11 date so long as such renewal is pursuant to
12 the terms of such lease as in effect on such
13 date), or

14 “(ii) any lease of property entered
15 into after such date if—

16 “(I) on such date, a lease of such
17 property from the trust was in effect,
18 and

19 “(II) under the terms of the new
20 lease, such trust receives a substan-
21 tially similar or lesser benefit in com-
22 parison to the lease referred to in sub-
23 clause (I).

24 “(D) QUALIFIED HEALTH CARE PROP-
25 ERTY.—

1 “(i) IN GENERAL.—The term ‘quali-
2 fied health care property’ means any real
3 property (including interests therein), and
4 any personal property incident to such real
5 property, which—

6 “(I) is a health care facility, or

7 “(II) is necessary or incidental to
8 the use of a health care facility.

9 “(ii) HEALTH CARE FACILITY.—For
10 purposes of clause (i), the term ‘health
11 care facility’ means a hospital, nursing fa-
12 cility, assisted living facility, congregate
13 care facility, qualified continuing care facil-
14 ity (as defined in section 7872(g)(4)), or
15 other licensed facility which extends medi-
16 cal or nursing or ancillary services to pa-
17 tients and which, immediately before the
18 termination, expiration, default, or breach
19 of the lease of or mortgage secured by
20 such facility, was operated by a provider of
21 such services which was eligible for partici-
22 pation in the medicare program under title
23 XVIII of the Social Security Act with re-
24 spect to such facility.”

1 (b) EFFECTIVE DATE.—The amendment made by
2 this section shall apply to taxable years beginning after
3 December 31, 2000.

4 **PART III—CONFORMITY WITH REGULATED**
5 **INVESTMENT COMPANY RULES**

6 **SEC. 1041. CONFORMITY WITH REGULATED INVESTMENT**
7 **COMPANY RULES.**

8 (a) DISTRIBUTION REQUIREMENT.—Clauses (i) and
9 (ii) of section 857(a)(1)(A) (relating to requirements ap-
10 plicable to real estate investment trusts) are each amended
11 by striking “95 percent (90 percent for taxable years be-
12 ginning before January 1, 1980)” and inserting “90 per-
13 cent”.

14 (b) IMPOSITION OF TAX.—Clause (i) of section
15 857(b)(5)(A) (relating to imposition of tax in case of fail-
16 ure to meet certain requirements) is amended by striking
17 “95 percent (90 percent in the case of taxable years begin-
18 ning before January 1, 1980)” and inserting “90 per-
19 cent”.

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

1 **PART IV—CLARIFICATION OF EXCEPTION FROM**
2 **IMPERMISSIBLE TENANT SERVICE INCOME**
3 **SEC. 1051. CLARIFICATION OF EXCEPTION FOR INDEPEND-**
4 **ENT OPERATORS.**

5 (a) IN GENERAL.—Paragraph (3) of section 856(d)
6 (relating to independent contractor defined) is amended
7 by adding at the end the following flush sentence:

8 “In the event that any class of stock of either the
9 real estate investment trust or such person is regu-
10 larly traded on an established securities market, only
11 persons who own, directly or indirectly, more than 5
12 percent of such class of stock shall be taken into ac-
13 count as owning any of the stock of such class for
14 purposes of applying the 35 percent limitation set
15 forth in subparagraph (B) (but all of the outstand-
16 ing stock of such class shall be considered outstand-
17 ing in order to compute the denominator for purpose
18 of determining the applicable percentage of owner-
19 ship).”

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

1 **PART V—MODIFICATION OF EARNINGS AND**
2 **PROFITS RULES**

3 **SEC. 1061. MODIFICATION OF EARNINGS AND PROFITS**
4 **RULES.**

5 (a) RULES FOR DETERMINING WHETHER REGU-
6 LATED INVESTMENT COMPANY HAS EARNINGS AND
7 PROFITS FROM NON-RIC YEAR.—Subsection (c) of sec-
8 tion 852 is amended by adding at the end the following
9 new paragraph:

10 “(3) DISTRIBUTIONS TO MEET REQUIREMENTS
11 OF SUBSECTION (a)(2)(B).—Any distribution which
12 is made in order to comply with the requirements of
13 subsection (a)(2)(B)—

14 “(A) shall be treated for purposes of this
15 subsection and subsection (a)(2)(B) as made
16 from the earliest earnings and profits accumu-
17 lated in any taxable year to which the provi-
18 sions of this part did not apply rather than the
19 most recently accumulated earnings and profits,
20 and

21 “(B) to the extent treated under subpara-
22 graph (A) as made from accumulated earnings
23 and profits, shall not be treated as a distribu-
24 tion for purposes of subsection (b)(2)(D) and
25 section 855.”

1 (b) CLARIFICATION OF APPLICATION OF REIT
2 SPILLOVER DIVIDEND RULES TO DISTRIBUTIONS TO
3 MEET QUALIFICATION REQUIREMENT.—Subparagraph
4 (B) of section 857(d)(3) is amended by inserting before
5 the period “and section 858”.

6 (c) APPLICATION OF DEFICIENCY DIVIDEND PROCE-
7 DURES.—Paragraph (1) of section 852(e) is amended by
8 adding at the end the following new sentence: “If the de-
9 termination under subparagraph (A) is solely as a result
10 of the failure to meet the requirements of subsection
11 (a)(2), the preceding sentence shall also apply for pur-
12 poses of applying subsection (a)(2) to the non-RIC year.”

13 (d) EFFECTIVE DATE.—The amendments made by
14 this section shall apply to distributions after December 31,
15 2000.

16 **PART VI—STUDY RELATING TO TAXABLE REIT**

17 **SUBSIDIARIES**

18 **SEC. 1071. STUDY RELATING TO TAXABLE REIT SUBSIDI-**

19 **ARIES.**

20 The Commissioner of the Internal Revenue shall con-
21 duct a study to determine how many taxable REIT sub-
22 sidiaries are in existence and the aggregate amount of
23 taxes paid by such subsidiaries. The Secretary shall sub-
24 mit a report to the Congress describing the results of such
25 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”,
9 “2002”, “2003”, “2004”, and “2005”, respectively.

10 (b) EFFECTIVE DATE.—The amendments made by
11 this 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
17 (E) of section 168(e)(3) (relating to 15-year property) is
18 amended by striking “and” at the end of clause (ii), by
19 striking the period at the end of clause (iii) and inserting
20 “, and”, and by adding at the end the following new
21 clause:

22 “(iv) any qualified leasehold improve-
23 ment property.”

1 (b) QUALIFIED LEASEHOLD IMPROVEMENT PROP-
2 ERTY.—Subsection (e) of section 168 is amended by add-
3 ing at the end the following new paragraph:

4 “(6) QUALIFIED LEASEHOLD IMPROVEMENT
5 PROPERTY.—

6 “(A) IN GENERAL.—The term ‘qualified
7 leasehold improvement property’ means any im-
8 provement to an interior portion of a building
9 which is nonresidential real property if—

10 “(i) such improvement is made under
11 or pursuant to a lease (as defined in sub-
12 section (h)(7))—

13 “(I) by the lessee (or any subles-
14 see) of such portion, or

15 “(II) by the lessor of such por-
16 tion,

17 “(ii) the original use of such improve-
18 ment begins with the lessee and after De-
19 cember 31, 2002,

20 “(iii) such portion is to be occupied
21 exclusively by the lessee (or any sublessee)
22 of such portion, and

23 “(iv) such improvement is placed in
24 service more than 3 years after the date
25 the building was first placed in service.

1 “(B) CERTAIN IMPROVEMENTS NOT IN-
2 CLUDED.—Such term shall not include any im-
3 provement for which the expenditure is attrib-
4 utable to—

5 “(i) the enlargement of the building,

6 “(ii) any elevator or escalator,

7 “(iii) any structural component bene-
8 fitting a common area, and

9 “(iv) the internal structural frame-
10 work of the building.

11 “(C) DEFINITIONS AND SPECIAL RULES.—

12 For purposes of this paragraph—

13 “(i) COMMITMENT TO LEASE TREAT-
14 ED AS LEASE.—A commitment to enter
15 into a lease shall be treated as a lease, and
16 the parties to such commitment shall be
17 treated as lessor and lessee, respectively, if
18 the lease is in effect at the time the prop-
19 erty is placed in service.

20 “(ii) RELATED PERSONS.—A lease be-
21 tween related persons shall not be consid-
22 ered a lease. For purposes of the preceding
23 sentence, the term ‘related persons’
24 means—

1 “(I) members of an affiliated
2 group (as defined in section 1504),
3 and

4 “(II) persons having a relation-
5 ship described in subsection (b) of
6 section 267(b) or 707(b)(1); except
7 that, for purposes of this clause, the
8 phrase ‘80 percent or more’ shall be
9 substituted for the phrase ‘more than
10 50 percent’ each place it appears in
11 such subsections.”

12 (c) REQUIREMENT TO USE STRAIGHT LINE METH-
13 OD.—Paragraph (3) of section 168(b) is amended by add-
14 ing at the end the following new subparagraph:

15 “(G) Qualified leasehold improvement
16 property described in subsection (e)(6).”

17 (d) EFFECTIVE DATE.—The amendments made by
18 this section shall apply to qualified leasehold improvement
19 property placed in service after December 31, 2002.

1 **TITLE XI—MISCELLANEOUS**
2 **PROVISIONS**

3 **SEC. 1101. REPEAL OF CERTAIN MOTOR FUEL EXCISE**
4 **TAXES ON FUEL USED BY RAILROADS AND ON**
5 **INLAND WATERWAY TRANSPORTATION.**

6 (a) REPEAL OF 4.3-CENT MOTOR FUEL EXCISE
7 TAXES ON RAILROADS AND INLAND WATERWAY TRANS-
8 PORTATION WHICH REMAIN IN GENERAL FUND.—

9 (1) TAXES ON TRAINS.—

10 (A) IN GENERAL.—Subparagraph (A) of
11 section 4041(a)(1) is amended by striking “or
12 a diesel-powered train” each place it appears
13 and by striking “or train”.

14 (B) CONFORMING AMENDMENTS.—

15 (i) Subparagraph (C) of section
16 4041(a)(1) is amended by striking clause
17 (ii) and by redesignating clause (iii) as
18 clause (ii).

19 (ii) Subparagraph (C) of section
20 4041(b)(1) is amended by striking all that
21 follows “section 6421(e)(2)” and inserting
22 a period.

23 (iii) Paragraph (3) of section 4083(a)
24 is amended by striking “or a diesel-pow-
25 ered train”.

1 (iv) Section 6427(l) is amended by
2 striking paragraph (3) and by redesignat-
3 ing paragraphs (4) and (5) as paragraphs
4 (3) and (4), respectively.

5 (2) FUEL USED ON INLAND WATERWAYS.—

6 (A) IN GENERAL.—Paragraph (1) of sec-
7 tion 4042(b) is amended by adding “and” at
8 the end of subparagraph (A), by striking “,
9 and” at the end of subparagraph (B) and in-
10 sserting a period, and by striking subparagraph
11 (C).

12 (B) CONFORMING AMENDMENT.—Para-
13 graph (2) of section 4042(b) is amended by
14 striking subparagraph (C).

15 (b) EFFECTIVE DATE.—The amendments made by
16 this subsection shall take effect on October 1, 2000.

17 **SEC. 1102. TAX TREATMENT OF ALASKA NATIVE SETTLE-**
18 **MENT TRUSTS.**

19 (a) TAX EXEMPTION.—Section 501(c), as amended
20 by section 801(a), is amended by adding at the end the
21 following new paragraph:

22 “(29) A trust which—

23 “(A) constitutes a Settlement Trust under
24 section 39 of the Alaska Native Claims Settle-
25 ment Act (43 U.S.C. 1629e), and

1 “(B) with respect to which an election
2 under subsection (p)(2) is in effect.”

3 (b) SPECIAL RULES RELATING TO TAXATION OF
4 ALASKA NATIVE SETTLEMENT TRUSTS.—Section 501 is
5 amended by redesignating subsection (p) as subsection (q)
6 and by inserting after subsection (o) the following new
7 subsection:

8 “(p) SPECIAL RULES FOR TAXATION OF ALASKA NA-
9 TIVE SETTLEMENT TRUSTS.—

10 “(1) IN GENERAL.—For purposes of this title,
11 the following rules shall apply in the case of a Set-
12 tlement Trust:

13 “(A) ELECTING TRUST.—If an election
14 under paragraph (2) is in effect for any taxable
15 year—

16 “(i) no amount shall be includible in
17 the gross income of a beneficiary of the
18 Settlement Trust by reason of a contribu-
19 tion to the Settlement Trust made during
20 such taxable year, and

21 “(ii) except as provided in this sub-
22 section, the provisions of subchapter J and
23 section 1(e) shall not apply to the Settle-
24 ment Trust and its beneficiaries for such
25 taxable year.

1 “(B) NONELECTING TRUST.—If an elec-
2 tion is not in effect under paragraph (2) for
3 any taxable year, the provisions of subchapter J
4 and section 1(e) shall apply to the Settlement
5 Trust and its beneficiaries for such taxable
6 year.

7 “(2) ONE-TIME ELECTION.—

8 “(A) IN GENERAL.—A Settlement Trust
9 may elect to have the provisions of this sub-
10 section and subsection (c)(29) apply to the
11 trust and its beneficiaries.

12 “(B) TIME AND METHOD OF ELECTION.—
13 An election under subparagraph (A) shall be
14 made—

15 “(i) before the due date (including ex-
16 tensions) for filing the Settlement Trust’s
17 return of tax for the 1st taxable year of
18 the Settlement Trust ending after Decem-
19 ber 31, 1999, and

20 “(ii) by attaching to such return of
21 tax a statement specifically providing for
22 such election.

23 “(C) PERIOD ELECTION IN EFFECT.—Ex-
24 cept as provided in paragraph (3), an election
25 under subparagraph (A)—

1 “(i) shall apply to the 1st taxable year
2 described in subparagraph (B)(i) and all
3 subsequent taxable years, and

4 “(ii) may not be revoked once it is
5 made.

6 “(3) SPECIAL RULES WHERE TRANSFER RE-
7 STRICTIONS MODIFIED.—

8 “(A) TRANSFER OF BENEFICIAL INTER-
9 ESTS.—If, at any time, a beneficial interest in
10 a Settlement Trust may be disposed of in a
11 manner which would not be permitted by sec-
12 tion 7(h) of the Alaska Native Claims Settle-
13 ment Act (43 U.S.C. 1606(h)) if the interest
14 were Settlement Common Stock—

15 “(i) no election may be made under
16 paragraph (2)(A) with respect to such
17 trust, and

18 “(ii) if an election under paragraph
19 (2)(A) is in effect as of such time—

20 “(I) such election is revoked as of
21 the 1st day of the taxable year follow-
22 ing the taxable year in which such dis-
23 position is first permitted, and

24 “(II) there is hereby imposed on
25 such trust a tax equal to the product

1 of the fair market value of the assets
2 held by the trust as of the close of the
3 taxable year in which such disposition
4 is first permitted and the highest rate
5 of tax under section 1(e) for such tax-
6 able year.

7 The tax imposed by clause (ii)(II) shall be in
8 lieu of any other tax imposed by this chapter
9 for the taxable year.

10 “(B) STOCK IN CORPORATION.—If—

11 “(i) the Settlement Common Stock in
12 any Native Corporation which transferred
13 assets to a Settlement Trust making an
14 election under paragraph (2)(A) may be
15 disposed of in a manner not permitted by
16 section 7(h) of the Alaska Native Claims
17 Settlement Act (43 U.S.C. 1606(h)), and

18 “(ii) at any time after such disposi-
19 tion of stock is first permitted, such cor-
20 poration transfers assets to such trust,
21 clause (ii) of subparagraph (A) shall be applied
22 to such trust on and after the date of the trans-
23 fer in the same manner as if the trust per-
24 mitted dispositions of beneficial interests in the

1 trust in a manner not permitted by such section
2 7(h).

3 “(C) ADMINISTRATIVE PROVISIONS.—For
4 purposes of subtitle F, any tax imposed by sub-
5 paragraph (A)(ii)(II) shall be treated as an ex-
6 cise tax with respect to which the deficiency
7 procedures of such subtitle apply.

8 “(4) DISTRIBUTION REQUIREMENT ON ELECT-
9 ING SETTLEMENT TRUST.—

10 “(A) IN GENERAL.—If an election is in ef-
11 fect under paragraph (2) for any taxable year,
12 a Settlement Trust shall distribute at least 55
13 percent of its adjusted taxable income for such
14 taxable year.

15 “(B) TAX IMPOSED IF INSUFFICIENT DIS-
16 TRIBUTION.—If a Settlement Trust fails to
17 meet the distribution requirement of subpara-
18 graph (A) for any taxable year, then, notwith-
19 standing subsection (c)(29), a tax shall be im-
20 posed on the trust under section 1(e) on an
21 amount of taxable income equal to the amount
22 of such failure.

23 “(C) DESIGNATION OF DISTRIBUTION.—
24 Solely for purposes of meeting the requirements
25 of this paragraph, a Settlement Trust may elect

1 to treat any distribution (or portion) during the
2 65-day period following the close of any taxable
3 year as made on the last day of such taxable
4 year. Any such distribution (or portion) may
5 not be taken into account under this paragraph
6 for any other taxable year.

7 “(D) ADJUSTED TAXABLE INCOME.—For
8 purposes of this paragraph, the term ‘adjusted
9 taxable income’ means taxable income deter-
10 mined under section 641(b) without regard to
11 any deduction under section 651 or 661.

12 “(5) TAX TREATMENT OF DISTRIBUTIONS TO
13 BENEFICIARIES.—

14 “(A) ELECTING TRUST.—If an election is
15 in effect under paragraph (2) for any taxable
16 year, any distribution to a beneficiary shall be
17 included in gross income of the beneficiary as
18 ordinary income.

19 “(B) NONELECTING TRUSTS.—Any dis-
20 tribution to a beneficiary from a Settlement
21 Trust not described in subparagraph (A) shall
22 be includible in income as provided under sub-
23 chapter J.

24 “(6) DEFINITIONS.—For purposes of this sub-
25 section—

1 “(A) NATIVE CORPORATION.—The term
2 ‘Native Corporation’ has the meaning given
3 such term by section 3(m) of the Alaska Native
4 Claims Settlement Act (43 U.S.C. 1602(m)).

5 “(B) SETTLEMENT TRUST.—The term
6 ‘Settlement Trust’ means a trust which con-
7 stitutes a Settlement Trust under section 39 of
8 the Alaska Native Claims Settlement Act (43
9 U.S.C. 1629e).”

10 (c) WITHHOLDING ON DISTRIBUTIONS BY ELECTING
11 ANCSA SETTLEMENT TRUSTS.—Section 3402 is amend-
12 ed by adding at the end the following new subsection:

13 “(t) TAX WITHHOLDING ON DISTRIBUTIONS BY
14 ELECTING ANCSA SETTLEMENT TRUSTS.—

15 “(1) IN GENERAL.—Any Settlement Trust (as
16 defined in section 501(p)(6)(B)) which is exempt
17 from income tax under section 501(c)(29) (in this
18 subsection referred to as an ‘electing trust’) and
19 which makes a payment to any beneficiary shall de-
20 duct and withhold from such payment a tax in an
21 amount equal to such payment’s proportionate share
22 of the annualized tax.

23 “(2) EXCEPTION.—The tax imposed by para-
24 graph (1) shall not apply to any payment to the ex-
25 tent that such payment, when annualized, does not

1 exceed an amount equal to the amount in effect
2 under section 6012(a)(1)(A)(i) for taxable years be-
3 ginning in the calendar year in which the payment
4 is made.

5 “(3) ANNUALIZED TAX.—For purposes of para-
6 graph (1), the term ‘annualized tax’ means, with re-
7 spect to any payment, the amount of tax which
8 would be imposed by section 1(c) (determined with-
9 out regard to any rate of tax in excess of 31 per-
10 cent) on an amount of taxable income equal to the
11 excess of—

12 “(A) the annualized amount of such pay-
13 ment, over

14 “(B) the amount determined under para-
15 graph (2).

16 “(4) ANNUALIZATION.—For purposes of this
17 subsection, amounts shall be annualized in the man-
18 ner prescribed by the Secretary.

19 “(5) ALTERNATE WITHHOLDING PROCE-
20 DURES.—At the election of an electing trust, the tax
21 imposed by this subsection on any payment made by
22 such trust shall be determined in accordance with
23 such tables or computational procedures as may be
24 specified in regulations prescribed by the Secretary

1 (in lieu of in accordance with paragraphs (2) and
2 (3)).

3 “(6) COORDINATION WITH OTHER SECTIONS.—
4 For purposes of this chapter and so much of subtitle
5 F as relates to this chapter, payments which are
6 subject to withholding under this subsection shall be
7 treated as if they were wages paid by an employer
8 to an employee.”

9 (d) REPORTING.—Section 6041 is amended by add-
10 ing at the end the following new subsection:

11 “(f) APPLICATION TO ALASKA NATIVE SETTLEMENT
12 TRUSTS.—In the case of any distribution from a Settle-
13 ment Trust (as defined in section 501(p)(6)(B)) to a bene-
14 ficiary, this section shall apply, except that—

15 “(1) this section shall apply to such distribution
16 without regard to the amount thereof,

17 “(2) the Settlement Trust shall include on any
18 return or statement required by this section infor-
19 mation as to the character of such distribution (if
20 applicable) and the amount of tax imposed by chap-
21 ter 1 which has been deducted and withheld from
22 such distribution, and

23 “(3) the filing of any return or statement re-
24 quired by this section shall satisfy any requirement
25 to file any other form or schedule under this title

1 with respect to distributive share information (in-
2 cluding any form or schedule to be included with the
3 trust's tax return)."

4 (e) EFFECTIVE DATE.—The amendments made by
5 this section shall apply to taxable years of Settlement
6 Trusts ending after December 31, 1999, and to contribu-
7 tions to such trusts after such date.

8 **SEC. 1103. LONG-TERM UNUSED CREDITS ALLOWED**
9 **AGAINST MINIMUM TAX.**

10 (a) IN GENERAL.—Subsection (c) of section 53 (re-
11 lating to limitation) is amended by adding at the end the
12 following:

13 “(2) SPECIAL RULE FOR CORPORATIONS WITH
14 LONG-TERM UNUSED CREDITS.—

15 “(A) IN GENERAL.—If—

16 “(i) a corporation to which section
17 56(g) applies has a long-term unused mini-
18 mum tax credit for a taxable year, and

19 “(ii) no credit would be allowable
20 under this section for the taxable year by
21 reason of paragraph (1),

22 then there shall be allowed a credit under sub-
23 section (a) for the taxable year in the amount
24 determined under subparagraph (B).

1 “(B) AMOUNT OF CREDIT.—For purposes
2 of subparagraph (A), the amount of the credit
3 shall be equal to the least of the following for
4 the taxable year:

5 “(i) The long-term unused minimum
6 tax credit.

7 “(ii) 50 percent of the taxpayer’s ten-
8 tative minimum tax.

9 “(iii) The excess (if any) of the
10 amount under paragraph (1)(B) over the
11 amount under paragraph (1)(A).

12 “(C) LONG-TERM UNUSED MINIMUM TAX
13 CREDIT.—For purposes of this paragraph—

14 “(i) IN GENERAL.—The long-term un-
15 used minimum tax credit for any taxable
16 year is the portion of the minimum tax
17 credit determined under subsection (b) at-
18 tributable to the adjusted net minimum tax
19 for taxable years beginning after 1986 and
20 ending before the 5th taxable year imme-
21 diately preceding the taxable year for
22 which the determination is being made.

23 “(ii) FIRST-IN, FIRST-OUT ORDERING
24 RULE.—For purposes of clause (i), credits

1 shall be treated as allowed under sub-
2 section (a) on a first-in, first-out basis.”

3 (b) CONFORMING AMENDMENTS.—Section 53(c) (as
4 in effect before the amendment made by subsection (a))
5 is amended—

6 (1) by striking “The” and inserting the follow-
7 ing:

8 “(1) IN GENERAL.—The”; and

9 (2) by redesignating paragraphs (1) and (2) as
10 subparagraphs (A) and (B), respectively.

11 (c) EFFECTIVE DATE.—The amendments made by
12 this section shall apply to taxable years beginning after
13 December 31, 2003.

14 **SEC. 1104. 5-YEAR NET OPERATING LOSS CARRYBACK FOR**
15 **LOSSES ATTRIBUTABLE TO OPERATING MIN-**
16 **ERAL INTERESTS OF INDEPENDENT OIL AND**
17 **GAS PRODUCERS.**

18 (a) IN GENERAL.—Paragraph (1) of section 172(b)
19 (relating to years to which loss may be carried) is amended
20 by adding at the end the following new subparagraph:

21 “(H) LOSSES ON OPERATING MINERAL IN-
22 TERESTS OF INDEPENDENT OIL AND GAS PRO-
23 DUCERS.—In the case of a taxpayer—

1 “(i) which has an eligible oil and gas
2 loss (as defined in subsection (j)) for a tax-
3 able year, and

4 “(ii) which is not an integrated oil
5 company (as defined in section 291(b)(4)),
6 such eligible oil and gas loss shall be a net op-
7 erating loss carryback to each of the 5 taxable
8 years preceding the taxable year of such loss.”

9 (b) ELIGIBLE OIL AND GAS LOSS.—Section 172 is
10 amended by redesignating subsection (j) as subsection (k)
11 and by inserting after subsection (i) the following new sub-
12 section:

13 “(j) ELIGIBLE OIL AND GAS LOSS.—For purposes of
14 this section—

15 “(1) IN GENERAL.—The term ‘eligible oil and
16 gas loss’ means the lesser of—

17 “(A) the amount which would be the net
18 operating loss for the taxable year if only in-
19 come and deductions attributable to operating
20 mineral interests (as defined in section 614(d))
21 in oil and gas wells are taken into account, or

22 “(B) the amount of the net operating loss
23 for such taxable year.

24 “(2) COORDINATION WITH SUBSECTION
25 (b)(2).—For purposes of applying subsection (b)(2),

1 an eligible oil and gas loss for any taxable year shall
2 be treated in a manner similar to the manner in
3 which a specified liability loss is treated.

4 “(3) ELECTION.—Any taxpayer entitled to a 5-
5 year carryback under subsection (b)(1)(H) from any
6 loss year may elect to have the carryback period
7 with respect to such loss year determined without re-
8 gard to subsection (b)(1)(H).”

9 (c) EFFECTIVE DATE.—The amendments made by
10 this section shall apply to net operating losses for taxable
11 years beginning after December 31, 1998.

12 **SEC. 1105. ELECTION TO EXPENSE GEOLOGICAL AND GEO-**
13 **PHYSICAL EXPENDITURES.**

14 (a) IN GENERAL.—Section 263 (relating to capital
15 expenditures) is amended by adding at the end the follow-
16 ing:

17 “(j) GEOLOGICAL AND GEOPHYSICAL EXPENDI-
18 TURES FOR DOMESTIC OIL AND GAS WELLS.—Notwith-
19 standing subsection (a), a taxpayer may elect to treat geo-
20 logical and geophysical expenses incurred in connection
21 with the exploration for, or development of, oil or gas with-
22 in the United States (as defined in section 638) as ex-
23 penses which are not chargeable to capital account. Any
24 expenses so treated shall be allowed as a deduction in the
25 taxable year in which paid or incurred.”

1 (b) CONFORMING AMENDMENT.—Section 263A(e)(3)
2 is amended by inserting “263(j),” after “263(i),”.

3 (c) EFFECTIVE DATE.—The amendments made by
4 this section shall apply to expenses paid or incurred in
5 taxable years beginning after December 31, 1999.

6 **SEC. 1106. ELECTION TO EXPENSE DELAY RENTAL PAY-**
7 **MENTS**

8 (a) IN GENERAL.—Section 263 (relating to capital
9 expenditures), as amended by section 1105(a), is amended
10 by adding at the end the following:

11 “(k) DELAY RENTAL PAYMENTS FOR DOMESTIC OIL
12 AND GAS WELLS.—

13 “(1) IN GENERAL.—Notwithstanding subsection
14 (a), a taxpayer may elect to treat delay rental pay-
15 ments incurred in connection with the development
16 of oil or gas within the United States (as defined in
17 section 638) as payments which are not chargeable
18 to capital account. Any payments so treated shall be
19 allowed as a deduction in the taxable year in which
20 paid or incurred.

21 “(2) DELAY RENTAL PAYMENTS.—For purposes
22 of paragraph (1), the term ‘delay rental payment’
23 means an amount paid for the privilege of deferring
24 development of an oil or gas well.”

1 (b) CONFORMING AMENDMENT.—Section
2 263A(c)(3), as amended by section 1105(b), is amended
3 by inserting “263(k),” after “263(j),”.

4 (c) EFFECTIVE DATE.—The amendments made by
5 this section shall apply to payments made or incurred in
6 taxable years beginning after December 31, 1999.

7 **SEC. 1107. MODIFICATION OF ACTIVE BUSINESS DEFINI-**
8 **TION UNDER SECTION 355.**

9 (a) IN GENERAL.—Section 355(b) (defining active
10 conduct of a trade or business) is amended by adding at
11 the end the following new paragraph:

12 “(3) SPECIAL RULES RELATING TO ACTIVE
13 BUSINESS REQUIREMENT.—

14 “(A) IN GENERAL.—For purposes of deter-
15 mining whether a corporation meets the re-
16 quirement of paragraph (2)(A), all members of
17 such corporation’s separate affiliated group
18 shall be treated as 1 corporation. For purposes
19 of the preceding sentence, a corporation’s sepa-
20 rate affiliated group is the affiliated group
21 which would be determined under section
22 1504(a) if such corporation were the common
23 parent and section 1504(b) did not apply.

24 “(B) CONTROL.—For purposes of para-
25 graph (2)(D), all distributee corporations which

1 are members of the same affiliated group (as
2 defined in section 1504(a) without regard to
3 section 1504(b)) shall be treated as 1 distribu-
4 tee corporation.”

5 (b) CONFORMING AMENDMENTS.—

6 (1) Subparagraph (A) of section 355(b)(2) is
7 amended to read as follows:

8 “(A) it is engaged in the active conduct of
9 a trade or business,”.

10 (2) Section 355(b)(2) is amended by striking
11 the last sentence.

12 (c) EFFECTIVE DATE.—

13 (1) IN GENERAL.—The amendments made by
14 this section shall apply to distributions after the
15 date of the enactment of this Act.

16 (2) TRANSITION RULE.—The amendments
17 made by this section shall not apply to any distribu-
18 tion pursuant to a transaction which is—

19 (A) made pursuant to an agreement which
20 was binding on such date and at all times
21 thereafter,

22 (B) described in a ruling request submitted
23 to the Internal Revenue Service on or before
24 such date, or

1 (C) described on or before such date in a
2 public announcement or in a filing with the Se-
3 curities and Exchange Commission.

4 (3) ELECTION TO HAVE AMENDMENTS
5 APPLY.—Paragraph (2) shall not apply if the dis-
6 tributing corporation elects not to have such para-
7 graph apply to distributions of such corporation.
8 Any such election, once made, shall be irrevocable.

9 **SEC. 1108. TEMPORARY SUSPENSION OF MAXIMUM**
10 **AMOUNT OF AMORTIZABLE REFORESTATION**
11 **EXPENDITURES.**

12 (a) INCREASE IN DOLLAR LIMITATION.—Paragraph
13 (1) of section 194(b) (relating to amortization of reforest-
14 ation expenditures) is amended by striking “\$10,000
15 (\$5,000” and inserting “\$25,000 (\$12,500”.

16 (b) TEMPORARY SUSPENSION OF INCREASED DOL-
17 LAR LIMITATION.—Subsection (b) of section 194(b) (re-
18 lating to amortization of reforestation expenditures) is
19 amended by adding at the end the following new para-
20 graph:

21 “(5) SUSPENSION OF DOLLAR LIMITATION.—
22 Paragraph (1) shall not apply to taxable years be-
23 ginning after December 31, 1999, and before Janu-
24 ary 1, 2004.

1 (c) CONFORMING AMENDMENT.—Paragraph (1) of
2 section 48(b) is amended by striking “section 194(b)(1)”
3 and inserting “section 194(b)(1) and without regard to
4 section 194(b)(5)”.

5 (d) EFFECTIVE DATE.—The amendments made by
6 this section shall apply to taxable years beginning after
7 December 31, 1999.

8 **SEC. 1109. MODIFICATION OF EXCISE TAX IMPOSED ON**
9 **ARROW COMPONENTS.**

10 (a) IN GENERAL.—Paragraph (2) of section 4161(b)
11 (relating to bows and arrows, etc.) is amended to read as
12 follows:

13 “(2) ARROWS.—

14 “(A) IN GENERAL.—There is hereby im-
15 posed on the sale by the manufacturer, pro-
16 ducer, or importer of any shaft, point, article
17 used to attach a point to a shaft, nock, or vane
18 of a type used in the manufacture of any arrow
19 which after its assembly—

20 “(i) measures 18 inches overall or
21 more in length, or

22 “(ii) measures less than 18 inches
23 overall in length but is suitable for use
24 with a bow described in paragraph (1)(A),

1 a tax equal to 12.4 percent of the price for
2 which so sold.

3 “(B) REDUCED RATE ON CERTAIN HUNT-
4 ING POINTS.—Subparagraph (A) shall be ap-
5 plied by substituting ‘11 percent’ for ‘12.4 per-
6 cent’ in the case of a point which is designed
7 primarily for use in hunting fish or large ani-
8 mals.”

9 (b) EFFECTIVE DATE.—The amendment made by
10 this section shall apply to articles sold by the manufac-
11 turer, producer, or importer after the close of the first cal-
12 endar month ending more than 30 days after the date of
13 the enactment of this Act.

14 **SEC. 1110. INCREASE IN THRESHOLD FOR JOINT COMMIT-**
15 **TEE REPORTS ON REFUNDS AND CREDITS.**

16 (a) GENERAL RULE.—Subsections (a) and (b) of sec-
17 tion 6405 are each amended by striking “\$1,000,000” and
18 inserting “\$2,000,000”.

19 (b) EFFECTIVE DATE.—The amendment made by
20 subsection (a) shall take effect on the date of the enact-
21 ment of this Act, except that such amendment shall not
22 apply with respect to any refund or credit with respect
23 to a report that has been made before such date of enact-
24 ment under section 6405 of the Internal Revenue Code
25 of 1986.

1 **SEC. 1111. MODIFICATION OF RURAL AIRPORT DEFINITION.**

2 (a) IN GENERAL.—Clause (ii) of section
3 4261(e)(1)(B) (defining rural airport) is amended by
4 striking the period at the end of subclause (II) and insert-
5 ing “, or”, and by adding at the end the following new
6 subclause:

7 “(III) is not connected by paved
8 roads to another airport.”

9 (b) EFFECTIVE DATE.—The amendments made by
10 this section shall apply to calendar years beginning after
11 1999.

12 **SEC. 1112. PAYMENT OF DIVIDENDS ON STOCK OF CO-**
13 **OPERATIVES WITHOUT REDUCING PATRON-**
14 **AGE DIVIDENDS.**

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

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

4 **SEC. 1113. CONSOLIDATION OF LIFE INSURANCE COMPA-**
5 **NIES WITH OTHER CORPORATIONS.**

6 (a) IN GENERAL.—Section 1504(b) (defining includ-
7 ible corporation) is amended by striking paragraph (2).

8 (b) CONFORMING AMENDMENTS.—

9 (1) Section 1504 is amended by striking sub-
10 section (c) and by redesignating subsections (d), (e),
11 and (f) as subsections (c), (d), and (e), respectively.

12 (2) Section 1503(c)(1) (relating to special rule
13 for application of certain losses against income of in-
14 surance companies taxed under section 801) is
15 amended by striking “an election under section
16 1504(c)(2) is in effect for the taxable year and”.

17 (c) EFFECTIVE DATE.—The amendments made by
18 this section shall apply to taxable years beginning after
19 December 31, 2000.

20 (d) NO CARRYBACK BEFORE JANUARY 1, 2001.—To
21 the extent that a consolidated net operating loss is allowed
22 or increased by reason of the amendments made by this
23 section, such loss may not be carried back to a taxable
24 year beginning before January 1, 2001.

1 (e) NONTERMINATION OF GROUP.—No affiliated
2 group shall terminate solely as a result of the amendments
3 made by this section.

4 (f) WAIVER OF 5-YEAR WAITING PERIOD.—Under
5 regulations prescribed by the Secretary of the Treasury
6 or his delegate, an automatic waiver from the 5-year wait-
7 ing period for reconsolidation provided in section
8 1504(a)(3) of the Internal Revenue Code of 1986 shall
9 be granted to any corporation which was previously an in-
10 cludible corporation but was subsequently deemed a non-
11 includible corporation as a result of becoming a subsidiary
12 of a corporation which was not an includible corporation
13 solely by operation of section 1504(c)(2) of such Code (as
14 in effect on the day before the date of the enactment of
15 this Act).

16 **SEC. 1114. EXPANSION OF EXEMPTION FROM PERSONAL**
17 **HOLDING COMPANY TAX FOR LENDING OR FI-**
18 **NANCE COMPANIES.**

19 (a) IN GENERAL.—Paragraph (6) of section 542(c)
20 (defining personal holding company) is amended—

21 (1) by striking “rents,” in subparagraph (B),

22 and

23 (2) by adding “and” at the end of subpara-
24 graph (B),

25 (3) by striking subparagraph (C), and

1 (4) by redesignating subparagraph (D) as sub-
2 paragraph (C).

3 (b) EXCEPTION FOR LENDING OR FINANCE COMPA-
4 NIES DETERMINED ON AFFILIATED GROUP BASIS.—Sub-
5 section (d) of section 542 is amended by striking para-
6 graphs (1) and (2) and inserting the following new para-
7 graphs:

8 “(1) LENDING OR FINANCE BUSINESS DE-
9 FINED.— For purposes of subsection (c)(6), the
10 term ‘lending or finance business’ means a business
11 of—

12 “(A) making loans,

13 “(B) purchasing or discounting accounts
14 receivable, notes, or installment obligations,

15 “(C) engaging in leasing (including enter-
16 ing into leases and purchasing, servicing, and
17 disposing of leases and leased assets),

18 “(D) rendering services or making facilities
19 available in the ordinary course of a lending or
20 finance business.

21 “(E) rendering services or making facilities
22 available in connection with activities described
23 in subparagraphs (A), (B), and (C) carried on
24 by the corporation rendering services or making
25 facilities available, or

1 “(F) rendering services or making facilities
2 available to another corporation which is en-
3 gaged in the lending or finance business (within
4 the meaning of this paragraph), if such services
5 or facilities are related to the lending or finance
6 business (within such meaning) of such other
7 corporation and such other corporation and the
8 corporation rendering services or making facili-
9 ties available are members of the same affili-
10 ated group (as defined in section 1504).

11 “(2) EXCEPTION DETERMINED ON AN AFFILI-
12 ATED GROUP BASIS.—In the case of a lending or fi-
13 nance company which is a member of an affiliated
14 group (as defined in section 1504), such company
15 shall be treated as meeting the requirements of sub-
16 section (c)(6) if such group (determined by taking
17 into account only members of such group which are
18 engaged in a lending or finance business) meets such
19 requirements.”

20 (c) EFFECTIVE DATE.—The amendments made by
21 this section shall apply to taxable years ending after De-
22 cember 31, 1999.

1 **SEC. 1115. CREDIT FOR MODIFICATIONS TO INTER-CITY**
2 **BUSES REQUIRED UNDER THE AMERICANS**
3 **WITH DISABILITIES ACT OF 1990.**

4 (a) **IN GENERAL.**—Subsection (a) of section 44 (re-
5 lating to expenditures to provide access to disabled individ-
6 uals) is amended to read as follows:

7 “(a) **GENERAL RULE.**—For purposes of section 38,
8 the amount of the disabled access credit determined under
9 this section for any taxable year shall be an amount equal
10 to the sum of—

11 “(1) in the case of an eligible small business, 50
12 percent of so much of the eligible access expendi-
13 tures for the taxable year as exceed \$250 but do not
14 exceed \$10,250, and

15 “(2) 50 percent of so much of the eligible bus
16 access expenditures for the taxable year with respect
17 to each eligible bus as exceed \$250 but do not ex-
18 ceed \$30,250.”

19 (b) **ELIGIBLE BUS ACCESS EXPENDITURES.**—Sec-
20 tion 44 is amended by redesignating subsections (d) and
21 (e) as subsections (e) and (f), respectively, and by insert-
22 ing after subsection (c) the following new subsection:

23 “(d) **ELIGIBLE BUS ACCESS EXPENDITURES.**—For
24 purposes of this section—

25 “(1) **IN GENERAL.**—The term ‘eligible bus ac-
26 cess expenditures’ means amounts paid or incurred

1 by the taxpayer for the purpose of enabling the tax-
2 payer's eligible bus to comply with applicable re-
3 quirements under the Americans With Disabilities
4 Act of 1990 (as in effect on the date of the enact-
5 ment of this subsection).

6 “(2) CERTAIN EXPENDITURES NOT IN-
7 CLUDED.—The amount of eligible bus access ex-
8 penditures otherwise taken into account under sub-
9 section (a)(2) shall be reduced to the extent that
10 funds for such expenditures are received under any
11 Federal, State, or local program.

12 “(3) ELIGIBLE BUS.—The term ‘eligible bus’
13 means any automobile bus eligible for a refund
14 under section 6427(b) by reason of transportation
15 described in section 6427(b)(1)(A).”

16 (c) EFFECTIVE DATE.—The amendments made by
17 this section shall apply to taxable years beginning after
18 December 31, 1999, and before January 1, 2012.

19 **SEC. 1116. INCREASED DEDUCTIBILITY OF BUSINESS MEAL**
20 **EXPENSES FOR INDIVIDUALS SUBJECT TO**
21 **FEDERAL LIMITATIONS ON HOURS OF SERV-**
22 **ICE.**

23 The table in section 274(n)(3)(B) (relating to special
24 rule for individuals subject to Federal hours of service)
25 is amended—

1 (1) by striking “or 2007”, and

2 (2) by striking “2008” and inserting “2007”.

3 **SEC. 1117. TAX-EXEMPT FINANCING OF QUALIFIED HIGH-**
4 **WAY INFRASTRUCTURE CONSTRUCTION.**

5 (a) TREATMENT AS EXEMPT FACILITY BOND.—A
6 bond described in subsection (b) shall be treated as de-
7 scribed in section 141(e)(1)(A) of the Internal Revenue
8 Code of 1986, except that—

9 (1) section 146 of such Code shall not apply to
10 such bond, and

11 (2) section 147(c)(1) of such Code shall be ap-
12 plied by substituting “any portion of” for “25 per-
13 cent or more”.

14 (b) BOND DESCRIBED.—

15 (1) IN GENERAL.—A bond is described in this
16 subsection if such bond is issued after December 31,
17 1999, as part of an issue—

18 (A) 95 percent or more of the net proceeds
19 of which are to be used to provide a qualified
20 highway infrastructure project, and

21 (B) to which there has been allocated a
22 portion of the allocation to the project under
23 paragraph (2)(C)(ii) which is equal to the ag-
24 gregate face amount of bonds to be issued as
25 part of such issue.

1 (2) QUALIFIED HIGHWAY INFRASTRUCTURE
2 PROJECTS.—

3 (A) IN GENERAL.—For purposes of para-
4 graph (1), the term “qualified highway infra-
5 structure project” means a project—

6 (i) for the construction or reconstruc-
7 tion of a highway, and

8 (ii) designated under subparagraph
9 (B) as an eligible pilot project.

10 (B) ELIGIBLE PILOT PROJECT.—

11 (i) IN GENERAL.—The Secretary of
12 Transportation, in consultation with the
13 Secretary of the Treasury, shall select not
14 more than 15 highway infrastructure
15 projects under section 1216 of the Trans-
16 portation Equity Act for the 21st Century,
17 as in effect on July 21, 1999, to be pilot
18 projects eligible for tax-exempt financing.

19 (ii) ELIGIBILITY CRITERIA.—In deter-
20 mining the criteria necessary for the eligi-
21 bility of pilot projects, the Secretary of
22 Transportation shall include the following:

23 (I) The project must serve the
24 general public.

1 (II) The project is necessary to
2 evaluate the potential of the private
3 sector's participation in the provision
4 of the highway infrastructure of the
5 United States.

6 (III) The project must be located
7 on publicly-owned rights-of-way.

8 (IV) The project must be publicly
9 owned or the ownership of the high-
10 way constructed or reconstructed
11 under the project must revert to the
12 public.

13 (V) The project must be consist-
14 ent with a transportation plan devel-
15 oped pursuant to section 134(g) or
16 135(e) of title 23, United States
17 Code.

18 (C) AGGREGATE FACE AMOUNT OF TAX-
19 EXEMPT FINANCING.—

20 (i) IN GENERAL.—The aggregate face
21 amount of bonds issued pursuant to this
22 section shall not exceed \$15,000,000,000,
23 determined without regard to any bond the
24 proceeds of which are used exclusively to
25 refund (other than to advance refund) a

1 bond issued pursuant to this section (or a
2 bond which is a part of a series of
3 refundings of a bond so issued) if the
4 amount of the refunding bond does not ex-
5 ceed the outstanding amount of the re-
6 funded bond.

7 (ii) ALLOCATION.—The Secretary of
8 Transportation, in consultation with the
9 Secretary of the Treasury, shall allocate
10 the amount described in clause (i) among
11 the eligible pilot projects designated under
12 subparagraph (B).

13 (iii) REALLOCATION.—If any portion
14 of an allocation under clause (ii) is unused
15 on the date which is 3 years after such al-
16 location, the Secretary of Transportation,
17 in consultation with the Secretary of the
18 Treasury, may reallocate such portion
19 among the remaining eligible pilot projects.

20 (c) REPORT.—

21 (1) IN GENERAL.—Not later than the earlier
22 of—

23 (A) 1 year after either $\frac{1}{2}$ of the projects
24 authorized under this section have been identi-

1 fied or 1/2 of the total bonds allowable for the
2 projects under this section have been issued, or

3 (B) 7 years after the date of the enact-
4 ment of this Act,

5 the Secretary of Transportation, in consultation with
6 the Secretary of the Treasury, shall submit the re-
7 port described in paragraph (2) to the Committees
8 on Finance and on Environment and Public Works
9 of the Senate and the Committees on Ways and
10 Means and on Transportation and Infrastructure of
11 the House of Representatives.

12 (2) CONTENTS.—The report under paragraph
13 (1) shall evaluate the overall success of the program
14 conducted pursuant to this section, including—

15 (A) a description of each project under the
16 program,

17 (B) the extent to which the projects used
18 new technologies, construction techniques, or
19 innovative cost controls that resulted in savings
20 in building the project, and

21 (C) the use and efficiency of the Federal
22 tax subsidy provided by the bond financing.

1 **SEC. 1118. EXPANSION OF DC HOMEBUYER TAX CREDIT.**

2 (a) EXTENSION.—Section 1400C(i) (relating to ap-
3 plication of section) is amended by striking “2001” and
4 inserting “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
13 this section shall apply to taxable years beginning after
14 December 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
2 this 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
8 by 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 follow-
13 ing 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
18 the 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
9 this section shall apply to property placed in service on
10 or after 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
15 aircraft on nonestablished lines) is amended to read as fol-
16 lows:

17 **“SEC. 4281. SMALL AIRCRAFT.**

18 “The taxes imposed by sections 4261 and 4271 shall
19 not apply to—

20 “(1) transportation by an aircraft having a
21 maximum certificated takeoff weight of 6,000
22 pounds or less, except when such aircraft is operated
23 on an established line, and

24 “(2) transportation by a seaplane having a
25 maximum certificated takeoff weight of 6,000

1 pounds or less with respect to any segment consist-
2 ing of a takeoff from, and a landing on, water.

3 For purposes of the preceding sentence, the term ‘maxi-
4 mum certificated takeoff weight’ means the maximum
5 such weight contained in the type certificate or airworthi-
6 ness certificate.”

7 (b) CLERICAL AMENDMENT.—The table of sections
8 for part III of subchapter C of chapter 33 is amended
9 by striking “on nonestablished lines” in the item relating
10 to section 4281.

11 (c) EFFECTIVE DATE.—The amendments made by
12 this section shall take effect on the date of the enactment
13 of this Act but shall not apply to any amount paid on
14 or before such date with respect to taxes imposed by sec-
15 tions 4261 and 4271 of the Internal Revenue Code of
16 1986.

17 **TITLE XII—EXTENSION OF EX-**
18 **PIRED AND EXPIRING PROVI-**
19 **SIONS**

20 **SEC. 1201. PERMANENT EXTENSION AND MODIFICATION OF**
21 **RESEARCH CREDIT.**

22 (a) PERMANENT EXTENSION.—

23 (1) IN GENERAL.—Section 41 (relating to cred-
24 it for increasing research activities) is amended by
25 striking subsection (h).

1 (2) CONFORMING AMENDMENT.—Paragraph (1)
2 of section 45C(b) is amended by striking subpara-
3 graph (D).

4 (3) EFFECTIVE DATE.—The amendments made
5 by this subsection shall apply to amounts paid or in-
6 curred after June 30, 1999.

7 (b) INCREASE IN PERCENTAGES UNDER ALTER-
8 NATIVE INCREMENTAL CREDIT.—

9 (1) IN GENERAL.—Subparagraph (A) of section
10 41(c)(4) is amended—

11 (A) by striking “1.65 percent” and insert-
12 ing “2.65 percent”,

13 (B) by striking “2.2 percent” and inserting
14 “3.2 percent”, and

15 (C) by striking “2.75 percent” and insert-
16 ing “3.75 percent”.

17 (2) EFFECTIVE DATE.—The amendments made
18 by this subsection shall apply to taxable years begin-
19 ning after June 30, 1999.

20 **SEC. 1202. SUBPART F EXEMPTION FOR ACTIVE FINANCING**
21 **INCOME.**

22 (a) IN GENERAL.—Sections 953(e)(10) and
23 954(h)(9) are each amended—

24 (1) by striking “the first taxable year” and in-
25 serting “taxable years”, and

1 (2) by striking “January 1, 2000” and insert-
2 ing “January 1, 2005”.

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

6 **SEC. 1203. TAXABLE INCOME LIMIT ON PERCENTAGE DE-**
7 **PLETION FOR MARGINAL PRODUCTION.**

8 (a) IN GENERAL.—Subparagraph (H) of section
9 613A(c)(6) is amended by striking “January 1, 2000” and
10 inserting “January 1, 2005”.

11 (b) EFFECTIVE DATE.—The amendment made by
12 this section shall apply to taxable years beginning after
13 December 31, 1999.

14 **SEC. 1204. WORK OPPORTUNITY CREDIT AND WELFARE-TO-**
15 **WORK CREDIT.**

16 (a) TEMPORARY EXTENSION.—Sections 51(c)(4)(B)
17 and 51A(f) (relating to termination) are each amended by
18 striking “June 30, 1999” and inserting “June 30, 2004”.

19 (b) CLARIFICATION OF FIRST YEAR OF EMPLOY-
20 MENT.—Paragraph (2) of section 51(i) is amended by
21 striking “during which he was not a member of a targeted
22 group”.

23 (c) EFFECTIVE DATE.—The amendments made by
24 this section shall apply to individuals who begin work for
25 the employer after June 30, 1999.

1 **SEC. 1205. EXTENSION AND MODIFICATION OF CREDIT FOR**
2 **PRODUCING ELECTRICITY FROM CERTAIN**
3 **RENEWABLE RESOURCES.**

4 (a) EXTENSION AND MODIFICATION OF PLACED-IN-
5 SERVICE RULES.—Paragraph (3) of section 45(c) is
6 amended to read as follows:

7 “(3) QUALIFIED FACILITY.—

8 “(A) WIND FACILITY.—In the case of a fa-
9 cility using wind to produce electricity, the term
10 ‘qualified facility’ means any facility owned by
11 the taxpayer which is originally placed in serv-
12 ice after December 31, 1993, and before July
13 1, 2004.

14 “(B) CLOSED-LOOP BIOMASS FACILITY.—
15 In the case of a facility using closed-loop bio-
16 mass to produce electricity, the term ‘qualified
17 facility’ means any facility owned by the tax-
18 payer which is originally placed in service after
19 December 31, 1992, and before July 1, 2004.

20 “(C) BIOMASS FACILITY.—In the case of a
21 facility using biomass (other than closed-loop
22 biomass) to produce electricity, the term ‘quali-
23 fied facility’ means any facility owned by the
24 taxpayer which is originally placed in service be-
25 fore January 1, 2003.

1 “(D) LANDFILL GAS OR POULTRY WASTE
2 FACILITY.—

3 “(i) IN GENERAL.—In the case of a
4 facility using landfill gas or poultry waste
5 to produce electricity, the term ‘qualified
6 facility’ means any facility of the taxpayer
7 which is originally placed in service after
8 December 31, 1999, and before July 1,
9 2004.

10 “(ii) LANDFILL GAS.—In the case of a
11 facility using landfill gas, such term shall
12 include equipment and housing (not includ-
13 ing wells and related systems required to
14 collect and transmit gas to the production
15 facility) required to generate electricity
16 which are owned by the taxpayer and so
17 placed in service.

18 “(E) SPECIAL RULE.—In the case of a
19 qualified facility described in subparagraph (C),
20 the 10-year period referred to in subsection (a)
21 shall be treated as beginning no earlier than
22 January 1, 2000.”

23 (b) EXPANSION OF QUALIFIED ENERGY RE-
24 SOURCES.—

1 (1) IN GENERAL.—Section 45(c)(1) (defining
2 qualified energy resources) is amended by striking
3 “and” at the end of subparagraph (A), by striking
4 the period at the end of subparagraph (B) and in-
5 serting a comma, and by adding at the end the fol-
6 lowing new subparagraphs:

7 “(C) biomass (other than closed-loop bio-
8 mass),

9 “(B) landfill gas, and

10 “(C) poultry waste.”

11 (2) DEFINITIONS.—Section 45(c) is amended
12 by redesignating paragraph (3) as paragraph (6)
13 and inserting after paragraph (2) the following new
14 paragraphs:

15 “(3) BIOMASS.—The term ‘biomass’ means any
16 solid, nonhazardous, cellulosic waste material which
17 is segregated from other waste materials and which
18 is derived from—

19 “(A) any of the following forest-related re-
20 sources: mill residues, precommercial thinnings,
21 slash, and brush, but not including old-growth
22 timber,

23 “(B) urban sources, including waste pal-
24 lets, crates, and dunnage, manufacturing and
25 construction wood wastes, and landscape or

1 right-of-way tree trimmings, but not including
2 unsegregated municipal solid waste (garbage)
3 or paper that is commonly recycled, or

4 “(C) agriculture sources, including orchard
5 tree crops, vineyard, grain, legumes, sugar, and
6 other crop by-products or residues.

7 “(4) LANDFILL GAS.—The term ‘landfill gas’
8 means gas from the decomposition of any household
9 solid waste, commercial solid waste, and industrial
10 solid waste disposed of in a municipal solid waste
11 landfill unit (as such terms are defined in regula-
12 tions promulgated under subtitle D of the Solid
13 Waste Disposal Act (42 U.S.C. 6941 et seq.)).

14 “(5) POULTRY WASTE.—The term ‘poultry
15 waste’ means poultry manure and litter, including
16 wood shavings, straw, rice hulls, and other bedding
17 material for the disposition of manure.”

18 (c) SPECIAL RULES.—Section 45(d) (relating to defi-
19 nitions and special rules) is amended by adding at the end
20 the following new paragraphs:

21 “(6) CREDIT ELIGIBILITY IN THE CASE OF GOV-
22 ERNMENT-OWNED FACILITIES USING POULTRY
23 WASTE.—In the case of a facility using poultry
24 waste to produce electricity and owned by a govern-
25 mental unit, the person eligible for the credit under

1 subsection (a) is the lessor or the operator of such
2 facility.

3 “(7) PROPORTIONAL CREDIT FOR FACILITY
4 USING COAL TO CO-FIRE WITH CERTAIN BIOMASS.—
5 In the case of a qualified facility as defined in sub-
6 section (c)(3)(C) using coal to co-fire with biomass
7 (other than closed-loop biomass), the amount of the
8 credit determined under subsection (a) for the tax-
9 able year shall be reduced by the percentage coal
10 comprises (on a Btu basis) of the average fuel input
11 of the facility for the taxable year.”

12 (d) EFFECTIVE DATE.—The amendments made by
13 this section shall take effect on the date of the enactment
14 of this Act.

15 **SEC. 1206. ALASKA EXEMPTION FROM DYEING REQUIRE-**
16 **MENTS.**

17 (a) EXCEPTION TO DYEING REQUIREMENTS FOR EX-
18 EMPT DIESEL FUEL AND KEROSENE.—Paragraph (1) of
19 section 4082(c) (relating to exception to dyeing require-
20 ments) is amended to read as follows:

21 “(1) removed, entered, or sold in the State of
22 Alaska for ultimate sale or use in such State, and”.

23 (b) EFFECTIVE DATE.—The amendment made by
24 this section applies with respect to fuel removed, entered,
25 or sold on or after the date of the enactment of this Act.

1 **SEC. 1207. EXTENSION OF EXPENSING OF ENVIRONMENTAL**
2 **REMEDATION COSTS.**

3 (a) EXTENSION OF TERMINATION DATE.—Sub-
4 section (h) of section 198 is amended by striking “Decem-
5 ber 31, 2000” and inserting “June 30, 2004”.

6 (b) EXPANSION OF QUALIFIED CONTAMINATED
7 SITE.—Section 198(c) is amended to read as follows:

8 “(c) QUALIFIED CONTAMINATED SITE.—For pur-
9 poses of this section—

10 “(1) IN GENERAL.—The term ‘qualified con-
11 taminated site’ means any area—

12 “(A) which is held by the taxpayer for use
13 in a trade or business or for the production of
14 income, or which is property described in sec-
15 tion 1221(1) in the hands of the taxpayer, and

16 “(B) at or on which there has been a re-
17 lease (or threat of release) or disposal of any
18 hazardous substance.

19 “(2) NATIONAL PRIORITIES LISTED SITES NOT
20 INCLUDED.—Such term shall not include any site
21 which is on, or proposed for, the national priorities
22 list under section 105(a)(8)(B) of the Comprehen-
23 sive Environmental Response, Compensation, and
24 Liability Act of 1980 (as in effect on the date of the
25 enactment of this section).

1 “(3) TAXPAYER MUST RECEIVE STATEMENT
2 FROM STATE ENVIRONMENTAL AGENCY.—An area
3 shall be treated as a qualified contaminated site with
4 respect to expenditures paid or incurred during any
5 taxable year only if the taxpayer receives a state-
6 ment from the appropriate agency of the State in
7 which such area is located that such area meets the
8 requirement of paragraph (1)(B).

9 “(4) APPROPRIATE STATE AGENCY.—For pur-
10 poses of paragraph (2), the chief executive officer of
11 each State may, in consultation with the Adminis-
12 trator of the Environmental Protection Agency, des-
13 ignate the appropriate State environmental agency
14 within 60 days of the date of the enactment of this
15 section. If the chief executive officer of a State has
16 not designated an appropriate State environmental
17 agency within such 60-day period, the appropriate
18 environmental agency for such State shall be des-
19 ignated by the Administrator of the Environmental
20 Protection Agency.”

21 (c) EFFECTIVE DATE.—The amendments made by
22 this section shall apply to expenditures paid or incurred
23 after December 31, 1999.

1 **TITLE XIII—REVENUE OFFSETS**

2 **Subtitle A—General Provisions**

3 **SEC. 1301. MODIFICATION TO FOREIGN TAX CREDIT**

4 **CARRYBACK AND CARRYOVER PERIODS.**

5 (a) IN GENERAL.—Section 904(c) (relating to limita-
6 tion on credit) is amended—

7 (1) by striking “in the second preceding taxable
8 year,” and

9 (2) by striking “or fifth” and inserting “fifth,
10 sixth, or seventh”.

11 (b) EFFECTIVE DATE.—The amendment made by
12 subsection (a) shall apply to credits arising in taxable
13 years beginning after December 31, 1999.

14 **SEC. 1302. RETURNS RELATING TO CANCELLATIONS OF IN-**

15 **DEBTEDNESS BY ORGANIZATIONS LENDING**

16 **MONEY.**

17 (a) IN GENERAL.—Paragraph (2) of section
18 6050P(c) (relating to definitions and special rules) is
19 amended by striking “and” at the end of subparagraph
20 (B), by striking the period at the end of subparagraph
21 (C) and inserting “, and”, and by inserting after subpara-
22 graph (C) the following new subparagraph:

23 “(D) any organization a significant trade
24 or business of which is the lending of money.”

1 (b) EFFECTIVE DATE.—The amendment made by
2 subsection (a) shall apply to discharges of indebtedness
3 after December 31, 1999.

4 **SEC. 1303. INCREASE IN ELECTIVE WITHHOLDING RATE**
5 **FOR NONPERIODIC DISTRIBUTIONS FROM**
6 **DEFERRED COMPENSATION PLANS.**

7 (a) IN GENERAL.—Section 3405(b)(1) (relating to
8 withholding) is amended by striking “10 percent” and in-
9 serting “15 percent”.

10 (b) EFFECTIVE DATE.—The amendment made by
11 subsection (a) shall apply to distributions after December
12 31, 2000.

13 **SEC. 1304. EXTENSION OF INTERNAL REVENUE SERVICE**
14 **USER FEES.**

15 (a) IN GENERAL.—Chapter 77 (relating to mis-
16 cellaneous provisions) is amended by adding at the end
17 the following new section:

18 **“SEC. 7527. INTERNAL REVENUE SERVICE USER FEES.**

19 “(a) GENERAL RULE.—The Secretary shall establish
20 a program requiring the payment of user fees for—

21 “(1) requests to the Internal Revenue Service
22 for ruling letters, opinion letters, and determination
23 letters, and

24 “(2) other similar requests.

25 “(b) PROGRAM CRITERIA.—

1 “(1) IN GENERAL.—The fees charged under the
2 program required by subsection (a)—

3 “(A) shall vary according to categories (or
4 subcategories) established by the Secretary,

5 “(B) shall be determined after taking into
6 account the average time for (and difficulty of)
7 complying with requests in each category (and
8 subcategory), and

9 “(C) shall be payable in advance.

10 “(2) EXEMPTIONS, ETC.—The Secretary shall
11 provide for such exemptions (and reduced fees)
12 under such program as the Secretary determines to
13 be appropriate.

14 “(3) AVERAGE FEE REQUIREMENT.—The aver-
15 age fee charged under the program required by sub-
16 section (a) shall not be less than the amount deter-
17 mined under the following table:

“Category	Average Fee
Employee plan ruling and opinion	\$250
Exempt organization ruling	\$350
Employee plan determination	\$300
Exempt organization determination	\$275
Chief counsel ruling	\$200.

18 “(c) TERMINATION.—No fee shall be imposed under
19 this section with respect to requests made after September
20 30, 2009.”

21 (b) CONFORMING AMENDMENTS.—

1 (1) The table of sections for chapter 77 is
2 amended by adding at the end the following new
3 item:

 “Sec. 7527. Internal Revenue Service user fees.”

4 (2) Section 10511 of the Revenue Act of 1987
5 is repealed.

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

9 **SEC. 1305. TRANSFER OF EXCESS DEFINED BENEFIT PLAN**
10 **ASSETS FOR RETIREE HEALTH BENEFITS.**

11 (a) EXTENSION.—

12 (1) IN GENERAL.—Paragraph (5) of section
13 420(b) (relating to expiration) is amended by strik-
14 ing “in any taxable year beginning after December
15 31, 2000” and inserting “made after September 30,
16 2009”.

17 (2) CONFORMING AMENDMENTS.—

18 (A) Section 101(e)(3) of the Employee Re-
19 tirement Income Security Act of 1974 (29
20 U.S.C. 1021(e)(3)) is amended by striking
21 “1995” and inserting “2001”.

22 (B) Section 403(c)(1) of such Act (29
23 U.S.C. 1103(c)(1)) is amended by striking
24 “1995” and inserting “2001”.

1 (C) Paragraph (13) of section 408(b) of
2 such Act (29 U.S.C. 1108(b)(13)) is amend-
3 ed—

4 (i) by striking “in a taxable year be-
5 ginning before January 1, 2001” and in-
6 serting “made before October 1, 2009”,
7 and

8 (ii) by striking “1995” and inserting
9 “2001”.

10 (b) APPLICATION OF MINIMUM COST REQUIRE-
11 MENTS.—

12 (1) IN GENERAL.—Paragraph (3) of section
13 420(c) is amended to read as follows:

14 “(3) MINIMUM COST REQUIREMENTS.—

15 “(A) IN GENERAL.—The requirements of
16 this paragraph are met if each group health
17 plan or arrangement under which applicable
18 health benefits are provided provides that the
19 applicable employer cost for each taxable year
20 during the cost maintenance period shall not be
21 less than the higher of the applicable employer
22 costs for each of the 2 taxable years imme-
23 diately preceding the taxable year of the quali-
24 fied transfer.

1 “(B) APPLICABLE EMPLOYER COST.—For
2 purposes of this paragraph, the term ‘applicable
3 employer cost’ means, with respect to any tax-
4 able year, the amount determined by dividing—
5 “(i) the qualified current retiree
6 health liabilities of the employer for such
7 taxable year determined—
8 “(I) without regard to any reduc-
9 tion under subsection (e)(1)(B), and
10 “(II) in the case of a taxable
11 year in which there was no qualified
12 transfer, in the same manner as if
13 there had been such a transfer at the
14 end of the taxable year, by
15 “(ii) the number of individuals to
16 whom coverage for applicable health bene-
17 fits was provided during such taxable year.
18 “(C) ELECTION TO COMPUTE COST SEPA-
19 RATELY.—An employer may elect to have this
20 paragraph applied separately with respect to in-
21 dividuals eligible for benefits under title XVIII
22 of the Social Security Act at any time during
23 the taxable year and with respect to individuals
24 not so eligible.

1 “(D) COST MAINTENANCE PERIOD.—For
2 purposes of this paragraph, the term ‘cost
3 maintenance period’ means the period of 5 tax-
4 able years beginning with the taxable year in
5 which the qualified transfer occurs. If a taxable
6 year is in 2 or more overlapping cost mainte-
7 nance periods, this paragraph shall be applied
8 by taking into account the highest applicable
9 employer cost required to be provided under
10 subparagraph (A) for such taxable year.”

11 (2) CONFORMING AMENDMENTS.—

12 (A) Clause (iii) of section 420(b)(1)(C) is
13 amended by striking “benefits” and inserting
14 “cost”.

15 (B) Subparagraph (D) of section 420(e)(1)
16 is amended by striking “and shall not be sub-
17 ject to the minimum benefit requirements of
18 subsection (c)(3)” and inserting “or in calculat-
19 ing applicable employer cost under subsection
20 (c)(3)(B)”.

21 (c) EFFECTIVE DATES.—

22 (1) IN GENERAL.—The amendments made by
23 this section shall apply to qualified transfers occur-
24 ring after the date of the enactment of this Act.

1 (2) TRANSITION RULE.—If the cost mainte-
2 nance period for any qualified transfer after the date
3 of the enactment of this Act includes any portion of
4 a benefit maintenance period for any qualified trans-
5 fer on or before such date, the amendments made by
6 subsection (b) shall not apply to such portion of the
7 cost maintenance period (and such portion shall be
8 treated as a benefit maintenance period).

9 **SEC. 1306. TAX TREATMENT OF INCOME AND LOSS ON DE-**
10 **RIVATIVES.**

11 (a) IN GENERAL.—Section 1221 (defining capital as-
12 sets) is amended—

13 (1) by striking “For purposes” and inserting
14 the following:

15 “(a) IN GENERAL.—For purposes”,

16 (2) by striking the period at the end of para-
17 graph (5) and inserting a semicolon, and

18 (3) by adding at the end the following:

19 “(6) any commodities derivative financial in-
20 strument held by a commodities derivatives dealer,
21 unless—

22 “(A) it is established to the satisfaction of
23 the Secretary that such instrument has no con-
24 nection to the activities of such dealer as a
25 dealer, and

1 “(B) such instrument is clearly identified
2 in such dealer’s records as being described in
3 subparagraph (A) before the close of the day on
4 which it was acquired, originated, or entered
5 into (or such other time as the Secretary may
6 by regulations prescribe);

7 “(7) any hedging transaction which is clearly
8 identified as such before the close of the day on
9 which it was acquired, originated, or entered into (or
10 such other time as the Secretary may by regulations
11 prescribe); or

12 “(8) supplies of a type regularly used or
13 consumed by the taxpayer in the ordinary course of
14 a trade or business of the taxpayer.

15 “(b) DEFINITIONS AND SPECIAL RULES.—

16 “(1) COMMODITIES DERIVATIVE FINANCIAL IN-
17 STRUMENTS.—For purposes of subsection (a)(6)—

18 “(A) COMMODITIES DERIVATIVES DEAL-
19 ER.—The term ‘commodities derivatives dealer’
20 means a person which regularly offers to enter
21 into, assume, offset, assign, or terminate posi-
22 tions in commodities derivative financial instru-
23 ments with customers in the ordinary course of
24 a trade or business.

1 “(B) COMMODITIES DERIVATIVE FINAN-
2 CIAL INSTRUMENT.—

3 “(i) IN GENERAL.—The term ‘com-
4 modities derivative financial instrument’
5 means any contract or financial instrument
6 with respect to commodities (other than a
7 share of stock in a corporation, a beneficial
8 interest in a partnership or trust, a note,
9 bond, debenture, or other evidence of in-
10 debtedness, or a section 1256 contract (as
11 defined in section 1256(b)), the value or
12 settlement price of which is calculated by
13 or determined by reference to a specified
14 index.

15 “(ii) SPECIFIED INDEX.—The term
16 ‘specified index’ means any one or more or
17 any combination of—

18 “(I) a fixed rate, price, or
19 amount, or

20 “(II) a variable rate, price, or
21 amount,

22 which is based on any current, objectively
23 determinable financial or economic infor-
24 mation with respect to commodities which
25 is not within the control of any of the par-

1 ties to the contract or instrument and is
2 not unique to any of the parties' cir-
3 cumstances.

4 “(2) HEDGING TRANSACTION.—

5 “(A) IN GENERAL.—For purposes of this
6 section, the term ‘hedging transaction’ means
7 any transaction entered into by the taxpayer in
8 the normal course of the taxpayer’s trade or
9 business primarily—

10 “(i) to manage risk of price changes
11 or currency fluctuations with respect to or-
12 dinary property which is held or to be held
13 by the taxpayer,

14 “(ii) to manage risk of interest rate or
15 price changes or currency fluctuations with
16 respect to borrowings made or to be made,
17 or ordinary obligations incurred or to be
18 incurred, by the taxpayer, or

19 “(iii) to manage such other risks as
20 the Secretary may prescribe in regulations.

21 “(B) TREATMENT OF NONIDENTIFICATION
22 OR IMPROPER IDENTIFICATION OF HEDGING
23 TRANSACTIONS.—Notwithstanding subsection
24 (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
4 but which was not identified as such in ac-
5 cordance 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(e)(3) is amended by striking
15 “reduces” and inserting “manages”.

16 (2) Section 871(h)(4)(C)(iv) is amended by
17 striking “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 in-
20 sserting “to manage”.

21 (4) Paragraph (2) of section 1256(e) is amend-
22 ed 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(e).
5 (H) Section 856(e)(2)(D).
6 (I) Section 856(e)(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(e)(4)(B)(iii).
12 (O) Section 864(d)(3)(A).
13 (P) Section 864(d)(6)(A).
14 (Q) Section 954(e)(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(e)(2)(C).
19 (V) Section 7704(e)(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
25 1221(a)(2)”.

1 (4) Section 1397B(e)(2) is amended by striking
2 “section 1221(4)” and inserting “section
3 1221(a)(4)”.

4 (d) EFFECTIVE DATE.—The amendments made by
5 this section shall apply to any instrument held, acquired,
6 or entered into, any transaction entered into, and supplies
7 held or acquired on or after the date of enactment of this
8 Act.

9 **Subtitle B—Loophole Closers**

10 **SEC. 1311. LIMITATION ON USE OF NON-ACCRUAL EXPERI-** 11 **ENCE METHOD OF ACCOUNTING.**

12 (a) IN GENERAL.—Section 448(d)(5) (relating to
13 special rule for services) is amended—

14 (1) by inserting “in fields described in para-
15 graph (2)(A)” after “services by such person”, and

16 (2) by inserting “CERTAIN PERSONAL” before
17 “SERVICES” in the heading.

18 (b) EFFECTIVE DATE.—

19 (1) IN GENERAL.—The amendments made by
20 this section shall apply to taxable years ending after
21 the date of the enactment of this Act.

22 (2) CHANGE IN METHOD OF ACCOUNTING.—In
23 the case of any taxpayer required by the amend-
24 ments made by this section to change its method of

1 accounting for its first taxable year ending after the
2 date of the enactment of this Act—

3 (A) such change shall be treated as initi-
4 ated by the taxpayer,

5 (B) such change shall be treated as made
6 with the consent of the Secretary of the Treas-
7 ury, and

8 (C) the net amount of the adjustments re-
9 quired to be taken into account by the taxpayer
10 under section 481 of the Internal Revenue Code
11 of 1986 shall be taken into account over a pe-
12 riod (not greater than 4 taxable years) begin-
13 ning with such first taxable year.

14 **SEC. 1312. LIMITATIONS ON WELFARE BENEFIT FUNDS OF**
15 **10 OR MORE EMPLOYER PLANS.**

16 (a) **BENEFITS TO WHICH EXCEPTION APPLIES.—**
17 Section 419A(f)(6)(A) (relating to exception for 10 or
18 more employer plans) is amended to read as follows:

19 “(A) **IN GENERAL.—**This subpart shall not
20 apply to a welfare benefit fund which is part of
21 a 10 or more employer plan if the only benefits
22 provided through the fund are 1 or more of the
23 following:

24 “(i) Medical benefits.

25 “(ii) Disability benefits.

1 “(iii) Group term life insurance bene-
2 fits which do not provide directly or indi-
3 rectly for any cash surrender value or
4 other money that can be paid, assigned,
5 borrowed, or pledged for collateral for a
6 loan.

7 The preceding sentence shall not apply to any
8 plan which maintains experience-rating arrange-
9 ments with respect to individual employers.”

10 (b) LIMITATION ON USE OF AMOUNTS FOR OTHER
11 PURPOSES.—Section 4976(b) (defining disqualified bene-
12 fit) is amended by adding at the end the following new
13 paragraph:

14 “(5) SPECIAL RULE FOR 10 OR MORE EM-
15 PLOYER PLANS EXEMPTED FROM PREFUNDING LIM-
16 ITS.—For purposes of paragraph (1)(C), if—

17 “(A) subpart D of part I of subchapter D
18 of chapter 1 does not apply by reason of section
19 419A(f)(6) to contributions to provide 1 or
20 more welfare benefits through a welfare benefit
21 fund under a 10 or more employer plan, and

22 “(B) any portion of the welfare benefit
23 fund attributable to such contributions is used
24 for a purpose other than that for which the con-
25 tributions were made,

1 then such portion shall be treated as reverting to the
2 benefit of the employers maintaining the fund.”

3 (c) EFFECTIVE DATE.—The amendments made by
4 this section shall apply to contributions paid or accrued
5 after June 9, 1999, in taxable years ending after such
6 date.

7 **SEC. 1313. MODIFICATION OF INSTALLMENT METHOD AND**
8 **REPEAL OF INSTALLMENT METHOD FOR AC-**
9 **CRUAL METHOD TAXPAYERS.**

10 (a) REPEAL OF INSTALLMENT METHOD FOR AC-
11 CRUAL BASIS TAXPAYERS.—

12 (1) IN GENERAL.—Subsection (a) of section
13 453 (relating to installment method) is amended to
14 read as follows:

15 “(a) USE OF INSTALLMENT METHOD.—

16 “(1) IN GENERAL.—Except as otherwise pro-
17 vided in this section, income from an installment
18 sale shall be taken into account for purposes of this
19 title under the installment method.

20 “(2) ACCRUAL METHOD TAXPAYER.—The in-
21 stallment method shall not apply to income from an
22 installment sale if such income would be reported
23 under an accrual method of accounting without re-
24 gard to this section. The preceding sentence shall

1 not apply to a disposition described in subparagraph
2 (A) or (B) of subsection (l)(2).”

3 (2) CONFORMING AMENDMENTS.—Sections
4 453(d)(1), 453(i)(1), and 453(k) are each amended
5 by striking “(a)” each place it appears and inserting
6 “(a)(1)”.

7 (b) MODIFICATION OF PLEDGE RULES.—Paragraph
8 (4) of section 453A(d) (relating to pledges, etc., of install-
9 ment obligations) is amended by adding at the end the
10 following: “A payment shall be treated as directly secured
11 by an interest in an installment obligation to the extent
12 an arrangement allows the taxpayer to satisfy all or a por-
13 tion of the indebtedness with the installment obligation.”

14 (c) EFFECTIVE DATE.—The amendments made by
15 this section shall apply to sales or other dispositions occur-
16 ring on or after the date of the enactment of this Act.

17 **SEC. 1314. TREATMENT OF GAIN FROM CONSTRUCTIVE**
18 **OWNERSHIP TRANSACTIONS.**

19 (a) IN GENERAL.—Part IV of subchapter P of chap-
20 ter 1 (relating to special rules for determining capital
21 gains and losses) is amended by inserting after section
22 1259 the following new section:

1 **“SEC. 1260. GAINS FROM CONSTRUCTIVE OWNERSHIP**
2 **TRANSACTIONS.**

3 “(a) IN GENERAL.—If the taxpayer has gain from
4 a constructive ownership transaction with respect to any
5 financial asset and such gain would (without regard to this
6 section) be treated as a long-term capital gain—

7 “(1) such gain shall be treated as ordinary in-
8 come to the extent that such gain exceeds the net
9 underlying long-term capital gain, and

10 “(2) to the extent such gain is treated as a
11 long-term capital gain after the application of para-
12 graph (1), the determination of the capital gain rate
13 (or rates) applicable to such gain under section 1(h)
14 shall be determined on the basis of the respective
15 rate (or rates) that would have been applicable to
16 the net underlying long-term capital gain.

17 “(b) INTEREST CHARGE ON DEFERRAL OF GAIN
18 RECOGNITION.—

19 “(1) IN GENERAL.—If any gain is treated as
20 ordinary income for any taxable year by reason of
21 subsection (a)(1), the tax imposed by this chapter
22 for such taxable year shall be increased by the
23 amount of interest determined under paragraph (2)
24 with respect to each prior taxable year during any
25 portion of which the constructive ownership trans-
26 action was open. Any amount payable under this

1 paragraph shall be taken into account in computing
2 the amount of any deduction allowable to the tax-
3 payer for interest paid or accrued during such tax-
4 able year.

5 “(2) AMOUNT OF INTEREST.—The amount of
6 interest determined under this paragraph with re-
7 spect to a prior taxable year is the amount of inter-
8 est which would have been imposed under section
9 6601 on the underpayment of tax for such year
10 which would have resulted if the gain (which is
11 treated as ordinary income by reason of subsection
12 (a)(1)) had been included in gross income in the tax-
13 able years in which it accrued (determined by treat-
14 ing the income as accruing at a constant rate equal
15 to the applicable Federal rate as in effect on the day
16 the transaction closed). The period during which
17 such interest shall accrue shall end on the due date
18 (without extensions) for the return of tax imposed
19 by this chapter for the taxable year in which such
20 transaction closed.

21 “(3) APPLICABLE FEDERAL RATE.—For pur-
22 poses of paragraph (2), the applicable Federal rate
23 is the applicable Federal rate determined under
24 1274(d) (compounded semiannually) which would

1 apply to a debt instrument with a term equal to the
2 period the transaction was open.

3 “(4) NO CREDITS AGAINST INCREASE IN TAX.—
4 Any increase in tax under paragraph (1) shall not
5 be treated as tax imposed by this chapter for pur-
6 poses of determining—

7 “(A) the amount of any credit allowable
8 under this chapter, or

9 “(B) the amount of the tax imposed by
10 section 55.

11 “(c) FINANCIAL ASSET.—For purposes of this sec-
12 tion—

13 “(1) IN GENERAL.—The term ‘financial asset’
14 means—

15 “(A) any equity interest in any pass-thru
16 entity, and

17 “(B) to the extent provided in regula-
18 tions—

19 “(i) any debt instrument, and

20 “(ii) any stock in a corporation which
21 is not a pass-thru entity.

22 “(2) PASS-THRU ENTITY.—For purposes of
23 paragraph (1), the term ‘pass-thru entity’ means—

24 “(A) a regulated investment company,

25 “(B) a real estate investment trust,

1 “(C) an S corporation,

2 “(D) a partnership,

3 “(E) a trust,

4 “(F) a common trust fund,

5 “(G) a passive foreign investment company

6 (as defined in section 1297 without regard to

7 subsection (e) thereof),

8 “(H) a foreign personal holding company,

9 “(I) a foreign investment company (as de-

10 fined in section 1246(b)), and

11 “(J) a REMIC.

12 “(d) CONSTRUCTIVE OWNERSHIP TRANSACTION.—

13 For purposes of this section—

14 “(1) IN GENERAL.—The taxpayer shall be

15 treated as having entered into a constructive owner-

16 ship transaction with respect to any financial asset

17 if the taxpayer—

18 “(A) holds a long position under a notional

19 principal contract with respect to the financial

20 asset,

21 “(B) enters into a forward or futures con-

22 tract to acquire the financial asset,

23 “(C) is the holder of a call option, and is

24 the grantor of a put option, with respect to the

25 financial asset and such options have substan-

1 tially equal strike prices and substantially con-
2 temporaneous maturity dates, or

3 “(D) to the extent provided in regulations
4 prescribed by the Secretary, enters into 1 or
5 more other transactions (or acquires 1 or more
6 positions) that have substantially the same ef-
7 fect as a transaction described in any of the
8 preceding subparagraphs.

9 “(2) EXCEPTION FOR POSITIONS WHICH ARE
10 MARKED TO MARKET.—This section shall not apply
11 to any constructive ownership transaction if all of
12 the positions which are part of such transaction are
13 marked to market under any provision of this title
14 or the regulations thereunder.

15 “(3) LONG POSITION UNDER NOTIONAL PRIN-
16 CIPAL CONTRACT.—A person shall be treated as
17 holding a long position under a notional principal
18 contract with respect to any financial asset if such
19 person—

20 “(A) has the right to be paid (or receive
21 credit for) all or substantially all of the invest-
22 ment yield (including appreciation) on such fi-
23 nancial asset for a specified period, and

1 “(B) is obligated to reimburse (or provide
2 credit for) all or substantially all of any decline
3 in the value of such financial asset.

4 “(4) FORWARD CONTRACT.—The term ‘forward
5 contract’ means any contract to acquire in the fu-
6 ture (or provide or receive credit for the future value
7 of) any financial asset.

8 “(e) NET UNDERLYING LONG-TERM CAPITAL
9 GAIN.—For purposes of this section, in the case of any
10 constructive ownership transaction with respect to any fi-
11 nancial asset, the term ‘net underlying long-term capital
12 gain’ means the aggregate net capital gain that the tax-
13 payer would have had if—

14 “(1) the financial asset had been acquired for
15 fair market value on the date such transaction was
16 opened and sold for fair market value on the date
17 such transaction was closed, and

18 “(2) only gains and losses that would have re-
19 sulted from the deemed ownership under paragraph
20 (1) were taken into account.

21 The amount of the net underlying long-term capital gain
22 with respect to any financial asset shall be treated as zero
23 unless the amount thereof is established by clear and con-
24 vincing evidence.

1 “(f) SPECIAL RULE WHERE TAXPAYER TAKES DE-
2 LIVERY.—Except as provided in regulations prescribed by
3 the Secretary, if a constructive ownership transaction is
4 closed by reason of taking delivery, this section shall be
5 applied as if the taxpayer had sold all the contracts, op-
6 tions, or other positions which are part of such transaction
7 for fair market value on the closing date. The amount of
8 gain recognized under the preceding sentence shall not ex-
9 ceed the amount of gain treated as ordinary income under
10 subsection (a). Proper adjustments shall be made in the
11 amount of any gain or loss subsequently realized for gain
12 recognized and treated as ordinary income under this sub-
13 section.

14 “(g) REGULATIONS.—The Secretary shall prescribe
15 such regulations as may be necessary or appropriate to
16 carry out the purposes of this section, including regula-
17 tions—

18 “(1) to permit taxpayers to mark to market
19 constructive ownership transactions in lieu of apply-
20 ing this section, and

21 “(2) to exclude certain forward contracts which
22 do not convey substantially all of the economic re-
23 turn with respect to a financial asset.”

1 (b) CLERICAL AMENDMENT.—The table of sections
2 for part IV of subchapter P of chapter 1 is amended by
3 adding at the end the following new item:

“Sec. 1260. Gains from constructive ownership transactions.”

4 (c) EFFECTIVE DATE.—The amendments made by
5 this section shall apply to transactions entered into after
6 July 11, 1999.

7 **SEC. 1315. CHARITABLE SPLIT-DOLLAR LIFE INSURANCE,**
8 **ANNUITY, AND ENDOWMENT CONTRACTS.**

9 (a) IN GENERAL.—Subsection (f) of section 170 (re-
10 lating to disallowance of deduction in certain cases and
11 special rules), as amended by section 807, is amended by
12 adding at the end the following new paragraph:

13 “(11) SPLIT-DOLLAR LIFE INSURANCE, ANNU-
14 ITY, AND ENDOWMENT CONTRACTS.—

15 “(A) IN GENERAL.—Nothing in this sec-
16 tion or in section 545(b)(2), 556(b)(2), 642(c),
17 2055, 2106(a)(2), or 2522 shall be construed to
18 allow a deduction, and no deduction shall be al-
19 lowed, for any transfer to or for the use of an
20 organization described in subsection (c) if in
21 connection with such transfer—

22 “(i) the organization directly or indi-
23 rectly pays, or has previously paid, any
24 premium on any personal benefit contract
25 with respect to the transferor, or

1 “(ii) there is an understanding or ex-
2 pectation that any person will directly or
3 indirectly pay any premium on any per-
4 sonal benefit contract with respect to the
5 transferor.

6 “(B) PERSONAL BENEFIT CONTRACT.—
7 For purposes of subparagraph (A), the term
8 ‘personal benefit contract’ means, with respect
9 to the transferor, any life insurance, annuity, or
10 endowment contract if any direct or indirect
11 beneficiary under such contract is the trans-
12 feror, any member of the transferor’s family, or
13 any other person (other than an organization
14 described in subsection (e)) designated by the
15 transferor.

16 “(C) APPLICATION TO CHARITABLE RE-
17 MAINDER TRUSTS.—In the case of a transfer to
18 a trust referred to in subparagraph (E), ref-
19 erences in subparagraphs (A) and (F) to an or-
20 ganization described in subsection (e) shall be
21 treated as a reference to such trust.

22 “(D) EXCEPTION FOR CERTAIN ANNUITY
23 CONTRACTS.—If, in connection with a transfer
24 to or for the use of an organization described
25 in subsection (e), such organization incurs an

1 obligation to pay a charitable gift annuity (as
2 defined in section 501(m)) and such organiza-
3 tion purchases any annuity contract to fund
4 such obligation, persons receiving payments
5 under the charitable gift annuity shall not be
6 treated for purposes of subparagraph (B) as in-
7 direct beneficiaries under such contract if—

8 “(i) such organization possesses all of
9 the incidents of ownership under such con-
10 tract,

11 “(ii) such organization is entitled to
12 all the payments under such contract, and

13 “(iii) the timing and amount of pay-
14 ments under such contract are substan-
15 tially the same as the timing and amount
16 of payments to each such person under
17 such obligation (as such obligation is in ef-
18 fect at the time of such transfer).

19 “(E) EXCEPTION FOR CERTAIN CON-
20 TRACTS HELD BY CHARITABLE REMAINDER
21 TRUSTS.—A person shall not be treated for pur-
22 poses of subparagraph (B) as an indirect bene-
23 ficiary under any life insurance, annuity, or en-
24 dowment contract held by a charitable remain-
25 der annuity trust or a charitable remainder

1 unitrust (as defined in section 664(d)) solely by
2 reason of being entitled to any payment re-
3 ferred to in paragraph (1)(A) or (2)(A) of sec-
4 tion 664(d) if—

5 “(i) such trust possesses all of the in-
6 cidents of ownership under such contract,
7 and

8 “(ii) such trust is entitled to all the
9 payments under such contract.

10 “(F) EXCISE TAX ON PREMIUMS PAID.—

11 “(i) IN GENERAL.—There is hereby
12 imposed on any organization described in
13 subsection (c) an excise tax equal to the
14 premiums paid by such organization on
15 any life insurance, annuity, or endowment
16 contract if the payment of premiums on
17 such contract is in connection with a trans-
18 fer for which a deduction is not allowable
19 under subparagraph (A), determined with-
20 out regard to when such transfer is made.

21 “(ii) PAYMENTS BY OTHER PER-
22 SONS.—For purposes of clause (i), pay-
23 ments made by any other person pursuant
24 to an understanding or expectation re-

1 ferred to in subparagraph (A) shall be
2 treated as made by the organization.

3 “(iii) REPORTING.—Any organization
4 on which tax is imposed by clause (i) with
5 respect to any premium shall file an an-
6 nual return which includes—

7 “(I) the amount of such premium
8 paid during the year and the name
9 and TIN of each beneficiary under the
10 contract to which the premium re-
11 lates, and

12 “(II) such other information as
13 the Secretary may require.

14 The penalties applicable to returns re-
15 quired under section 6033 shall apply to
16 returns required under this clause. Returns
17 required under this clause shall be fur-
18 nished at such time and in such manner as
19 the Secretary shall by forms or regulations
20 require.

21 “(iv) CERTAIN RULES TO APPLY.—
22 The tax imposed by this subparagraph
23 shall be treated as imposed by chapter 42
24 for purposes of this title other than sub-
25 chapter B of chapter 42.

1 “(G) SPECIAL RULE WHERE STATE RE-
2 QUIRES SPECIFICATION OF CHARITABLE GIFT
3 ANNUITANT IN CONTRACT.—In the case of an
4 obligation to pay a charitable gift annuity re-
5 ferred to in subparagraph (D) which is entered
6 into under the laws of a State which requires,
7 in order for the charitable gift annuity to be ex-
8 empt from insurance regulation by such State,
9 that each beneficiary under the charitable gift
10 annuity be named as a beneficiary under an an-
11 nuity contract issued by an insurance company
12 authorized to transact business in such State,
13 the requirements of clauses (i) and (ii) of sub-
14 paragraph (D) shall be treated as met if—

15 “(i) such State law requirement was
16 in effect on February 8, 1999,

17 “(ii) each such beneficiary under the
18 charitable gift annuity is a bona fide resi-
19 dent of such State at the time the obliga-
20 tion to pay a charitable gift annuity is en-
21 tered into, and

22 “(iii) the only persons entitled to pay-
23 ments under such contract are persons en-
24 titled to payments as beneficiaries under

1 such obligation on the date such obligation
2 is entered into.

3 “(H) MEMBER OF FAMILY.—For purposes
4 of this paragraph, an individual’s family con-
5 sists of the individual’s grandparents, the
6 grandparents of such individual’s spouse, the
7 lineal descendants of such grandparents, and
8 any spouse of such a lineal descendant.

9 “(I) REGULATIONS.—The Secretary shall
10 prescribe such regulations as may be necessary
11 or appropriate to carry out the purposes of this
12 paragraph, including regulations to prevent the
13 avoidance of such purposes.”

14 (b) EFFECTIVE DATE.—

15 (1) IN GENERAL.—Except as otherwise pro-
16 vided in this section, the amendment made by this
17 section shall apply to transfers made after February
18 8, 1999.

19 (2) EXCISE TAX.—Except as provided in para-
20 graph (3) of this subsection, section 170(f)(11)(F)
21 of the Internal Revenue Code of 1986 (as added by
22 this section) shall apply to premiums paid after the
23 date of the enactment of this Act.

24 (3) REPORTING.—Clause (iii) of such section
25 170(f)(11)(F) shall apply to premiums paid after

1 February 8, 1999 (determined as if the tax imposed
2 by such section applies to premiums paid after such
3 date).

4 **SEC. 1316. RESTRICTION ON USE OF REAL ESTATE INVEST-**
5 **MENT TRUSTS TO AVOID ESTIMATED TAX**
6 **PAYMENT REQUIREMENTS.**

7 (a) IN GENERAL.—Subsection (e) of section 6655
8 (relating to estimated tax by corporations) is amended by
9 adding at the end the following new paragraph:

10 “(5) TREATMENT OF CERTAIN REIT DIVI-
11 DENDS.—

12 “(A) IN GENERAL.—Any dividend received
13 from a closely held real estate investment trust
14 by any person which owns (after application of
15 subsections (d)(5) and (l)(3)(B) of section 856)
16 10 percent or more (by vote or value) of the
17 stock or beneficial interests in the trust shall be
18 taken into account in computing annualized in-
19 come installments under paragraph (2) in a
20 manner similar to the manner under which
21 partnership income inclusions are taken into ac-
22 count.

23 “(B) CLOSELY HELD REIT.—For purposes
24 of subparagraph (A), the term ‘closely held real
25 estate investment trust’ means a real estate in-

1 vestment trust with respect to which 5 or fewer
2 persons own (after application of subsections
3 (d)(5) and (l)(3)(B) of section 856) 50 percent
4 or more (by vote or value) of the stock or bene-
5 ficial interests in the trust.”

6 (b) EFFECTIVE DATE.—The amendment made by
7 subsection (a) shall apply to estimated tax payments due
8 on or after September 15, 1999.

9 **SEC. 1317. PROHIBITED ALLOCATIONS OF S CORPORATION**
10 **STOCK HELD BY AN ESOP.**

11 (a) IN GENERAL.—Section 409 (relating to qualifica-
12 tions for tax credit employee stock ownership plans) is
13 amended by redesignating subsection (p) as subsection (q)
14 and by inserting after subsection (o) the following new
15 subsection:

16 “(p) PROHIBITED ALLOCATION OF SECURITIES IN
17 AN S CORPORATION.—

18 “(1) IN GENERAL.—An employee stock owner-
19 ship plan holding employer securities consisting of
20 stock in an S corporation shall provide that no por-
21 tion of the assets of the plan attributable to (or allo-
22 cable in lieu of) such employer securities may, dur-
23 ing a nonallocation year, accrue (or be allocated di-
24 rectly or indirectly under any plan of the employer

1 meeting the requirements of section 401(a)) for the
2 benefit of any disqualified individual.

3 “(2) FAILURE TO MEET REQUIREMENTS.—If a
4 plan fails to meet the requirements of paragraph
5 (1)—

6 “(A) the plan shall be treated as having
7 distributed to any disqualified individual the
8 amount allocated to the account of such individ-
9 ual in violation of paragraph (1) at the time of
10 such allocation,

11 “(B) the provisions of section 4979A shall
12 apply, and

13 “(C) the statutory period for the assess-
14 ment of any tax imposed by section 4979A shall
15 not expire before the date which is 3 years from
16 the later of—

17 “(i) the allocation of employer securi-
18 ties resulting in the failure under para-
19 graph (1) giving rise to such tax, or

20 “(ii) the date on which the Secretary
21 is notified of such failure.

22 “(3) NONALLOCATION YEAR.—For purposes of
23 this subsection—

24 “(A) IN GENERAL.—The term ‘nonalloca-
25 tion year’ means any plan year of an employee

1 stock ownership plan if, at any time during
2 such plan year—

3 “(i) such plan holds employer securi-
4 ties consisting of stock in an S corpora-
5 tion, and

6 “(ii) disqualified individuals own at
7 least 50 percent of the number of out-
8 standing shares of stock in such S corpora-
9 tion.

10 “(B) CONTRIBUTION RULES.—For purposes
11 of subparagraph (A)—

12 “(i) IN GENERAL.—The rules of sec-
13 tion 318(a) shall apply for purposes of de-
14 termining ownership, except that—

15 “(I) in applying paragraph (1)
16 thereof, the members of an individ-
17 ual’s family shall include members of
18 the family described in paragraph
19 (4)(D), and

20 “(II) paragraph (4) thereof shall
21 not apply.

22 “(ii) DEEMED-OWNED SHARES.—Not-
23 withstanding the employee trust exception
24 in section 318(a)(2)(B)(i), disqualified in-

1 dividuals shall be treated as owning
2 deemed-owned shares.

3 “(4) DISQUALIFIED INDIVIDUAL.—For pur-
4 poses of this subsection—

5 “(A) IN GENERAL.—The term ‘disqualified
6 individual’ means any individual who is a par-
7 ticipant or beneficiary under the employee stock
8 ownership plan if—

9 “(i) the aggregate number of deemed-
10 owned shares of such individual and the
11 members of the individual’s family is at
12 least 20 percent of the number of out-
13 standing shares of stock in the S corpora-
14 tion constituting employer securities of
15 such plan, or

16 “(ii) if such individual is not described
17 in clause (i), the number of deemed-owned
18 shares of such individual is at least 10 per-
19 cent of the number of outstanding shares
20 of stock in such corporation.

21 “(B) TREATMENT OF FAMILY MEMBERS.—

22 In the case of a disqualified individual described
23 in subparagraph (A)(i), any member of the in-
24 dividual’s family with deemed-owned shares
25 shall be treated as a disqualified individual if

1 not otherwise a disqualified individual under
2 subparagraph (A).

3 “(C) DEEMED-OWNED SHARES.—For pur-
4 poses of this paragraph—

5 “(i) IN GENERAL.—The term
6 ‘deemed-owned shares’ means, with respect
7 to any participant or beneficiary under the
8 employee stock ownership plan—

9 “(I) the stock in the S corpora-
10 tion constituting employer securities
11 of such plan which is allocated to such
12 participant or beneficiary under the
13 plan, and

14 “(II) such participant’s or bene-
15 ficiary’s share of the stock in such
16 corporation which is held by such
17 trust but which is not allocated under
18 the plan to employees.

19 “(ii) INDIVIDUAL’S SHARE OF
20 UNALLOCATED STOCK.—For purposes of
21 clause (i)(II), an individual’s share of
22 unallocated S corporation stock held by the
23 trust is the amount of the unallocated
24 stock which would be allocated to such in-
25 dividual if the unallocated stock were allo-

1 cated to individuals in the same propor-
2 tions as the most recent stock allocation
3 under the plan.

4 “(D) MEMBER OF FAMILY.—For purposes
5 of this paragraph, the term ‘member of the
6 family’ means, with respect to any individual—

7 “(i) the spouse of the individual,

8 “(ii) an ancestor or lineal descendant
9 of the individual or the individual’s spouse,

10 “(iii) a brother or sister of the indi-
11 vidual or the individual’s spouse and any
12 lineal descendant of the brother or sister,
13 and

14 “(iv) the spouse of any person de-
15 scribed in clause (ii) or (iii).

16 “(5) DEFINITIONS.—For purposes of this sub-
17 section—

18 “(A) EMPLOYEE STOCK OWNERSHIP
19 PLAN.—The term ‘employee stock ownership
20 plan’ has the meaning given such term by sec-
21 tion 4975(e)(7).

22 “(B) EMPLOYER SECURITIES.—The term
23 ‘employer security’ has the meaning given such
24 term by section 409(l).

1 “(6) REGULATIONS.—The Secretary shall pre-
2 scribe such regulations as may be necessary to carry
3 out the purposes of this subsection, including regula-
4 tions providing for the treatment of any stock op-
5 tion, restricted stock, stock appreciation right, phan-
6 tom stock unit, performance unit, or similar instru-
7 ment granted by an S corporation as stock or not
8 stock.”

9 (b) EXCISE TAX.—

10 (1) IN GENERAL.—Section 4979A(b) (defining
11 prohibited allocation) is amended by striking “and”
12 at the end of paragraph (1), by striking the period
13 at the end of paragraph (2) and inserting “, and”,
14 and by adding at the end the following new para-
15 graph:

16 “(3) any allocation of employer securities which
17 violates the provisions of section 409(p).”

18 (2) LIABILITY.—Section 4979A(c) (defining li-
19 ability for tax) is amended by adding at the end the
20 following new sentence: “In the case of a prohibited
21 allocation described in subsection (b)(3), such tax
22 shall be paid by the S corporation the stock in which
23 was allocated in violation of section 409(p).”

24 (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
13 of 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
2 this section shall apply to assumptions of liability after
3 July 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
8 (relating to transfer to corporation controlled by trans-
9 feror) is amended by redesignating subsection (h) as sub-
10 section (i) and by inserting after subsection (g) the follow-
11 ing new 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 sec-
19 tion as a transfer of property even if the trans-
20 fer is of less than all of the substantial rights
21 of the transferor in the property.

22 “(B) ALLOCATION OF BASIS.—In the case
23 of 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

1 the transfer shall be allocated among the rights
2 retained by the transferor and the rights trans-
3 ferred on the basis of their respective fair mar-
4 ket values.

5 “(2) NONRECOGNITION NOT TO APPLY TO IN-
6 TANGIBLE PROPERTY DEVELOPED FOR TRANS-
7 FEREE.—This section shall not apply to a transfer
8 of intangible property developed by the transferor or
9 any related person if such development was pursuant
10 to an arrangement with the transferee.”

11 (b) TRANSFERS TO PARTNERSHIPS.—Subsection (d)
12 of section 721 is amended to read as follows:

13 “(d) TRANSFERS OF INTANGIBLE PROPERTY.—

14 “(1) IN GENERAL.—Rules similar to the rules
15 of section 351(h) shall apply for purposes of this
16 section.

17 “(2) TRANSFERS TO FOREIGN PARTNER-
18 SHIPS.—For regulatory authority to treat intangi-
19 bles transferred to a partnership as sold, see section
20 367(d)(3).”

21 (c) EFFECTIVE DATE.—The amendments made by
22 this section shall apply to transfers on or after the date
23 of the enactment of this Act.

1 **SEC. 1320. CONTROLLED ENTITIES INELIGIBLE FOR REIT**
2 **STATUS.**

3 (a) IN GENERAL.—Subsection (a) of section 856 (re-
4 lating to definition of real estate investment trust) is
5 amended by striking “and” at the end of paragraph (6),
6 by redesignating paragraph (7) as paragraph (8), and by
7 inserting after paragraph (6) the following new paragraph:

8 “(7) which is not a controlled entity (as defined
9 in subsection (1)); and”.

10 (b) CONTROLLED ENTITY.—Section 856 is amended
11 by adding at the end the following new subsection:

12 “(1) 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
24 of such corporation, or

25 “(B) in the case of a trust, owns beneficial
26 interests in the trust which would meet the re-

1 requirements of subparagraph (A) if such inter-
2 ests were stock.

3 “(2) QUALIFIED ENTITY.—For purposes of
4 paragraph (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
8 of the capital and profits interests in the part-
9 nership.

10 “(3) CONTRIBUTION RULES.—For purposes of
11 this paragraphs (1) and (2)—

12 “(A) IN GENERAL.—Rules similar to the
13 rules of subsections (d)(5) and (h)(3) shall
14 apply.

15 “(B) STAPLED ENTITIES.—A group of en-
16 tities which are stapled entities (as defined in
17 section 269B(c)(2)) shall be treated as 1 per-
18 son.

19 “(4) EXCEPTION FOR CERTAIN NEW REITS.—

20 “(A) IN GENERAL.—The term ‘controlled
21 entity’ shall not include an incubator REIT.

22 “(B) INCUBATOR REIT.—A corporation
23 shall be treated as an incubator REIT for any
24 taxable year during the eligibility period if it

1 meets all the following requirements for such
2 year:

3 “(i) The corporation elects to be treat-
4 ed as an incubator REIT.

5 “(ii) The corporation has only voting
6 common stock outstanding.

7 “(iii) Not more than 50 percent of the
8 corporation’s real estate assets consist of
9 mortgages.

10 “(iv) From not later than the begin-
11 ning of the last half of the second taxable
12 year, at least 10 percent of the corpora-
13 tion’s capital is provided by lenders or eq-
14 uity investors who are unrelated to the cor-
15 poration’s largest shareholder.

16 “(v) The corporation annually in-
17 creases the value of its real estate assets
18 by at least 10 percent.

19 “(vi) The directors of the corporation
20 adopt a resolution setting forth an intent
21 to engage in a going public transaction.

22 No election may be made with respect to any
23 REIT if an election under this subsection was
24 in effect for any predecessor of such REIT.

25 “(C) ELIGIBILITY PERIOD.—

1 “(i) IN GENERAL.—The eligibility pe-
2 riod (for which an incubator REIT election
3 can be made) begins with the REIT’s sec-
4 ond taxable year and ends at the close of
5 the REIT’s third taxable year, except that
6 the REIT may, subject to clauses (ii), (iii),
7 and (iv), elect to extend such period for an
8 additional 2 taxable years.

9 “(ii) GOING PUBLIC TRANSACTION.—
10 A REIT may not elect to extend the eligi-
11 bility period under clause (i) unless it en-
12 ters into an agreement with the Secretary
13 that if it does not engage in a going public
14 transaction by the end of the extended eli-
15 gibility period, it shall pay Federal income
16 taxes for the 2 years of the extended eligi-
17 bility period as if it had not made an incu-
18 bator REIT election and had ceased to
19 qualify as a REIT for those 2 taxable
20 years.

21 “(iii) RETURNS, INTEREST, AND NO-
22 TICE.—

23 “(I) RETURNS.—In the event the
24 corporation ceases to be treated as a
25 REIT by operation of clause (ii), the

1 corporation shall file any appropriate
2 amended returns reflecting the change
3 in status within 3 months of the close
4 of the extended eligibility period.

5 “(II) INTEREST.—Interest shall
6 be payable on any tax imposed by rea-
7 son of clause (ii) for any taxable year
8 but, unless there was a finding under
9 subparagraph (D), no substantial
10 underpayment penalties shall be im-
11 posed.

12 “(III) NOTICE.—The corporation
13 shall, at the same time it files its re-
14 turns under subclause (I), notify its
15 shareholders and any other persons
16 whose tax position is, or may reason-
17 ably be expected to be, affected by the
18 change in status so they also may file
19 any appropriate amended returns to
20 conform their tax treatment consistent
21 with the corporation’s loss of REIT
22 status.

23 “(IV) REGULATIONS.—The Sec-
24 retary shall provide appropriate regu-
25 lations setting forth transferee liabil-

1 ity and other provisions to ensure col-
2 lection of tax and the proper adminis-
3 tration of this provision.

4 “(iv) Clauses (ii) and (iii) shall not
5 apply if the corporation allows its incuba-
6 tor REIT status to lapse at the end of the
7 initial 2-year eligibility period without en-
8 gaging in a going public transaction if the
9 corporation is not a controlled entity as of
10 the beginning of its fourth taxable year. In
11 such a case, the corporation’s directors
12 may still be liable for the penalties de-
13 scribed in subparagraph (D) during the eli-
14 gibility period.

15 “(D) SPECIAL PENALTIES.—If the Sec-
16 retary determines that an incubator REIT elec-
17 tion was filed for a principal purpose other than
18 as part of a reasonable plan to undertake a
19 going public transaction, an excise tax of
20 \$20,000 shall be imposed on each of the cor-
21 poration’s directors for each taxable year for
22 which an election was in effect.

23 “(E) GOING PUBLIC TRANSACTION.—For
24 purposes of this paragraph, a going public
25 transaction means—

1 “(i) a public offering of shares of the
2 stock of the incubator REIT;

3 “(ii) a transaction, or series of trans-
4 actions, that results in the stock of the in-
5 cubator REIT being regularly traded on an
6 established securities market and that re-
7 sults in at least 50 percent of such stock
8 being held by shareholders who are unre-
9 lated to persons who held such stock before
10 it began to be so regularly traded; or

11 “(iii) any transaction resulting in
12 ownership of the REIT by 200 or more
13 persons (excluding the largest single share-
14 holder) who in the aggregate own at least
15 50 percent of the stock of the REIT.

16 For the purposes of this subparagraph, the
17 rules of paragraph (3) shall apply in determin-
18 ing the ownership of stock.

19 “(F) DEFINITIONS.—The term ‘established
20 securities market’ shall have the meaning set
21 forth in the regulations under section 897.”

22 (c) CONFORMING AMENDMENT.—Paragraph (2) of
23 section 856(h) is amended by striking “and (6)” each
24 place it appears and inserting “, (6), and (7)”.

25 (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
5 ENTITIES.—The amendments made by this section
6 shall not apply to any entity which is a controlled
7 entity (as defined in section 856(l) of the Internal
8 Revenue Code of 1986, as added by this section) as
9 of July 14, 1999, which is a real estate investment
10 trust for the taxable year which includes such date,
11 and which has significant business assets or activi-
12 ties as of such date.

13 **SEC. 1321. DISTRIBUTIONS TO A CORPORATE PARTNER OF**
14 **STOCK IN ANOTHER CORPORATION.**

15 (a) IN GENERAL.—Section 732 (relating to basis of
16 distributed property other than money) is amended by
17 adding at the end the following new subsection:

18 “(f) CORRESPONDING ADJUSTMENT TO BASIS OF AS-
19 SETS OF A DISTRIBUTED CORPORATION CONTROLLED BY
20 A CORPORATE PARTNER.—

21 “(1) IN GENERAL.—If—

22 “(A) a corporation (hereafter in this sub-
23 section referred to as the ‘corporate partner’)
24 receives a distribution from a partnership of
25 stock in another corporation (hereafter in this

1 subsection referred to as the ‘distributed cor-
2 poration’),

3 “(B) the corporate partner has control of
4 the distributed corporation immediately after
5 the distribution or at any time thereafter, and

6 “(C) the partnership’s adjusted basis in
7 such stock immediately before the distribution
8 exceeded the corporate partner’s adjusted basis
9 in such stock immediately after the distribution,
10 then an amount equal to such excess shall be applied
11 to reduce (in accordance with subsection (c)) the
12 basis of property held by the distributed corporation
13 at such time (or, if the corporate partner does not
14 control the distributed corporation at such time, at
15 the time the corporate partner first has such con-
16 trol).

17 “(2) EXCEPTION FOR CERTAIN DISTRIBUTIONS
18 BEFORE CONTROL ACQUIRED.—Paragraph (1) shall
19 not apply to any distribution of stock in the distrib-
20 uted corporation if—

21 “(A) the corporate partner does not have
22 control of such corporation immediately after
23 such distribution, and

24 “(B) the corporate partner establishes to
25 the satisfaction of the Secretary that such dis-

1 tribution was not part of a plan or arrangement
2 to acquire control of the distributed corpora-
3 tion.

4 “(3) LIMITATIONS ON BASIS REDUCTION.—

5 “(A) IN GENERAL.—The amount of the re-
6 duction under paragraph (1) shall not exceed
7 the amount by which the sum of the aggregate
8 adjusted bases of the property and the amount
9 of money of the distributed corporation exceeds
10 the corporate partner’s adjusted basis in the
11 stock of the distributed corporation.

12 “(B) REDUCTION NOT TO EXCEED AD-
13 JUSTED BASIS OF PROPERTY.—No reduction
14 under paragraph (1) in the basis of any prop-
15 erty shall exceed the adjusted basis of such
16 property (determined without regard to such re-
17 duction).

18 “(4) GAIN RECOGNITION WHERE REDUCTION
19 LIMITED.—If the amount of any reduction under
20 paragraph (1) (determined after the application of
21 paragraph (3)(A)) exceeds the aggregate adjusted
22 bases of the property of the distributed corpora-
23 tion—

24 “(A) such excess shall be recognized by the
25 corporate partner as long-term capital gain, and

1 “(B) the corporate partner’s adjusted basis
2 in the stock of the distributed corporation shall
3 be increased by such excess.

4 “(5) CONTROL.—For purposes of this sub-
5 section, the term ‘control’ means ownership of stock
6 meeting the requirements of section 1504(a)(2).

7 “(6) INDIRECT DISTRIBUTIONS.—For purposes
8 of paragraph (1), if a corporation acquires (other
9 than in a distribution from a partnership) stock the
10 basis of which is determined in whole or in part by
11 reference to subsection (a)(2) or (b), the corporation
12 shall be treated as receiving a distribution of such
13 stock from a partnership.

14 “(7) SPECIAL RULE FOR STOCK IN CON-
15 TROLLED CORPORATION.—If the property held by a
16 distributed corporation is stock in a corporation
17 which the distributed corporation controls, this sub-
18 section shall be applied to reduce the basis of the
19 property of such controlled corporation. This sub-
20 section shall be reapplied to any property of any
21 controlled corporation which is stock in a corpora-
22 tion which it controls.

23 “(8) REGULATIONS.—The Secretary shall pre-
24 scribe such regulations as may be necessary to carry
25 out the purposes of this subsection, including regula-

1 tions to avoid double counting and to prevent the
2 abuse of such purposes.”

3 (b) EFFECTIVE DATE.—The amendment made by
4 this section shall apply to distributions made after July
5 14, 1999.

6 **TITLE XIV—TECHNICAL** 7 **CORRECTIONS**

8 **SEC. 1401. AMENDMENTS RELATED TO TAX AND TRADE RE-**
9 **LIEF EXTENSION ACT OF 1998.**

10 (a) AMENDMENT RELATED TO SECTION 1004(b) OF
11 THE ACT.—Subsection (d) of section 6104 is amended by
12 adding at the end the following new paragraph:

13 “(6) APPLICATION TO NONEXEMPT CHARI-
14 TABLE TRUSTS AND NONEXEMPT PRIVATE FOUNDA-
15 TIONS.—The organizations referred to in paragraphs
16 (1) and (2) of section 6033(d) shall comply with the
17 requirements of this subsection relating to annual
18 returns filed under section 6033 in the same manner
19 as the organizations referred to in paragraph (1).”

20 (b) AMENDMENT RELATED TO SECTION 4003 OF
21 THE ACT.—Subsection (b) of section 4003 of the Tax and
22 Trade Relief Extension Act of 1998 is amended by insert-
23 ing “(7)(A)(i)(II),” after “(5)(A)(ii)(I),”.

24 (c) EFFECTIVE DATE.—The amendments made by
25 this section shall take effect as if included in the provisions

1 of the Tax and Trade Relief Extension Act of 1998 to
2 which they relate.

3 **SEC. 1402. AMENDMENTS RELATED TO INTERNAL REVENUE**
4 **SERVICE RESTRUCTURING AND REFORM ACT**
5 **OF 1998.**

6 (a) AMENDMENT RELATED TO 1103 OF THE ACT.—
7 Paragraph (6) of section 6103(k) is amended—

8 (1) by inserting “and an officer or employee of
9 the Office of Treasury Inspector General for Tax
10 Administration” after “internal revenue officer or
11 employee”, and

12 (2) by striking “INTERNAL REVENUE” in the
13 heading and inserting “CERTAIN”.

14 (b) AMENDMENT RELATED TO SECTION 3509 OF
15 THE ACT.—Subparagraph (A) of section 6110(g)(5) is
16 amended by inserting “, any Chief Counsel advice,” after
17 “technical advice memorandum”.

18 (c) EFFECTIVE DATE.—The amendments made by
19 this section shall take effect as if included in the provisions
20 of the Internal Revenue Service Restructuring and Reform
21 Act of 1998 to which they relate.

22 **SEC. 1403. AMENDMENTS RELATED TO TAXPAYER RELIEF**
23 **ACT OF 1997.**

24 (a) AMENDMENT RELATED TO SECTION 302 OF THE
25 ACT.—The last sentence of section 3405(e)(1)(B) is

1 amended by inserting “(other than a Roth IRA)” after
2 “individual retirement plan”.

3 (b) AMENDMENTS RELATED TO SECTION 1072 OF
4 THE ACT.—

5 (1) Clause (ii) of section 415(c)(3)(D) and sub-
6 paragraph (B) of section 403(b)(3) are each amend-
7 ed by striking “section 125 or” and inserting “sec-
8 tion 125, 132(f)(4), or”.

9 (2) Paragraph (2) of section 414(s) is amended
10 by striking “section 125, 402(e)(3)” and inserting
11 “section 125, 132(f)(4), 402(e)(3)”.

12 (c) AMENDMENT RELATED TO SECTION 1454 OF
13 THE ACT.—Subsection (a) of section 7436 is amended by
14 inserting before the period at the end of the first sentence
15 “and the proper amount of employment tax under such
16 determination”.

17 (d) EFFECTIVE DATE.—The amendments made by
18 this section shall take effect as if included in the provisions
19 of the Taxpayer Relief of 1997 to which they relate.

20 **SEC. 1404. OTHER TECHNICAL CORRECTIONS.**

21 (a) AFFILIATED CORPORATIONS IN CONTEXT OF
22 WORTHLESS SECURITIES.—

23 (1) Subparagraph (A) of section 165(g)(3) is
24 amended to read as follows:

1 “(A) the taxpayer owns directly stock in
2 such corporation meeting the requirements of
3 section 1504(a)(2), and”.

4 (2) Paragraph (3) of section 165(g) is amended
5 by striking the last sentence.

6 (3) The amendments made by this subsection
7 shall apply to taxable years beginning after Decem-
8 ber 31, 1984.

9 (b) REFERENCE TO CERTAIN STATE PLANS.—

10 (1) Subparagraph (B) of section 51(d)(2) is
11 amended—

12 (A) by striking “plan approved” and in-
13 serting “program funded”, and

14 (B) by striking “(relating to assistance for
15 needy families with minor children)”.

16 (2) The amendment made by paragraph (1)
17 shall take effect as if included in the amendments
18 made by section 1201 of the Small Business Job
19 Protection Act of 1996.

20 (c) AMOUNT OF IRA CONTRIBUTION OF LESSER
21 EARNING SPOUSE.—

22 (1) Clause (ii) of section 219(c)(1)(B) is
23 amended by striking “and” at the end of subclause
24 (I), by redesignating subclause (II) as subclause

1 (III), and by inserting after subclause (I) the follow-
2 ing new subclause:

3 “(II) the amount of any des-
4 igned nondeductible contribution (as
5 defined in section 408(o)) on behalf of
6 such spouse for such taxable year,
7 and”.

8 (2) The amendment made by paragraph (1)
9 shall take effect as if included in section 1427 of the
10 Small Business Job Protection Act of 1996.

11 (d) MODIFIED ENDOWMENT CONTRACTS.—

12 (1) Paragraph (2) of section 7702A(a) is
13 amended by inserting “or this paragraph” before the
14 period.

15 (2) Clause (ii) of section 7702A(c)(3)(A) is
16 amended by striking “under the contract” and in-
17 serting “under the old contract”.

18 (3) The amendments made by this subsection
19 shall take effect as if included in the amendments
20 made by section 5012 of the Technical and Mis-
21 cellaneous Revenue Act of 1988.

22 (e) LUMP-SUM DISTRIBUTIONS.—

23 (1) Clause (ii) of section 401(k)(10)(B) is
24 amended by adding at the end the following new

1 sentence: “Such term includes a distribution of an
2 annuity contract from—

3 “(I) a trust which forms a part
4 of a plan described in section 401(a)
5 and which is exempt from tax under
6 section 501(a), or

7 “(II) an annuity plan described
8 in section 403(a).”

9 (2) The amendment made by paragraph (1)
10 shall take effect as if included in section 1401 of the
11 Small Business Job Protection Act of 1996.

12 (f) TENTATIVE CARRYBACK ADJUSTMENTS OF
13 LOSSES FROM SECTION 1256 CONTRACTS.—

14 (1) Subsection (a) of section 6411 is amended
15 by striking “section 1212(a)(1)” and inserting “sub-
16 section (a)(1) or (c) of section 1212”.

17 (2) The amendment made by paragraph (1)
18 shall take effect as if included in the amendments
19 made by section 504 of the Economic Recovery Tax
20 Act of 1981.

21 **SEC. 1405. CLERICAL CHANGES.**

22 (1) Subsection (f) of section 67 is amended by
23 striking “the last sentence” and inserting “the sec-
24 ond sentence”.

1 (2) The heading for paragraph (5) of section
2 408(d) is amended to read as follows:

3 “(5) DISTRIBUTIONS OF EXCESS CONTRIBU-
4 TIONS AFTER DUE DATE FOR TAXABLE YEAR AND
5 CERTAIN EXCESS ROLLOVER CONTRIBUTIONS.—”.

6 (3) The heading for subparagraph (B) of sec-
7 tion 529(e)(3) is amended by striking “UNDER
8 GUARANTEED PLANS”.

9 (4)(A) Subsection (e) of section 678 is amended
10 by striking “an electing small business corporation”
11 and inserting “an S corporation”.

12 (B) Clause (v) of section 6103(e)(1)(D) is
13 amended to read as follows:

14 “(v) if the corporation was an S cor-
15 poration, any person who was a share-
16 holder during any part of the period cov-
17 ered by such return during which an elec-
18 tion under section 1362(a) was in effect,
19 or”.

20 (5) Subparagraph (B) of section 995(b)(3) is
21 amended by striking “the Military Security Act of
22 1954 (22 U.S.C. 1934)” and inserting “section 38
23 of the International Security Assistance and Arms
24 Export Control Act of 1976 (22 U.S.C. 2778)”.

1 (6) Subparagraph (B) of section 4946(c)(3) is
2 amended by striking “the lowest rate of compensa-
3 tion prescribed for GS-16 of the General Schedule
4 under section 5332” and inserting “the lowest rate
5 of basic pay for the Senior Executive Service under
6 section 5382”.

7 **TITLE XV—COMPLIANCE WITH**
8 **CONGRESSIONAL BUDGET ACT**

9 **SEC. 1501. SUNSET OF PROVISIONS OF ACT.**

10 All provisions of, and amendments made by, this Act
11 which are in effect on September 30, 2009, shall cease
12 to apply as of the close of September 30, 2009.

13 **SEC. 1502. RESTORATION OF PROVISIONS OF ACT.**

14 All provisions of, and amendments made by, this Act
15 which were terminated under section 1501 shall begin to
16 apply again as of October 1, 2009, as provided in each
17 such provision or amendment.