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In the Senate of the United States,

July 30, 1999.

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

AMENDMENT:

Strike out all after the enacting clause and insert:

SECTION 1. SHORT TITLE; ETC.

(a) SHORT TITLE.—This Act may be cited as the ''Taxpayer Refund Act of 1999''.

(b) AMENDMENT OF 1986 CODE.—Except as otherwise expressly provided, whenever in this Act an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference shall be considered to be made to a section or other provision of the Internal Revenue Code of 1986.

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

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

Sec. 1. Short title; etc.

TITLE I—BROAD BASED TAX RELIEF

Sec. 101. Reduction of 15 percent individual income tax rate.
Sec. 102. Increase in maximum taxable income for 14 percent rate bracket.

TITLE II—FAMILY TAX RELIEF PROVISIONS

Sec. 201. Combined return to which unmarried rates apply.
Sec. 202. Marriage penalty relief for earned income credit.
Sec. 203. Exclusion for foster care payments to apply to payments by qualified placement agencies.
Sec. 204. Modification of dependent care credit.
Sec. 205. Allowance of credit for employer expenses for child care assistance.
Sec. 206. Modification of alternative minimum tax for individuals.
Sec. 207. Long-term capital gains deduction for individuals.
Sec. 208. Credit for interest on higher education loans.
Sec. 209. Elimination of marriage penalty in standard deduction.
Sec. 210. Expansion of adoption credit.
Sec. 211. Modification of tax rates for trusts for individuals who are disabled.

TITLE III—RETIREMENT SAVINGS TAX RELIEF

Subtitle A—Individual Retirement Arrangements

Sec. 301. Modification of deduction limits for IRA contributions.
Sec. 302. Modification of income limits on contributions and rollovers to Roth IRAs.
Sec. 303. Deemed IRAs under employer plans.
Sec. 304. Tax credit for matching contributions to Individual Development Accounts.
Sec. 305. Certain coins not treated as collectibles.

Subtitle B—Expanding Coverage

Sec. 311. Option to treat elective deferrals as after-tax contributions.
Sec. 312. Increase in elective contribution limits.
Sec. 313. Plan loans for subchapter S owners, partners, and sole proprietors.
Sec. 314. Elective deferrals not taken into account for purposes of deduction limits.
Sec. 315. Reduced PBGC premium for new plans of small employers.
Sec. 316. Reduction of additional PBGC premium for new plans.

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

Subtitle C—Enhancing Fairness for Women

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

Subtitle D—Increasing Portability for Participants

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

Subtitle E—Strengthening Pension Security and Enforcement

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

Subtitle F—Encouraging Retirement Education

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

Subtitle G—Reducing Regulatory Burdens

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

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

Subtitle H—Plan Amendments

Sec. 381. Provisions relating to plan amendments.

TITLE IV—EDUCATION TAX RELIEF PROVISIONS

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

TITLE V—HEALTH CARE TAX RELIEF PROVISIONS

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

TITLE VI—SMALL BUSINESS TAX RELIEF PROVISIONS

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

TITLE VII—ESTATE AND GIFT TAX RELIEF PROVISIONS

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

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

Subtitle B—Conservation Easements

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

Subtitle C—Annual Gift Exclusion

Sec. 721. Increase in annual gift exclusion.

Subtitle D—Simplification of Generation-Skipping Transfer Tax

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

TITLE VIII—TAX EXEMPT ORGANIZATIONS PROVISIONS

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

TITLE IX—INTERNATIONAL TAX RELIEF

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

Sec. 906. Airline mileage awards to certain foreign persons.
Sec. 907. Repeal of foreign tax credit limitation under alternative minimum tax.
Sec. 908. Treatment of military property of foreign sales corporations.

TITLE X—HOUSING AND REAL ESTATE TAX RELIEF PROVISIONS

Subtitle A—Low-Income Housing Credit

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

Subtitle B—Historic Homes

Sec. 1011. Tax credit for renovating historic homes.

Subtitle C—Provisions Relating to Real Estate Investment Trusts

Part I—Treatment of Income and Services Provided by Taxable REIT Subsidiaries

Sec. 1021. Modifications to asset diversification test.
Sec. 1022. Treatment of income and services provided by taxable REIT subsidiaries.
Sec. 1023. Taxable REIT subsidiary.
Sec. 1024. Limitation on earnings stripping.
Sec. 1025. 100 percent tax on improperly allocated amounts.
Sec. 1026. Effective date.

Part II—Health Care REITs

Sec. 1031. Health care REITs.

Part III—Conformity With Regulated Investment Company Rules

Sec. 1041. Conformity with regulated investment company rules.

Part IV—Clarification of Exception From Impermissible Tenant Service Income

Sec. 1051. Clarification of exception for independent operators.

Part V—Modification of Earnings and Profits Rules

Sec. 1061. Modification of earnings and profits rules.

Part VI—Study Relating to Taxable REIT Subsidiaries

Sec. 1071. Study relating to taxable REIT subsidiaries.

Subtitle D—Private Activity Bond Volume Cap

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

Subtitle E—Leasehold Improvements Depreciation

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

TITLE XI—MISCELLANEOUS PROVISIONS

Sec. 1101. Repeal of certain motor fuel excise taxes on fuel used by railroads and on inland waterway transportation.
Sec. 1102. Tax treatment of Alaska Native Settlement Trusts.

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

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

TITLE XII—EXTENSION OF EXPIRED AND EXPIRING PROVISIONS

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

TITLE XIII—REVENUE OFFSETS

Subtitle A—General Provisions

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

Subtitle B—Loophole Closers

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

TITLE XIV—TECHNICAL CORRECTIONS

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

TITLE XV—COMPLIANCE WITH CONGRESSIONAL BUDGET ACT

Sec. 1501. Sunset of provisions of Act.

TITLE I—BROAD BASED TAX RELIEF

SEC. 101. REDUCTION OF 15 PERCENT INDIVIDUAL INCOME TAX RATE.

(a) REDUCTION IN RATE.—Subsection (f) of section 1 is amended by adding at the end the following new paragraph:

"(8) RATE REDUCTION.—In prescribing the tables under paragraph (1) which apply with respect to taxable years beginning in a calendar year after 2000, the rate applicable to the lowest income bracket shall be 14 percent.".

(b) CONFORMING AMENDMENTS.—

(1) Subparagraph (B) of section 1(f)(2) is amended by inserting ", except as provided in paragraph (8)," before "by not changing".

(2) Subparagraph (C) of section 1(f)(2) is amended by inserting "and the reduction under paragraph (8) in the rate of tax" before the period.

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

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

(5) Section 3402(p)(1)(B) is amended by striking "15" and inserting "14".

(6) Section 3402(p)(2) is amended by striking "15 percent" and inserting "14 percent".

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

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

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

(1) in paragraph (2)—

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

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

"(B) in the case of the tables contained in subsections (a), (b), (c), and (d), by increasing (after adjustment under paragraph (8)) the maximum taxable income level for the 14 percent rate bracket and the minimum taxable income level for the 28 percent rate bracket otherwise determined under subparagraph (A) for taxable years beginning in any calendar year after 2005

by the applicable dollar amount for such calendar year,", and

(C) by striking "subparagraph (A)" in subparagraph (C) (as so redesignated) and inserting "subparagraphs (A) and (B)", and

(2) by adding at the end the following:

"(9) APPLICABLE DOLLAR AMOUNT.—For purposes of paragraph (2)(B)—

"(A) IN GENERAL.—The applicable dollar amount for any calendar year shall be determined as follows:

"(i) JOINT RETURNS AND SURVIVING SPOUSES.—In the case of the table contained in subsection (a)—

"Calendar year:	***Applicable dollar amount:***
2006	*$4,000*
2007 and thereafter	*$5,000.*

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

"Calendar year:	***Applicable dollar amount:***
2006	*$2,000*
2007 and thereafter	*$2,500.*

"(B) COST-OF-LIVING ADJUSTMENT.—In the case of any taxable year beginning in any calendar year after 2007, the applicable dollar

amount shall be increased by an amount equal to—

"(i) such dollar amount, multiplied by

"(ii) the cost-of living adjustment determined under paragraph (3) for the calendar year in which the taxable year begins, determined by substituting 'calendar year 2006' for 'calendar year 1992' in subparagraph (B) thereof.".

(b) ROUNDING.—Section 1(f)(6)(A) is amended by inserting "(after being increased under paragraph (2)(B))" after "paragraph (2)(A)".

TITLE II—FAMILY TAX RELIEF PROVISIONS

SEC. 201. COMBINED RETURN TO WHICH UNMARRIED RATES APPLY.

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

"SEC. 6013A. COMBINED RETURN WITH SEPARATE RATES.

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

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

"(2) the tax imposed by section 1 is the aggregate amount resulting from applying the separate rates set forth in section 1(c) to each such taxable income.

"(b) TREATMENT OF INCOME.—For purposes of this section—

"(1) earned income (within the meaning of section 911(d)), and any income received as a pension or annuity which arises from an employer-employee relationship, shall be treated as the income of the spouse who rendered the services, and

"(2) income from property shall be divided between the spouses in accordance with their respective ownership rights in such property (equally in the case of property held jointly by the spouses).

"(c) TREATMENT OF DEDUCTIONS.—For purposes of this section—

"(1) except as otherwise provided in this subsection, the deductions described in section 62(a) shall be allowed to the spouse treated as having the income to which such deductions relate,

"(2) the deduction for retirement savings described in paragraph (7) of section 62(a) shall be allowed to the spouse whose earned income qualified the savings for the deduction,

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

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

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

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

"(7) each spouse's share of all other deductions shall be determined by multiplying the aggregate amount thereof by the fraction—

"(A) the numerator of which is such spouse's adjusted gross income, and

"(B) the denominator of which is the combined adjusted gross incomes of the 2 spouses.

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

"(d) TREATMENT OF CREDITS.—Credits shall be determined (and applied against the joint liability of the couple for tax determined under this section) as if the spouses had filed a joint return.

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

"(f) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out this section.".

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

"(c) SEPARATE OR UNMARRIED RETURN RATE.—There is hereby imposed on the taxable income of every individual (other than a married individual (as defined in section 7703) filing a return which is not a combined return under section 6013A, a surviving spouse as defined in sec-

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

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

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

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

"(ii) a surviving spouse, or

"(iii) a head of household, or".

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

"Sec. 6013A. Combined return with separate rates.".

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

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

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

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

"(A) IN GENERAL.—Subject to subparagraph (B), the earned", and

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

"(B) JOINT RETURNS.—In the case of a joint return, the phaseout amount determined under subparagraph (A) shall be increased by $2,000.".

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

"(B) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined—

"(i) in the case of amounts in subsections (b)(1)(A) and (i)(1), by substituting 'calendar year 1995' for 'calendar year 1992' in subparagraph (B) thereof, and

"(ii) in the case of the $2,000 amount in subsection (b)(1)(B), by substituting 'calendar year 2004' for 'calendar year 1992' in subparagraph (B) of such section 1.".

(c) ROUNDING.—Section 32(j)(2)(A) (relating to rounding) is amended by striking "subsection (b)(2)" and

inserting "subsection (b)(2)(A) (after being increased under subparagraph (B) thereof)".

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

SEC. 203. EXCLUSION FOR FOSTER CARE PAYMENTS TO APPLY TO PAYMENTS BY QUALIFIED PLACEMENT AGENCIES.

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

"(1) IN GENERAL.—The term 'qualified foster care payment' means any payment made pursuant to a foster care program of a State or political subdivision thereof—

"(A) which is paid by—

"(i) the State or political subdivision thereof, or

"(ii) a qualified foster care placement agency of such State or political subdivision, and".

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

"(B) a qualified foster care placement agency.".

(c) QUALIFIED FOSTER CARE PLACEMENT AGENCY DEFINED.—Subsection (b) of section 131 is amended by redesignating paragraph (3) as paragraph (4) and by inserting after paragraph (2) the following new paragraph:

"(3) QUALIFIED FOSTER CARE PLACEMENT AGENCY.—The term 'qualified foster care placement agency' means any placement agency which is licensed or certified by—

"(A) a State or political subdivision thereof, or

"(B) an entity designated by a State or political subdivision thereof,

to make foster care payments under the foster care program of such State or political subdivision to providers of foster care.".

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

SEC. 204. MODIFICATION OF DEPENDENT CARE CREDIT.

(a) INCREASE IN PERCENTAGE OF EMPLOYMENT-RELATED EXPENSES TAKEN INTO ACCOUNT.—Subsection (a)(2) of section 21 (relating to expenses for household and

dependent care services necessary for gainful employment) is amended—

(1) by striking "30 percent" and inserting "40 percent",

(2) by striking "$2,000" and inserting "$1,000", and

(3) by striking "$10,000" and inserting "$30,000".

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

"(c) DOLLAR LIMIT ON AMOUNT CREDITABLE.—

"(1) IN GENERAL.—The amount of the employment-related expenses incurred during any taxable year which may be taken into account under subsection (a) shall not exceed—

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

"(B) $4,800 if there are 2 or more qualifying individuals with respect to the taxpayer for such taxable year.

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

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

"(2) COST-OF-LIVING ADJUSTMENT.—

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

"(i) such dollar amount, multiplied by

"(ii) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting 'calendar year 1999' for 'calendar year 1992' in subparagraph (B) thereof.

"(B) ROUNDING RULES.—If any amount after adjustment under subparagraph (A) is not a multiple of $50, such amount shall be rounded to the next lower multiple of $50.".

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

"(11) MINIMUM CREDIT ALLOWED FOR STAY-AT-HOME PARENTS.—

"(A) IN GENERAL.—Notwithstanding subsection (d), in the case of any taxpayer with 1 or more qualifying individuals described in subsection (b)(1)(A) under the age of 1, such taxpayer shall be deemed to have employment-related expenses for the taxable year with respect to each such qualifying individual in an amount equal to the sum of—

"(i) $200 for each month in such taxable year during which such qualifying individual is under the age of 1, and

"(ii) the amount of employment-related expenses otherwise incurred for such qualifying individual for the taxable year (determined under this section without regard to this paragraph).

"(B) ELECTION TO NOT APPLY THIS PARAGRAPH.—This paragraph shall not apply with respect to any qualifying individual for any taxable year if the taxpayer elects to not have this paragraph apply to such qualifying individual for such taxable year.".

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

SEC. 205. ALLOWANCE OF CREDIT FOR EMPLOYER EXPENSES FOR CHILD CARE ASSISTANCE.

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

"SEC. 45D. EMPLOYER-PROVIDED CHILD CARE CREDIT.

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

"(1) 25 percent of the qualified child care expenditures, and

"(2) 10 percent of the qualified child care resource and referral expenditures,

of the taxpayer for such taxable year.

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

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

"(1) QUALIFIED CHILD CARE EXPENDITURE.—

"(A) IN GENERAL.—The term 'qualified child care expenditure' means any amount paid or incurred—

"(i) to acquire, construct, rehabilitate, or expand property—

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

"(II) with respect to which a deduction for depreciation (or amortization in lieu of depreciation) is allowable, and

"(III) which does not constitute part of the principal residence (within the meaning of section 121) of the taxpayer or any employee of the taxpayer,

"(ii) for the operating costs of an eligible qualified child care facility of the taxpayer, including costs related to the training of employees of the child care facility, to scholarship programs, to the providing of differential compensation to employees based on level of child care training, and to expenses associated with achieving accreditation, or

"(iii) under a contract with a qualified child care facility to provide child care services to employees of the taxpayer.

"(B) EXCLUSION FOR AMOUNTS FUNDED BY GRANTS, ETC.—The term 'qualified child care ex-

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

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

"(2) QUALIFIED CHILD CARE FACILITY.—

"(A) IN GENERAL.—The term 'qualified child care facility' means a facility—

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

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

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

"(B) ELIGIBLE QUALIFIED CHILD CARE FACILITY.—A qualified child care facility shall be treated as an eligible qualified child care facility with respect to the taxpayer if—

"(i) enrollment in the facility is open to employees of the taxpayer during the taxable year,

"(ii) the facility is not the principal trade or business of the taxpayer, and

"(iii) at least 30 percent of the enrollees of such facility are dependents of employees of the taxpayer.

"(C) APPLICATION OF SUBPARAGRAPH (B).—In the case of a new facility, the facility shall be treated as meeting the requirement of subparagraph (B)(iii) if not later than 2 years after placing such facility in service at least 30 percent of the enrollees of such facility are dependents of employees of the taxpayer.

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

"(A) IN GENERAL.—The term 'qualified child care resource and referral expenditure' means any amount paid or incurred under a

contract to provide child care resource and referral services to employees of the taxpayer.

"(B) EXCLUSION FOR AMOUNTS FUNDED BY GRANTS, ETC.—The term 'qualified child care resource and referral expenditure' shall not include any amount to the extent such amount is funded by any grant, contract, or otherwise by another person (or any governmental entity).

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

"(d) RECAPTURE OF ACQUISITION AND CONSTRUCTION CREDIT.—

"(1) IN GENERAL.—If, as of the close of any taxable year, there is a recapture event with respect to any eligible qualified child care facility of the taxpayer, then the tax of the taxpayer under this chapter for such taxable year shall be increased by an amount equal to the product of—

"(A) the applicable recapture percentage, and

"(B) the aggregate decrease in the credits allowed under section 38 for all prior taxable years which would have resulted if the qualified child care expenditures of the taxpayer described in subsection (c)(1)(A) with respect to such facility had been zero.

"(2) APPLICABLE RECAPTURE PERCENTAGE.—

"(A) IN GENERAL.—For purposes of this subsection, the applicable recapture percentage 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.*

"(B) YEARS.—For purposes of subparagraph (A), year 1 shall begin on the first day of the taxable year in which the eligible qualified child care facility is placed in service by the taxpayer.

"(3) RECAPTURE EVENT DEFINED.—For purposes of this subsection, the term 'recapture event' means—

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

"(B) CHANGE IN OWNERSHIP.—

"(i) IN GENERAL.—Except as provided in clause (ii), the disposition of a taxpayer's interest in an eligible qualified child care facility with respect to which the credit described in subsection (a) was allowable.

"(ii) AGREEMENT TO ASSUME RECAPTURE LIABILITY.—Clause (i) shall not apply if the person acquiring such interest in the facility agrees in writing to assume the recapture liability of the person disposing of such interest in effect immediately before such disposition. In the event of such an assumption, the person acquiring the interest in the facility shall be treated as the taxpayer for purposes of assessing any recapture liability (computed as if there had been no change in ownership).

"(4) SPECIAL RULES.—

"(A) TAX BENEFIT RULE.—The tax for the taxable year shall be increased under paragraph

(1) only with respect to credits allowed by reason of this section which were used to reduce tax liability. In the case of credits not so used to reduce tax liability, the carryforwards and carrybacks under section 39 shall be appropriately adjusted.

"(B) NO CREDITS AGAINST TAX.—Any increase in tax under this subsection shall not be treated as a tax imposed by this chapter for purposes of determining the amount of any credit under subpart A, B, or D of this part.

"(C) NO RECAPTURE BY REASON OF CASUALTY LOSS.—The increase in tax under this subsection shall not apply to a cessation of operation of the facility as a qualified child care facility by reason of a casualty loss to the extent such loss is restored by reconstruction or replacement within a reasonable period established by the Secretary.

"(e) SPECIAL RULES.—For purposes of this section—

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

"(2) PASS-THRU IN THE CASE OF ESTATES AND TRUSTS.—Under regulations prescribed by the Secretary, rules similar to the rules of subsection (d) of section 52 shall apply.

"(3) ALLOCATION IN THE CASE OF PARTNERSHIPS.—In the case of partnerships, the credit shall be allocated among partners under regulations prescribed by the Secretary.

"(f) NO DOUBLE BENEFIT.—

"(1) REDUCTION IN BASIS.—For purposes of this subtitle—

"(A) IN GENERAL.—If a credit is determined under this section with respect to any property by reason of expenditures described in subsection (c)(1)(A), the basis of such property shall be reduced by the amount of the credit so determined.

"(B) CERTAIN DISPOSITIONS.—If during any taxable year there is a recapture amount determined with respect to any property the basis of which was reduced under subparagraph (A), the basis of such property (immediately before the event resulting in such recapture) shall be increased by an amount equal to such recapture amount. For purposes of the preceding sentence,

the term 'recapture amount' means any increase in tax (or adjustment in carrybacks or carryovers) determined under subsection (d).

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

(b) CONFORMING AMENDMENTS.—

(1) Section 38(b) is amended—

(A) by striking out "plus" at the end of paragraph (11),

(B) by striking out the period at the end of paragraph (12), and inserting a comma and "plus", and

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

"(13) the employer-provided child care credit determined under section 45D.".

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

"Sec. 45D. Employer-provided child care credit.".

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

SEC. 206. MODIFICATION OF ALTERNATIVE MINIMUM TAX FOR INDIVIDUALS.

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

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

"(a) LIMITATION BASED ON AMOUNT OF TAX.—The aggregate amount of credits allowed by this subpart for the taxable year shall not exceed the taxpayer's regular tax liability for the taxable year.".

(2) CHILD CREDIT.—Subsection (d) of section 24 is amended by striking paragraph (2) and by redesignating paragraph (3) as paragraph (2).

(3) EFFECTIVE DATE.—The amendments made by this subsection shall apply to taxable years beginning after December 31, 1998.

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

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

"(E) SPECIAL RULE FOR CERTAIN DEDUCTIONS.—The standard deduction under section 63(c) shall not be allowed and the deduction for personal exemptions under section 151 and the

deduction under section 642(b) shall each be allowed, but shall each be reduced by $250.".

(2) EFFECTIVE DATE.—The amendments made by this subsection shall apply to taxable years beginning after December 31, 2005.

SEC. 207. LONG-TERM CAPITAL GAINS DEDUCTION FOR INDIVIDUALS.

(a) GENERAL RULE.—Part I of subchapter P of chapter 1 (relating to treatment of capital gains) is amended by redesignating section 1202 as section 1203 and by inserting after section 1201 the following new section:

"SEC. 1202. CAPITAL GAINS DEDUCTION FOR INDIVIDUALS.

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

"(1) the net capital gain of the taxpayer for the taxable year, or

"(2) $1,000.

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

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

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

"(d) SECTION NOT TO APPLY TO CERTAIN TAXPAYERS.—No deduction shall be allowed under this section to—

"(1) an individual with respect to whom a deduction under section 151 is allowable to another taxpayer for a taxable year beginning in the calendar year in which such individual's taxable year begins,

"(2) a married individual (within the meaning of section 7703) filing a separate return for the taxable year, or

"(3) an estate or trust.

"(e) SPECIAL RULE FOR PASS-THRU ENTITIES.—

"(1) IN GENERAL.—In applying this section with respect to any pass-thru entity, the determination of when the sale or exchange occurs shall be made at the entity level.

"(2) PASS-THRU ENTITY DEFINED.—For purposes of paragraph (1), the term 'pass-thru entity' means—

"(A) a regulated investment company,

"(B) a real estate investment trust,

"(C) an S corporation,

"(D) a partnership,

"(E) an estate or trust, and

"(F) a common trust fund.".

(b) COORDINATION WITH MAXIMUM CAPITAL GAINS RATE.—Paragraph (3) of section 1(h) (relating to maximum capital gains rate) is amended to read as follows:

"(3) COORDINATION WITH OTHER PROVISIONS.—For purposes of this subsection, the amount of the net capital gain shall be reduced (but not below zero) by the sum of—

"(A) the amount of the net capital gain taken into account under section 1202(a) for the taxable year, plus

"(B) the amount which the taxpayer elects to take into account as investment income for the taxable year under section 163(d)(4)(B)(iii).".

(c) DEDUCTION ALLOWABLE IN COMPUTING ADJUSTED GROSS INCOME.—Subsection (a) of section 62 (defining adjusted gross income) is amended by inserting after paragraph (17) the following new paragraph:

"(18) LONG-TERM CAPITAL GAINS.—The deduction allowed by section 1202.".

(d) TREATMENT OF COLLECTIBLES.—

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

amended by inserting after paragraph (11) the following new paragraph:

"(12) SPECIAL RULE FOR COLLECTIBLES.—

"(A) IN GENERAL.—Any gain or loss from the sale or exchange of a collectible shall be treated as a short-term capital gain or loss (as the case may be), without regard to the period such asset was held. The preceding sentence shall apply only to the extent the gain or loss is taken into account in computing taxable income.

"(B) TREATMENT OF CERTAIN SALES OF INTEREST IN PARTNERSHIP, ETC.—For purposes of subparagraph (A), any gain from the sale or exchange of an interest in a partnership, S corporation, or trust which is attributable to unrealized appreciation in the value of collectibles held by such entity shall be treated as gain from the sale or exchange of a collectible. Rules similar to the rules of section 751(f) shall apply for purposes of the preceding sentence.

"(C) COLLECTIBLE.—For purposes of this paragraph, the term 'collectible' means any capital asset which is a collectible (as defined in section 408(m) without regard to paragraph (3) thereof).".

(2) CHARITABLE DEDUCTION NOT AFFECTED.—

(A) Paragraph (1) of section 170(e) is amended by adding at the end the following new sentence: "For purposes of this paragraph, section 1222 shall be applied without regard to paragraph (12) thereof (relating to special rule for collectibles).".

(B) Clause (iv) of section 170(b)(1)(C) is amended by inserting before the period at the end the following: "and section 1222 shall be applied without regard to paragraph (12) thereof (relating to special rule for collectibles)".

(e) CONFORMING AMENDMENTS.—

(1) Section 57(a)(7) is amended by striking "1202" and inserting "1203".

(2) Clause (iii) of section 163(d)(4)(B) is amended to read as follows:

"(iii) the sum of—

"(I) the portion of the net capital gain referred to in clause (ii)(II) (or, if lesser, the net capital gain referred to in clause (ii)(I)) taken into account under section 1202, reduced by the amount of the deduction allowed with

respect to such gain under section 1202, plus

"(II) so much of the gain described in subclause (I) which is not taken into account under section 1202 and which the taxpayer elects to take into account under this clause.".

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

"(B) the deduction under section 1202 and the exclusion under section 1203 shall not be allowed.".

(4) Section 642(c)(4) is amended by striking "1202" and inserting "1203".

(5) Section 643(a)(3) is amended by striking "1202" and inserting "1203".

(6) Paragraph (4) of section 691(c) is amended inserting "1203," after "1202,".

(7) The second sentence of section 871(a)(2) is amended by inserting "or 1203" after "section 1202".

(8) The last sentence of section 1044(d) is amended by striking "1202" and inserting "1203".

(9) Paragraph (1) of section 1402(i) is amended by inserting ", and the deduction provided by section

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

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

"(h) CROSS REFERENCE.—

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

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

"(l) CROSS REFERENCE.—

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

(12) The table of sections for part I of subchapter P of chapter 1 is amended by striking the item relating to section 1202 and by inserting after the item relating to section 1201 the following new items:

"Sec. 1202. Capital gains deduction.
"Sec. 1203. 50-percent exclusion for gain from certain small business stock.".

(f) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to taxable years beginning after December 31, 2005.

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

SEC. 208. CREDIT FOR INTEREST ON HIGHER EDUCATION LOANS.

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

"SEC. 25B. INTEREST ON HIGHER EDUCATION LOANS.

"(a) ALLOWANCE OF CREDIT.—In the case of an individual, there shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to the interest paid by the taxpayer during the taxable year on any qualified education loan.

"(b) MAXIMUM CREDIT.—

"(1) IN GENERAL.—Except as provided in paragraph (2), the credit allowed by subsection (a) for the taxable year shall not exceed $1,500.

"(2) LIMITATION BASED ON MODIFIED ADJUSTED GROSS INCOME.—

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

amount which would be so allowable as such excess bears to $20,000.

"(B) MODIFIED ADJUSTED GROSS INCOME.—The term 'modified adjusted gross income' means adjusted gross income determined without regard to sections 911, 931, and 933.

"(C) INFLATION ADJUSTMENT.—In the case of any taxable year beginning after 2005, the $50,000 and $80,000 amounts referred to in subparagraph (A) shall be increased by an amount equal to—

"(i) such dollar amount, multiplied by

"(ii) the cost-of-living adjustment determined under section (1)(f)(3) for the calendar year in which the taxable year begins, by substituting '2004' for '1992'.

"(D) ROUNDING.—If any amount as adjusted under subparagraph (C) is not a multiple of $50, such amount shall be rounded to the nearest multiple of $50.

"(c) DEPENDENTS NOT ELIGIBLE FOR CREDIT.—No credit shall be allowed by this section to an individual for the taxable year if a deduction under section 151 with respect to such individual is allowed to another taxpayer for

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

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

"(e) DEFINITIONS.—For purposes of this section—

"(1) QUALIFIED EDUCATION LOAN.—The term 'qualified education loan' has the meaning given such term by section 221(e)(1).

"(2) DEPENDENT.—The term 'dependent' has the meaning given such term by section 152.

"(f) SPECIAL RULES.—

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

"(2) MARRIED COUPLES MUST FILE JOINT RETURN.—If the taxpayer is married at the close of the taxable year, the credit shall be allowed under subsection (a) only if the taxpayer and the taxpayer's spouse file a joint return for the taxable year.

"(3) MARITAL STATUS.—Marital status shall be determined in accordance with section 7703.".

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

"Sec. 25B. Interest on higher education loans.".

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

SEC. 209. ELIMINATION OF MARRIAGE PENALTY IN STANDARD DEDUCTION.

(a) IN GENERAL.—Paragraph (2) of section 63(c) (relating to standard deduction) is amended—

(1) by striking "$5,000" in subparagraph (A) and inserting "twice the dollar amount in effect under subparagraph (C) for the taxable year",

(2) by adding "or" at the end of subparagraph (B),

(3) by striking "in the case of" and all that follows in subparagraph (C) and inserting "in any other case.", and

(4) by striking subparagraph (D).

(b) PHASE-IN.—Subsection (c) of section 63 is amended by adding at the end the following new paragraph:

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

"(A) paragraph (2)(A) shall be applied by substituting for 'twice'—

"(i) '1.671 times' in the case of taxable years beginning during 2001,

"(ii) '1.70 times' in the case of taxable years beginning during 2002,

"(iii) '1.727 times' in the case of taxable years beginning during 2003,

"(iv) '1.837 times' in the case of taxable years beginning during 2004,

"(v) '1.951 times' in the case of taxable years beginning during 2005,

"(vi) '1.953 times' in the case of taxable years beginning during 2006, and

"(vii) '1.973 times' in the case of taxable years beginning during 2007, and

"(B) the basic standard deduction for a married individual filing a separate return shall be one-half of the amount applicable under paragraph (2)(A).

If any amount determined under subparagraph (A) is not a multiple of $50, such amount shall be rounded to the next lowest multiple of $50.".

(c) TECHNICAL AMENDMENTS.—

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

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

"The preceding sentence shall not apply to the amount referred to in paragraph (2)(A).".

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

SEC. 210. EXPANSION OF ADOPTION CREDIT.

(a) IN GENERAL.—Section 23(a)(1) (relating to allowance of credit) is amended to read as follows:

"(1) IN GENERAL.—In the case of an individual, there shall be allowed as a credit against the tax imposed by this chapter—

"(A) in the case of an adoption of a child other than a child with special needs, the

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

"(B) in the case of an adoption of a child with special needs, $10,000.".

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

(1) by striking "($6,000, in the case of a child with special needs)", and

(2) by striking "subsection (a)" and inserting "subsection (a)(1)".

(c) YEAR CREDIT ALLOWED.—Section 23(a)(2) is amended by adding at the end the following new flush sentence:

"In the case of the adoption of a child with special needs, the credit allowed under paragraph (1) shall be allowed for the taxable year in which the adoption becomes final.".

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

"(2) ELIGIBLE CHILD.—The term 'eligible child' means any individual who—

"(A) has not attained age 18, or

"(B) is physically or mentally incapable of caring for himself.".

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

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

(a) IN GENERAL.—Section 1(e) (relating to tax imposed on estates and trusts) is amended to read as follows:

"(e) ESTATES AND TRUSTS.—

"(1) IN GENERAL.—Except as provided in paragraph (2), there is hereby imposed on the taxable income of—

"(A) every estate, and

"(B) every trust,

taxable under this subsection a tax determined in accordance with the following table:

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

"(2) SPECIAL RULE FOR TRUSTS FOR DISABLED INDIVIDUALS.—

"(A) IN GENERAL.—There is hereby imposed on the taxable income of an eligible trust

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

"(B) ELIGIBLE TRUST.—For purposes of subparagraph (A), a trust shall be treated as an eligible trust for any taxable year if, at all times during such year during which the trust is in existence, the exclusive purpose of the trust is to provide reasonable amounts for the support and maintenance of 1 beneficiary who is permanently and totally disabled (within the meaning of section 22(e)(3)). A trust shall not fail to meet the requirements of this subparagraph merely because the corpus of the trust may revert to the grantor or a member of the grantor's family upon the death of the beneficiary.".

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

TITLE III—RETIREMENT SAVINGS TAX RELIEF

Subtitle A—Individual Retirement Arrangements

SEC. 301. MODIFICATION OF DEDUCTION LIMITS FOR IRA CONTRIBUTIONS.

(a) INCREASE IN CONTRIBUTION LIMIT.—

(1) IN GENERAL.—Paragraph (1)(A) of section 219(b) (relating to maximum amount of deduction) is amended by striking "$2,000" and inserting "the deductible amount".

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

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

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

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

"(B) COST-OF-LIVING ADJUSTMENT.—

"(i) IN GENERAL.—In the case of any taxable year beginning in a calendar year after 2003, the $5,000 amount under subparagraph (A) shall be increased by an amount equal to—

"(I) such dollar amount, multiplied by

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

year begins, determined by substituting 'calendar year 2002' for 'calendar year 1992' in subparagraph (B) thereof.

"(ii) ROUNDING RULES.—If any amount after adjustment under clause (i) is not a multiple of $100, such amount shall be rounded to the next lower multiple of $100.".

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

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

"(B) APPLICABLE DOLLAR AMOUNT.—The term 'applicable dollar amount' means the following:

"(i) In the case of a taxpayer filing a 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.*

"(ii) In the case of any other taxpayer (other than a married individual filing a 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.".*

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

"(C) COST-OF-LIVING ADJUSTMENT.—

"(i) IN GENERAL.—In the case of any taxable year beginning in a calendar year after 2010, the $94,000 amount in subparagraph (B)(i) and the $57,000 amount in subparagraph(B)(ii) shall each be increased by an amount equal to—

"(I) such dollar amount, multiplied by

"(II) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting

'calendar year 2009' for 'calendar year 1992' in subparagraph (B) thereof.

"(ii) ROUNDING RULES.—If any amount after adjustment under clause (i) is not a multiple of $1,000, such amount shall be reduced to the next lowest multiple of $1,000.".

(c) CONFORMING AMENDMENTS.—

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

(2) Section 408(b)(2)(B) is amended by striking "$2,000" and inserting "the dollar amount in effect under section 219(b)(1)(A)".

(3) Section 408(b) is amended by striking "$2,000" in the matter following paragraph (4) and inserting "the dollar amount in effect under section 219(b)(1)(A)".

(4) Section 408(j) is amended by striking "$2,000".

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

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

SEC. 302. MODIFICATION OF INCOME LIMITS ON CONTRIBUTIONS AND ROLLOVERS TO ROTH IRAS.

(a) REPEAL OF AGI LIMIT ON CONTRIBUTIONS.—Section 408A(c)(3) (relating to limits based on modified adjusted gross income) is amended by striking subparagraph (A) and by redesignating subparagraphs (B), (C), and (D) as subparagraphs (A), (B), and (C), respectively.

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

> *"(A) ROLLOVER FROM IRA.—A taxpayer shall not be allowed to make a qualified rollover contribution from an individual retirement plan other than a Roth IRA during any taxable year if, for the taxable year of the distribution to which the contribution relates, the taxpayer's adjusted gross income exceeds $1,000,000.".*

(c) CONFORMING AMENDMENTS.—

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

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

"(B) DEFINITION OF ADJUSTED GROSS INCOME.—For purposes of subparagraph (A), adjusted gross income shall be determined—

"(i) after application of sections 86 and 469, and

"(ii) without regard to sections 135, 137, 221, and 911, the deduction allowable under section 219, or any amount included in gross income under subsection (d)(3).".

(2) Subparagraph (B) of section 408A(c)(3), as amended by paragraph (1), is amended by inserting "or by reason of a required distribution under a provision described in paragraph (5)" before the period at the end.

(d) EFFECTIVE DATES.—

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

(2) ROLLOVERS.—The amendment made by subsection (b) shall apply to taxable years beginning after December 31, 2002.

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

SEC. 303. DEEMED IRAS UNDER EMPLOYER PLANS.

(a) IN GENERAL.—Section 408 (relating to individual retirement accounts) is amended by redesignating subsection (q) as subsection (r) and by inserting after subsection (p) the following new subsection:

"(q) DEEMED IRAS UNDER QUALIFIED EMPLOYER PLANS.—

"(1) GENERAL RULE.—If—

"(A) a qualified employer plan elects to allow employees to make voluntary employee contributions to a separate account or annuity established under the plan, and

"(B) under the terms of the qualified employer plan, such account or annuity meets the applicable requirements of this section or section 408A for an individual retirement account or annuity,

then such account or annuity shall be treated for purposes of this title in the same manner as an individual retirement plan (and contributions to such account or annuity as contributions to an individual

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

"(2) SPECIAL RULES FOR QUALIFIED EMPLOYER PLANS.—For purposes of this title—

"(A) a qualified employer plan shall not fail to meet any requirement of this title solely by reason of establishing and maintaining a program described in paragraph (1), and

"(B) any account or annuity described in paragraph (1), and any contribution to the account or annuity, shall not be subject to any requirement of this title applicable to a qualified employer plan or taken into account in applying any such requirement to any other contributions under the plan.

"(3) DEFINITIONS.—For purposes of this subsection—

"(A) QUALIFIED EMPLOYER PLAN.—The term 'qualified employer plan' has the meaning given such term by section 72(p)(4).

"(B) VOLUNTARY EMPLOYEE CONTRIBUTION.—The term 'voluntary employee contribution' means any contribution (other than a mandatory contribution within the meaning of section 411(c)(2)(C))—

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

"(ii) with respect to which the individual has designated the contribution as a contribution to which this subsection applies.".

(b) AMENDMENT OF ERISA.—

(1) IN GENERAL.—Section 4 of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1003) is amended by adding at the end the following new subsection:

"(c) If a pension plan allows an employee to elect to make voluntary employee contributions to accounts and annuities as provided in section 408(q) of the Internal Revenue Code of 1986, such accounts and annuities (and contributions thereto) shall not be treated as part of such plan (or as a separate pension plan) for purposes of any provision of this title other than section 403(c), 404, or 405 (relating to exclusive benefit, and fiduciary and co-fiduciary responsibilities).".

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

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

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

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

"PART IX—INDIVIDUAL DEVELOPMENT ACCOUNTS

"Sec. 530A. Individual development accounts.

"SEC. 530A. INDIVIDUAL DEVELOPMENT ACCOUNTS.

"(a) INDIVIDUAL DEVELOPMENT ACCOUNT.—For purposes of this section, the term 'Individual Development Account' means a custodial account established for the exclusive benefit of an eligible individual or such individual's beneficiaries, but only if the written governing instrument creating the account meets the following requirements:

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

"(A) no contribution will be accepted unless it is in cash, and

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

"(i) $350, or

"(ii) an amount equal to the compensation includible in the eligible individual's gross income for such taxable year.

"(2) The custodian of the account is a qualified financial institution.

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

"(4) The assets of the account will not be commingled with other property except in a common trust fund or common investment fund.

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

"(b) MATCHING CONTRIBUTIONS WITH RESPECT TO INDIVIDUAL DEVELOPMENT ACCOUNTS.—

"(1) IN GENERAL.—If an eligible individual establishes an Individual Development Account with a qualified financial institution, the qualified financial institution may deposit into a separate, parallel, individual or pooled matching account an eligible

matching contribution for the taxable year. The qualified financial institution shall maintain a separate accounting of matching contributions and earnings thereon.

"(2) ELIGIBLE MATCHING CONTRIBUTION.—For purposes of this section, the term 'eligible matching contribution' means a dollar-for-dollar match of the contributions made by the eligible individual into the Individual Development Account described in paragraph (1) with respect to any taxable year.

"(3) ALLOWANCE OF CREDIT FOR ELIGIBLE MATCHING CONTRIBUTIONS.—

"(A) IN GENERAL.—In the case of a qualified financial institution, there shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to 85 percent of the eligible matching contributions made by such institution with respect to an eligible individual under this subsection for such taxable year (determined without regard to any amount described in paragraph (4)(B)). If any amount determined under the preceding sentence is not a multiple of $10, such amount shall be rounded to the next highest multiple of $10.

"(B) LIMITATION BASED ON AMOUNT OF TAX.—The credit allowed under subparagraph (A) for any taxable year shall not exceed the excess of—

"(i) the sum of the regular tax liability (as defined in section 26(b)) plus the tax imposed by section 55, over

"(ii) the sum of the credits allowable under part IV of subchapter A of this chapter.

"(C) CREDIT TREATED AS ALLOWED UNDER PART IV OF SUBCHAPTER A.—For purposes of subtitle F, the credit allowed under subparagraph (A) shall be treated as a credit allowable under part IV of subchapter A of this chapter.

"(4) FORFEITURE OF MATCHING FUNDS.—

"(A) IN GENERAL.—Amounts in the matching account established under this subsection for an eligible individual shall be reduced by the amount of any distribution from an Individual Development Account of such individual which is not a qualified expense distribution and which is not recontributed as part of a qualified rollover (as defined in subsection (c)(2)(E)).

"(B) USE OF FORFEITED FUNDS.—Eligible matching contributions which are forfeited by an eligible individual under subparagraph (A) shall be used by the qualified financial institution to make eligible matching contributions for other Individual Development Account contributions by eligible individuals.

"(5) EXCLUSION FROM INCOME.—Gross income of an eligible individual shall not include any eligible matching contribution and the earnings thereon deposited into a matching account under paragraph (1) on behalf of such individual.

"(6) REGULAR REPORTING OF MATCHING CONTRIBUTIONS.—Any qualified financial institution shall report eligible matching contributions to eligible individuals with Individual Development Accounts on not less than a quarterly basis.

"(7) TERMINATION.—No eligible matching contribution may be made for any taxable year beginning after December 31, 2005.

"(c) QUALIFIED EXPENSE DISTRIBUTION.—For purposes of this section—

"(1) IN GENERAL.—The term 'qualified expense distribution' means any amount paid or distributed out of an Individual Development Account and the

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

"(A) is used exclusively to pay the qualified expenses of such individual or such individual's spouse or dependents,

"(B) is paid by the qualified financial institution directly to the person to whom the amount is due or to another Individual Development Account, and

"(C) is paid after the holder of the Individual Development Account has completed an economic literacy course offered by the qualified financial institution, a nonprofit organization, or a government entity.

"(2) QUALIFIED EXPENSES.—

"(A) IN GENERAL.—The term 'qualified expenses' means any of the following:

"(i) Qualified higher education expenses.

"(ii) Qualified first-time homebuyer costs.

"(iii) Qualified business capitalization costs.

"(iv) Qualified rollovers.

"(B) QUALIFIED HIGHER EDUCATION EXPENSES.—

"(i) IN GENERAL.—The term 'qualified higher education expenses' has the meaning given such term by section 72(t)(7), determined by treating postsecondary vocational educational schools as eligible educational institutions.

"(ii) POSTSECONDARY VOCATIONAL EDUCATION SCHOOL.—The term 'postsecondary vocational educational school' means an area vocational education school (as defined in subparagraph (C) or (D) of section 521(4) of the Carl D. Perkins Vocational and Applied Technology Education Act (20 U.S.C. 2471(4))) which is in any State (as defined in section 521(33) of such Act), as such sections are in effect on the date of the enactment of this section.

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

lowed under this chapter for such taxable year.

"(C) QUALIFIED FIRST-TIME HOMEBUYER COSTS.—The term 'qualified first-time homebuyer costs' means qualified acquisition costs (as defined in section 72(t)(8) without regard to subparagraph (B) thereof) with respect to a principal residence (within the meaning of section 121) for a qualified first-time homebuyer (as defined in section 72(t)(8)).

"(D) QUALIFIED BUSINESS CAPITALIZATION COSTS.—

"(i) IN GENERAL.—The term 'qualified business capitalization costs' means qualified expenditures for the capitalization of a qualified business pursuant to a qualified business plan.

"(ii) QUALIFIED EXPENDITURES.—The term 'qualified expenditures' means expenditures included in a qualified business plan, including capital, plant, equipment, working capital and inventory expenses.

"(iii) QUALIFIED BUSINESS.—The term 'qualified business' means any business that does not contravene any law.

"(iv) QUALIFIED BUSINESS PLAN.—The term 'qualified business plan' means a business plan which meets such requirements as the Secretary of Housing and Urban Development may specify.

"(E) QUALIFIED ROLLOVERS.—The term 'qualified rollover' means, with respect to any distribution from an Individual Development Account, the payment, within 120 days of such distribution, of all or a portion of such distribution to such account or to another Individual Development Account established in another qualified financial institution for the benefit of the eligible individual. Rules similar to the rules of section 408(d)(3) (other than subparagraph (C) thereof) shall apply for purposes of this subparagraph.

"(d) DEFINITIONS AND SPECIAL RULES.—For purposes of this section—

"(1) ELIGIBLE INDIVIDUAL.—

"(A) IN GENERAL.—The term 'eligible individual' means an individual who—

"(i) has attained the age of 18 years,

"(ii) is a citizen or legal resident of the United States, and

"(iii) is a member of a household—

"(I) which is eligible for the earned income tax credit under section 32,

"(II) which is eligible for assistance under a State program funded under part A of title IV of the Social Security Act, or

"(III) the gross income of which does not exceed 60 percent of the area median income (as determined by the Department of Housing and Urban Affairs) and the net worth of which does not exceed $10,000.

"(B) HOUSEHOLD.—The term 'household' means all individuals who share use of a dwelling unit as primary quarters for living and eating separate from other individuals.

"(C) DETERMINATION OF NET WORTH.—

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

"(I) the aggregate fair market value of all assets that are owned in

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

"(II) the obligations or debts of any member of the household.

"(ii) CERTAIN ASSETS DISREGARDED.—For purposes of determining the net worth of a household, a household's assets shall not be considered to include the primary dwelling unit and 1 motor vehicle owned by the household.

"(D) PROOF OF COMPENSATION AND STATUS AS AN ELIGIBLE INDIVIDUAL.—Statements under section 6051 and other forms specified by the Secretary proving the eligible individual's wages and other compensation and the status of the individual as an eligible individual shall be presented to the custodian at the time of the establishment of the Individual Development Account and at least once annually thereafter.

"(2) QUALIFIED FINANCIAL INSTITUTION.—The term 'qualified financial institution' means any person authorized to be a trustee of any individual retirement account under section 408(a)(2).

"(3) TREATMENT OF MORE THAN ONE ACCOUNT.—All Individual Development Accounts of an individual shall be treated as one account.

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

"(5) REPORTS.—The custodian of an Individual Development Account shall make such reports regarding such account to the Secretary and to the individual for whom the account is maintained with respect to contributions (and the years to which they relate), distributions, and such other matters as the Secretary may require under regulations. The reports required by this paragraph—

"(A) shall be filed at such time and in such manner as the Secretary prescribes in such regulations, and

"(B) shall be furnished to individuals—

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

"(ii) in such manner as the Secretary prescribes in such regulations.

"(e) APPLICATION OF SECTION.—This section shall apply to amounts paid to an Individual Development Account for any taxable year beginning after December 31, 2000, and before January 1, 2006.".

(b) TAX ON EXCESS CONTRIBUTIONS.—

(1) TAX IMPOSED.—Subsection (a) of section 4973 is amended by striking "or" at the end of paragraph (3), adding "or" at the end of paragraph (4), and inserting after paragraph (4) the following new paragraph:

"(5) an Individual Development Account (within the meaning of section 530A(a)),".

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

"(g) INDIVIDUAL DEVELOPMENT ACCOUNTS.—For purposes of this section, in the case of Individual Development Accounts, the term 'excess contributions' means the excess (if any) of—

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

"(2) the amount allowable as a contribution under section 530A.

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

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

(1) by inserting "or section 530A" after "section 219"; and

(2) by inserting ", of any Individual Development Account described in section 530A(a),", after "section 408(a)".

(d) FAILURE TO PROVIDE REPORTS ON INDIVIDUAL DEVELOPMENT ACCOUNTS.—Paragraph (2) of section 6693(a) is amended by striking "and" at the end of subparagraph (C), by striking the period and inserting ", and" at the end of subparagraph (D), and by adding at the end the following new subparagraph:

"(E) section 530(d)(5) (relating to Individual Development Accounts).".

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

"Part IX. Individual development accounts.".

(f) FUNDS IN ACCOUNTS DISREGARDED FOR PURPOSES OF CERTAIN MEANS-TESTED FEDERAL PROGRAMS.—Notwithstanding any other provision of the Internal Revenue Code of 1986 or the Social Security Act that requires consideration of 1 or more financial circumstances of an individual, for the purpose of determining eligibility to receive, or the amount of, any assistance or benefit authorized by such provision to be provided to or for the benefit of such individual, contributions (including earnings thereon) in any Individual Development Account and applicable matching account under section 530A of such Code shall be disregarded for such purpose.

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

SEC. 305. CERTAIN COINS NOT TREATED AS COLLECTIBLES.

(a) IN GENERAL.—Subparagraph (A) of section 408(m)(3) (relating to exception for certain coins and bullion) is amended to read as follows:

"(A) any coin certified by a recognized grading service and traded on a nationally recognized electronic network, or listed by a recognized wholesale reporting service, and—

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

"(ii) issued under the laws of any State, or".

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

Subtitle B—Expanding Coverage

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

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

"SEC. 402A. OPTIONAL TREATMENT OF ELECTIVE DEFERRALS AS PLUS CONTRIBUTIONS.

"(a) GENERAL RULE.—If an applicable retirement plan includes a qualified plus contribution program—

"(1) any designated plus contribution made by an employee pursuant to the program shall be treated as an elective deferral for purposes of this chapter, except that such contribution shall not be excludable from gross income, and

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

"(b) QUALIFIED PLUS CONTRIBUTION PROGRAM.—For purposes of this section—

"(1) IN GENERAL.—The term 'qualified plus contribution program' means a program under which an employee may elect to make designated plus contributions in lieu of all or a portion of elective deferrals the employee is otherwise eligible to make under the applicable retirement plan.

"(2) SEPARATE ACCOUNTING REQUIRED.—A program shall not be treated as a qualified plus contribution program unless the applicable retirement plan—

"(A) establishes separate accounts ('designated plus accounts') for the designated plus contributions of each employee and any earnings properly allocable to the contributions, and

"(B) maintains separate recordkeeping with respect to each account.

"(c) DEFINITIONS AND RULES RELATING TO DESIGNATED PLUS CONTRIBUTIONS.—For purposes of this section—

"(1) DESIGNATED PLUS CONTRIBUTION.—The term 'designated plus contribution' means any elective deferral which—

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

"(B) the employee designates (at such time and in such manner as the Secretary may prescribe) as not being so excludable.

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

"(A) the maximum amount of elective deferrals excludable from gross income of the employee for the taxable year (without regard to this section), over

"(B) the aggregate amount of elective deferrals of the employee for the taxable year which the employee does not designate under paragraph (1).

"(3) ROLLOVER CONTRIBUTIONS.—

"(A) IN GENERAL.—A rollover contribution of any payment or distribution from a designated plus account which is otherwise allowable under this chapter may be made only if the contribution is to—

"(i) another designated plus account of the individual from whose account the payment or distribution was made, or

"(ii) a Roth IRA of such individual.

"(B) COORDINATION WITH LIMIT.—Any rollover contribution to a designated plus account under subparagraph (A) shall not be taken into account for purposes of paragraph (1).

"(d) DISTRIBUTION RULES.—For purposes of this title—

"(1) EXCLUSION.—Any qualified distribution from a designated plus account shall not be includible in gross income.

"(2) QUALIFIED DISTRIBUTION.—For purposes of this subsection—

"(A) IN GENERAL.—The term 'qualified distribution' has the meaning given such term by section 408A(d)(2)(A) (without regard to clause (iv) thereof).

"(B) DISTRIBUTIONS WITHIN NONEXCLUSION PERIOD.—A payment or distribution from a designated plus account shall not be treated as a qualified distribution if such payment or distribution is made within the 5-taxable-year period beginning with the earlier of—

"(i) the 1st taxable year for which the individual made a designated plus contribution to any designated plus account es-

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

"(ii) if a rollover contribution was made to such designated plus account from a designated plus account previously established for such individual under another applicable retirement plan, the 1st taxable year for which the individual made a designated plus contribution to such previously established account.

"(C) DISTRIBUTIONS OF EXCESS DEFERRALS AND EARNINGS.—The term 'qualified distribution' shall not include any distribution of any excess deferral under section 402(g)(2) and any income on the excess deferral.

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

"(e) OTHER DEFINITIONS.—For purposes of this section—

"(1) APPLICABLE RETIREMENT PLAN.—The term 'applicable retirement plan' means—

"(A) an employees' trust described in section 401(a) which is exempt from tax under section 501(a), and

"(B) a plan under which amounts are contributed by an individual's employer for an annuity contract described in section 403(b).

"(2) ELECTIVE DEFERRAL.—The term 'elective deferral' means any elective deferral described in subparagraph (A) or (C) of section 402(g)(3).".

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

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

(2) by inserting "(or would be included but for the last sentence thereof)" after "paragraph (1)" in paragraph (2)(A).

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

"If any portion of an eligible rollover distribution is attributable to payments or distributions from a designated plus account (as defined in section 402A), an eligible retirement plan with

respect to such portion shall include only another designated plus account and a Roth IRA.".

(d) REPORTING REQUIREMENTS.—

(1) W–2 INFORMATION.—Section 6051(a)(8) is amended by inserting ", including the amount of designated plus contributions (as defined in section 402A)" before the comma at the end.

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

"(f) DESIGNATED PLUS CONTRIBUTIONS.—The Secretary shall require the plan administrator of each applicable retirement plan (as defined in section 402A) to make such returns and reports regarding designated plus contributions (as so defined) to the Secretary, participants and beneficiaries of the plan, and such other persons as the Secretary may prescribe.".

(e) CONFORMING AMENDMENTS.—

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

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

after the item relating to section 402 the following new item:

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

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

SEC. 312. INCREASE IN ELECTIVE CONTRIBUTION LIMITS.

(a) ELECTIVE DEFERRALS.—

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

"(1) IN GENERAL.—

"(A) LIMITATION.—Notwithstanding subsections (e)(3) and (h)(1)(B), the elective deferrals of any individual for any taxable year shall be included in such individual's gross income to the extent the amount of such deferrals for the taxable year exceeds the applicable dollar amount.

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

"For taxable years beginning in calendar year:	***The applicable dollar amount is:***
2001	*$11,000*
2002	*$12,000*

"For taxable years beginning in calendar year:	*The applicable dollar amount is:*
2003	*$13,000*
2004	*$14,000*
2005 or thereafter	*$15,000.".*

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

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

(3) CONFORMING AMENDMENTS.—

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

(B) Paragraph (2) of section 457(c) is amended by striking "402(g)(8)(A)(iii)" and inserting "402(g)(7)(A)(iii)".

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

(b) DEFERRED COMPENSATION PLANS OF STATE AND LOCAL GOVERNMENTS AND TAX-EXEMPT ORGANIZATIONS.—

(1) IN GENERAL.—Section 457 (relating to deferred compensation plans of State and local governments and tax-exempt organizations) is amended—

(A) by striking "$7,500" each place it appears in subsections (b)(2)(A) and (c)(1) and inserting "the applicable dollar amount", and

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

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

"(15) APPLICABLE DOLLAR AMOUNT.—

"(A) IN GENERAL.—The applicable dollar amount shall be the amount determined in accordance 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.*

"(B) COST-OF-LIVING ADJUSTMENTS.—In the case of taxable years beginning after December 31, 2004, the Secretary shall adjust the $12,000 amount specified in the table in subparagraph (A) at the same time and in the same manner as under section 415(d), except that the base period shall be the calendar quarter beginning July 1, 2003, and any increase under this paragraph which is not a multiple of $500 shall be rounded to the next lowest multiple of $500.".

(c) SIMPLE RETIREMENT ACCOUNTS.—

(1) LIMITATION.—Clause (ii) of section 408(p)(2)(A) (relating to general rule for qualified salary reduction arrangement) is amended by striking "$6,000" and inserting "the applicable dollar amount".

(2) APPLICABLE DOLLAR AMOUNT.—Subparagraph (E) of 408(p)(2) is amended to read as follows:

"(E) APPLICABLE DOLLAR AMOUNT; COST-OF-LIVING ADJUSTMENT.—

"(i) IN GENERAL.—For purposes of subparagraph (A)(ii), the applicable dollar amount shall be the amount determined in accordance with the following table:

"For taxable years beginning in calendar year:	***The applicable dollar amount is:***
2001	*$7,000*

"For taxable years beginning in calendar year:	*The applicable dollar amount is:*
2002	*$8,000*
2003	*$9,000*
2004 or thereafter	*$10,000.*

"(ii) COST-OF-LIVING ADJUSTMENT.—In the case of a year beginning after December 31, 2004, the Secretary shall adjust the $10,000 amount under clause (i) at the same time and in the same manner as under section 415(d), except that the base period taken into account shall be the calendar quarter beginning July 1, 2003, and any increase under this subparagraph which is not a multiple of $500 shall be rounded to the next lower multiple of $500.".

(3) CONFORMING AMENDMENTS.—

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

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

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

SEC. 313. PLAN LOANS FOR SUBCHAPTER S OWNERS, PARTNERS, AND SOLE PROPRIETORS.

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

"(iii) LOAN EXCEPTION.—For purposes of subparagraph (A)(i), the term 'owner-employee' shall only include a person described in subclause (II) or (III) of clause (i).".

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

"(C) For purposes of paragraph (1)(A), the term 'owner-employee' shall only include a person described in clause (ii) or (iii) of subparagraph (A).".

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

SEC. 314. ELECTIVE DEFERRALS NOT TAKEN INTO ACCOUNT FOR PURPOSES OF DEDUCTION LIMITS.

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

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

"(n) ELECTIVE DEFERRALS NOT TAKEN INTO ACCOUNT FOR PURPOSES OF DEDUCTION LIMITS.—Elective deferrals (as defined in section 402(g)(3)) shall not be subject to any limitation contained in paragraph (3), (7), or (9) of subsection (a), and such elective deferrals shall not be taken into account in applying any such limitation to any other contributions.".

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

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

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

(1) in clause (i), by inserting "other than a new single-employer plan (as defined in subparagraph (F)) maintained by a small employer (as so defined)," after "single-employer plan,",

(2) in clause (iii), by striking the period at the end and inserting ", and", and

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

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

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

"(F)(i) For purposes of this paragraph, a single-employer plan maintained by a contributing sponsor shall be treated as a new single-employer plan for each of its first 5 plan years if, during the 36-month period ending on the date of the adoption of such plan, the sponsor or any member of such sponsor's controlled group (or any predecessor of either) had not established or maintained a plan to which this title applies with respect to which benefits were accrued for substantially the same employees as are in the new single-employer plan.

"(ii)(I) For purposes of this paragraph, the term 'small employer' means an employer which on the first day of any plan year has, in aggregation with all members of the controlled group of such employer, 100 or fewer employees.

"(II) In the case of a plan maintained by 2 or more contributing sponsors that are not part of the same controlled group, the employees of all contributing sponsors and controlled groups of such sponsors shall be aggregated for purposes of determining whether any contributing sponsor is a small employer.".

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

SEC. 316. REDUCTION OF ADDITIONAL PBGC PREMIUM FOR NEW PLANS.

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

"(v) In the case of a new defined benefit plan, the amount determined under clause (ii) for any plan year shall be an amount equal to the product of the amount determined under clause (ii) and the applicable percentage. For purposes of this clause, the term 'applicable percentage' means—

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

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

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

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

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

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

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

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

(a) ELIMINATION OF CERTAIN USER FEES.—The Secretary of the Treasury or the Secretary's delegate shall not require payment of user fees under the program established under section 7527 of the Internal Revenue Code of 1986 for requests to the Internal Revenue Service for ruling letters, opinion letters, and determination letters or similar requests with respect to the qualified status of a new pension benefit plan or any trust which is part of the plan.

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

(1) IN GENERAL.—The term "new pension benefit plan" means a pension, profit-sharing, stock bonus, annuity, or employee stock ownership plan which is maintained by one or more eligible employers if such employer (or any predecessor employer) has not made a prior request described in subsection (a) for such plan (or any predecessor plan).

(2) ELIGIBLE EMPLOYER.—The term "eligible employer" means an employer (or any predecessor employer) which has not established or maintained a qualified employer plan with respect to which contributions were made, or benefits were accrued for service, in the 3 most recent taxable years ending prior to the first taxable year in which the request is made.

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

SEC. 318. SAFE ANNUITIES AND TRUSTS.

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

"SEC. 408B. SAFE ANNUITIES AND TRUSTS.

"(a) EMPLOYER ELIGIBILITY.—

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

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

"(B) the employer does not maintain (and no predecessor of the employer maintains) a qualified plan (other than a permissible plan) with respect to which contributions were made, or benefits were accrued, for service in any year in the period beginning with the year such annuity or trust became effective and ending with the year for which the determination is being made.

"(2) DEFINITIONS.—For purposes of paragraph (1)—

"(A) QUALIFIED PLAN.—The term 'qualified plan' has the meaning given such term by section 408(p)(2)(D)(ii).

"(B) PERMISSIBLE PLAN.—The term 'permissible plan' means—

"(i) a SIMPLE plan described in section 408(p),

"(ii) a SIMPLE 401(k) plan described in section 401(k)(11),

"(iii) an eligible deferred compensation plan described in section 457(b),

"(iv) a collectively bargained plan but only if the employees eligible to participate in such plan are not also entitled to a benefit described in subsection (b)(5) or (c)(5), or

"(v) a plan under which there may be made only—

"(I) elective deferrals described in section 402(g)(3), and

"(II) employer matching contributions not in excess of the amounts described in subclauses (I) and (II) of section 401(k)(12)(B)(i).

"(b) SAFE ANNUITY.—

"(1) IN GENERAL.—For purposes of this title, the term 'SAFE annuity' means an individual retirement annuity (as defined in section 408(b) without regard to paragraph (2) thereof and without regard to the limitation on aggregate annual premiums contained in the flush language of section 408(b)) if—

"(A) such annuity meets the requirements of paragraphs (2) through (7), and

"(B) the only contributions to such annuity (other than rollover contributions) are employer contributions.

Nothing in this section shall be construed as preventing an employer from using a group annuity contract which is divisible into individual retirement annuities for purposes of providing SAFE annuities.

"(2) PARTICIPATION REQUIREMENTS.—

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

"(i) received at least $5,000 in compensation from the employer during any 2 consecutive preceding years, and

"(ii) received at least $5,000 in compensation during the year,

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

"(B) EXCLUDABLE EMPLOYEES.—An employer may elect to exclude from the requirements under subparagraph (A) employees described in section 410(b)(3).

"(3) VESTING.—The requirements of this paragraph are met if the employee's rights to any benefits under the annuity are nonforfeitable.

"(4) BENEFIT FORM.—

"(A) IN GENERAL.—The requirements of this paragraph are met if the only form of benefit is—

"(i) a benefit payable annually in the form of a single life annuity with monthly payments (with no ancillary benefits) beginning at age 65, or

"(ii) at the election of the participant, any other form of benefit which is the actuarial equivalent (based on the assumptions specified in the SAFE annuity) of the benefit described in clause (i).

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

"(B) DIRECT TRANSFERS AND ROLLOVERS.—A plan shall not fail to meet the requirements of this paragraph by reason of permitting, at the election of the employee, a trustee-to-trustee transfer or a rollover contribution.

"(5) AMOUNT OF ANNUAL ACCRUED BENEFIT.—

"(A) IN GENERAL.—The requirements of this paragraph are met for any year if the accrued benefit of each participant derived from employer contributions for such year, when expressed as a benefit described in paragraph (4)(A), is not less than the applicable percentage of the participant's compensation for such year.

"(B) APPLICABLE PERCENTAGE.—For purposes of this paragraph—

"(i) IN GENERAL.—The term 'applicable percentage' means 3 percent.

"(ii) ELECTION OF LOWER PERCENTAGE.—An employer may elect to apply an applicable percentage of 1 percent, 2 percent or zero percent for any plan year for all employees eligible to participate in the plan for such year if the employer notifies the employees of such percentage within a reasonable period before the beginning of such year.

"(C) COMPENSATION LIMIT.—The compensation taken into account under this paragraph for any year shall not exceed the limitation in effect for such year under section 401(a)(17).

"(D) CREDIT FOR SERVICE BEFORE PLAN ADOPTED.—

"(i) IN GENERAL.—An employer may elect to take into account a specified number of years of service (not greater than 10) performed before the adoption of the plan (each hereinafter referred to as a 'prior service year') as service under the plan if the same specified number of years is available to all employees eligible to participate in the plan for the first plan year.

"(ii) ACCRUAL OF PRIOR SERVICE BENEFIT.—Such an election shall be effective for a prior service year only if the requirements of this paragraph are met for an eligible plan year (with respect to employees entitled to credit for such prior service year) by doubling the applicable percentage (if any) for such plan year. For purposes of the preceding sentence, an eligible plan year is a plan year in the period of consecutive plan years (but not more than the number specified under clause (i)) beginning with the first plan year that the plan is in effect.

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

"(I) for any part of such prior service year such employee was an active participant (within the meaning of section 219(g)(5)) under any defined benefit plan of the employer (or any predecessor thereof), or

"(II) such employee received during such prior service year less than $5,000 in compensation from the employer.

"(6) FUNDING.—

"(A) IN GENERAL.—The requirements of this paragraph are met only if the employer is required to contribute to the annuity for each plan year the amount necessary to purchase a SAFE annuity in the amount of the benefit accrued for such year for each participant entitled to such benefit.

"(B) TIME WHEN CONTRIBUTIONS DEEMED MADE.—For purposes of this paragraph, an employer shall be deemed to have made a contribu-

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

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

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

"(c) SAFE TRUST.—

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

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

"(B) a participant's benefits under the plan are based solely on the balance of a separate account in such plan of such participant,

"(C) such plan meets the requirements of paragraphs (2) through (8), and

"(D) the only contributions to such trust (other than rollover contributions) are employer contributions.

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

"(3) VESTING.—A plan meets the requirements of this paragraph for any year only if the requirements of subsection (b)(3) are met for such year.

"(4) BENEFIT FORM.—

"(A) IN GENERAL.—Except as provided in subparagraph (B), a plan meets the requirements of this paragraph only if the trustee distributes a SAFE annuity that satisfies subsection (b)(4) where the annual benefit described in subsection (b)(4)(A) is not less than the accrued benefit determined under paragraph (5).

"(B) DIRECT TRANSFERS TO INDIVIDUAL RETIREMENT PLAN OR SAFE ANNUITY.—A plan

shall not fail to meet the requirements of this paragraph by reason of permitting, as an optional form of benefit, the distribution of the entire balance to the credit of the employee. If the employee is under age 65, such distribution must be in the form of a direct trustee-to-trustee transfer to a SAFE annuity, another SAFE trust, or a SAFE rollover plan (or, in the case of a distribution that does not exceed the dollar limit in effect under section 411(a)(11)(A), any other individual retirement plan).

"(C) SAFE ROLLOVER PLAN.—For purposes of this section, the term 'SAFE rollover plan' means an individual retirement plan for the benefit of the employee to which a rollover was made from a SAFE annuity, SAFE trust, or another SAFE rollover plan.

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

"(6) FUNDING.—

"(A) IN GENERAL.—A plan meets the requirements of this paragraph for any year only if—

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

"(ii) in the case of a plan which has an unfunded annuity amount with respect to the account of any participant, the plan requires that the employer make an additional contribution to such plan (at the time the annuity contract to which such amount relates is purchased) equal to the unfunded annuity amount, and

"(iii) in the case of a plan which has an unfunded prior year liability as of the close of such plan year, the plan requires that the employer make an additional contribution to such plan for such year equal to the amount of such unfunded prior year liability no later than 8½ months following the end of the plan year.

"(B) UNFUNDED ANNUITY AMOUNT.—For purposes of this paragraph, the term 'unfunded annuity amount' means, with respect to the account of any participant for whom an annuity is being purchased, the excess (if any) of—

"(i) the amount necessary to purchase an annuity contract which meets the re-

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

"(ii) the balance in such account at the time such contract is purchased.

"(C) UNFUNDED PRIOR YEAR LIABILITY.—For purposes of this paragraph, the term 'unfunded prior year liability' means, with respect to any plan year, the excess (if any) of—

"(i) the aggregate of the present value of the accrued liabilities under the plan as of the close of the prior plan year, over

"(ii) the value of the plan's assets determined under section 412(c)(2) as of the close of the plan year (determined without regard to any contributions for such plan year).

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

"(D) ACTUARIAL ASSUMPTIONS.—In determining the amount required to be contributed under subparagraph (A)—

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

"(ii) the assumed mortality shall be determined under the applicable mortality table (as defined in section 417(e)(3), as modified by the Secretary so that it does not include any assumption for preretirement mortality), and

"(iii) the assumed retirement age shall be 65.

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

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

"(7) SEPARATE ACCOUNTS FOR PARTICIPANTS.—A plan meets the requirements of this paragraph for any year only if the plan provides—

"(A) for an individual account for each participant, and

"(B) for benefits based solely on—

"(i) the amount contributed to the participant's account,

"(ii) any income, expenses, gains and losses, and any forfeitures of accounts of other participants which may be allocated to such participant's account, and

"(iii) the amount of any unfunded annuity amount with respect to the participant.

"(8) TRUST MAY NOT HOLD SECURITIES WHICH ARE NOT READILY TRADABLE.—A plan meets the requirements of this paragraph only if the plan prohibits the trust from holding directly or indirectly securities which are not readily tradable on an established securities market or otherwise. Nothing in this paragraph shall prohibit the trust from holding insurance company products regulated by State law.

"(d) SPECIAL RULES FOR SAFE ANNUITIES AND TRUSTS.—

"(1) CERTAIN REQUIREMENTS TREATED AS MET.—For purposes of section 401(a), a SAFE annuity and a SAFE trust shall be treated as meeting the requirements of the following provisions:

"(A) Section 401(a)(4) (relating to nondiscrimination rules).

"(B) Section 401(a)(26) (relating to minimum participation).

"(C) Section 410 (relating to minimum participation and coverage requirements).

"(D) Except as provided in subsection (b)(4(A), section 411(b) (relating to accrued benefit requirements).

"(E) Section 412 (relating to minimum funding standards).

"(F) Section 415 (relating to limitations on benefits and contributions under qualified plans).

"(G) Section 416 (relating to special rules for top-heavy plans).

"(2) CONTRIBUTIONS NOT TAKEN INTO ACCOUNT IN APPLYING LIMITS TO OTHER PLANS.—

"(A) DEDUCTION LIMITS.—Contributions to a SAFE annuity or a SAFE trust shall not be

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

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

"(3) USE OF DESIGNATED FINANCIAL INSTITUTIONS.—A rule similar to the rule of section 408(p)(7) (without regard to the last sentence thereof) shall apply for purposes of this section.

"(4) DEFINITIONS.—The definitions in section 408(p)(6) shall apply for purposes of this section.".

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

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

"(o) SPECIAL RULES FOR SAFE ANNUITIES.—

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

"(2) DEDUCTIBLE LIMIT.—For purposes of subsection (a)(1)(A)(i), the amount necessary to satisfy the minimum funding requirement of section 408B(b)(6) or (c)(6) shall be treated as the amount

necessary to satisfy the minimum funding requirement of section 412.".

(2) COORDINATION WITH DEDUCTION UNDER SECTION 219.—

(A) Section 219(b) (relating to maximum amount of deduction), as amended by section 301, is amended by adding at the end the following new paragraph:

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

(B) Section 219(g)(5)(A) (defining active participant) is amended by striking "or" at the end of clause (v) and by adding at the end the following new clause:

"(vii) any SAFE annuity (within the meaning of section 408B), or".

(c) CONTRIBUTIONS AND DISTRIBUTIONS.—

(1) Section 402 (relating to taxability of beneficiary of employees' trust) is amended by adding at the end the following new subsection:

"(l) TREATMENT OF SAFE ANNUITIES.—Rules similar to the rules of paragraphs (1) and (3) of subsection (h)

shall apply to contributions and distributions with respect to a SAFE annuities under section 408B.".

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

"(H) SAFE ANNUITIES.—This paragraph shall not apply to any amount paid or distributed out of a SAFE annuity (as defined in section 408B) unless it is paid in a trustee-to-trustee transfer into another SAFE annuity.".

(d) INCREASED PENALTY ON EARLY WITHDRAWALS.—Section 72(t) (relating to additional tax on early distributions) is amended by adding at the end the following new paragraph:

"(7) SPECIAL RULES FOR SAFE ANNUITIES AND TRUSTS.—In the case of any amount received from a SAFE annuity or a SAFE trust (within the meaning of section 408B), paragraph (1) shall be applied by substituting '20 percent' for '10 percent'.".

(e) SIMPLIFIED EMPLOYER REPORTS.—

(1) SAFE ANNUITIES.—Section 408(l) (relating to simplified employer reports) is amended by adding at the end the following new paragraph:

"(3) SAFE ANNUITIES.—

"(A) SIMPLIFIED REPORT.—The employer maintaining any SAFE annuity (within the

meaning of section 408B) shall file a simplified annual return with the Secretary containing only the information described in subparagraph (B).

"(B) CONTENTS.—The return required by subparagraph (A) shall set forth—

"(i) the name and address of the employer,

"(ii) the date the plan was adopted,

"(iii) the number of employees of the employer,

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

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

"(vi) the percentage elected under section 408B(b)(5)(B), and

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

"(C) REPORTING BY ISSUER OF SAFE ANNUITY.—

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

"(I) the benefits guaranteed at age 65 under the annuity, and

"(II) the cash surrender value of the annuity.

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

"(I) The name and address of the employer and the issuer.

"(II) The requirements for eligibility for participation.

"(III) The benefits provided with respect to the annuity.

"(IV) The procedures for, and effects of, withdrawals (including rollovers) from the annuity.

"(D) TIME AND MANNER OF REPORTING.—Any return, report, or statement required under

this paragraph shall be made in such form and at such time as the Secretary shall prescribe.".

(2) SAFE TRUSTS.—Section 6059 (relating to actuarial reports) is amended by redesignating subsections (c) and (d) as subsections (d) and (e), respectively, and by inserting after subsection (b) the following new subsection:

"(c) SAFE TRUSTS.—In the case of a SAFE trust (within the meaning of section 408B), the Secretary shall require a simplified actuarial report which contains information similar to the information required in section 408(l)(3)(B).".

(f) CONFORMING AMENDMENTS.—

(1) Section 280G(b)(6) is amended by striking "or" at the end of subparagraph (C), by striking the period at the end of subparagraph (D) and inserting ", or" and by adding after subparagraph (D) the following new subparagraph:

"(E) a SAFE annuity described in section 408B.".

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

(3) Subsections (b), (c), (m)(4)(B), and (n)(3)(B) of section 414 are each amended by inserting "408B," after "408(p),".

(4) Section 4972(d)(1)(A) is amended by striking "and" at the end of clause (iii), by striking the period at the end of clause (iv) and inserting ", and", and by adding after clause (iv) the following new clause:

"(v) any SAFE annuity (within the meaning of section 408B).".

(5) The table of sections for subpart A of part I of subchapter D of chapter 1 is amended by inserting after the item relating to section 408A the following new item:

"Sec. 408B. SAFE annuities and trusts.".

(g) MODIFICATIONS OF ERISA.—

(1) EXEMPTION FROM INSURANCE COVERAGE.—Subsection (b) of section 4021 of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1321) is amended by striking "or" at the end of paragraph (12), by striking the period at the end of paragraph (13) and inserting "; or", and by adding at the end the following new paragraph:

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

(2) REPORTING REQUIREMENTS.—Section 101 of such Act (29 U.S.C. 1021) is amended by redesignating the second subsection (h) as subsection (j) and by inserting after the first subsection (h) the following new subsection:

"(i) SAFE ANNUITIES.—

"(1) NO EMPLOYER REPORTS.—Except as provided in this subsection, no report shall be required under this section by an employer maintaining a SAFE annuity under section 408B(b) of the Internal Revenue Code of 1986.

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

"(A) The name and address of the employer and the issuer.

"(B) The requirements for eligibility for participation.

"(C) The benefits provided with respect to the annuity.

"(D) The procedures for, and effects of, withdrawals (including rollovers) from the annuity.

"(3) EMPLOYEE NOTIFICATION.—The employer shall provide each employee eligible to participate in the SAFE annuity with the description described in paragraph (2) at the same time as the notification required under section 408B(b)(5)(B) of the Internal Revenue Code of 1986.".

(3) WAIVER OF FUNDING STANDARDS.—Section 301(a) of such Act (29 U.S.C. 1081) is amended by striking "or" at the end of paragraph (9), by striking the period at the end of paragraph (10) and inserting "; or", and by adding at the end the following new paragraph:

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

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

SEC. 319. MODIFICATION OF TOP-HEAVY RULES.

(a) MATCHING CONTRIBUTIONS TAKEN INTO ACCOUNT FOR MINIMUM CONTRIBUTION REQUIREMENTS.—Section 416(c)(2)(A) (relating to defined contribution plans) is amended by adding at the end the following: "Employer matching contributions (as defined in section

401(m)(4)(A)) shall be taken into account for purposes of this subparagraph.".

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

"(iv) FAMILY ATTRIBUTION DISREGARDED.—Solely for purposes of applying this paragraph (and not for purposes of any provision of this title which incorporates by reference the definition of a key employee or 5-percent owner under this paragraph), section 318 shall be applied without regard to subsection (a)(1) thereof in determining whether any person is a 5-percent owner.".

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

"(H) CASH OR DEFERRED ARRANGEMENTS USING ALTERNATIVE METHODS OF MEETING NONDISCRIMINATION REQUIREMENTS.—The term 'top-heavy plan' shall not include a plan which consists solely of—

"(i) a cash or deferred arrangement which meets the requirements of section 401(k)(12), and

"(ii) matching contributions with respect to which the requirements of section 401(m)(11) are met.

If, but for this subparagraph, a plan would be treated as a top-heavy plan because it is a member of an aggregation group which is a top-heavy group, contributions under the plan may be taken into account in determining whether any other plan in the group meets the requirements of subsection (c)(2).".

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

Subtitle C—Enhancing Fairness for Women

SEC. 321. CATCHUP CONTRIBUTIONS FOR INDIVIDUALS AGE 50 OR OVER.

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

"(v) CATCHUP CONTRIBUTIONS FOR INDIVIDUALS AGE 50 OR OVER.—

"(1) IN GENERAL.—An applicable employer plan shall not be treated as failing to meet any requirement of this title solely because the plan permits an eligible participant to make additional elective deferrals in any plan year.

"(2) LIMITATION ON AMOUNT OF ADDITIONAL DEFERRALS.—

"(A) IN GENERAL.—A plan shall not permit additional elective deferrals under paragraph (1) for any year in an amount greater than the lesser of—

"(i) the applicable percentage of the applicable dollar amount for such elective deferrals for such year, or

"(ii) the excess (if any) of—

"(I) the participant's compensation for the year, over

"(II) any other elective deferrals of the participant for such year which are made without regard to this subsection.

"(B) APPLICABLE PERCENTAGE.—For purposes of this paragraph, the applicable percentage shall be determined in accordance with 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) TREATMENT OF CONTRIBUTIONS.—In the case of any contribution to a plan under paragraph (1)—

"(A) such contribution shall not, with respect to the year in which the contribution is made—

"(i) be subject to any otherwise applicable limitation contained in section 402(g), 402(h), 403(b), 404(a), 404(h), 408, 415, or 457, or

"(ii) be taken into account in applying such limitations to other contributions or benefits under such plan or any other such plan, and

"(B) such plan shall not be treated as failing to meet the requirements of section 401(a)(4), 401(a)(26), 401(k)(3), 401(k)(11), 401(k)(12), 401(m), 403(b)(12), 408(k), 408(p), 408B, 410(b), or 416 by reason of the making of (or the right to make) such contribution.

"(4) ELIGIBLE PARTICIPANT.—For purposes of this subsection, the term 'eligible participant' means,

with respect to any plan year, a participant in a plan—

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

"(B) with respect to whom no other elective deferrals may (without regard to this subsection) be made to the plan for the plan year by reason of the application of any limitation or other restriction described in paragraph (3) or contained in the terms of the plan.

"(5) OTHER DEFINITIONS AND RULES.—For purposes of this subsection—

"(A) APPLICABLE DOLLAR AMOUNT.—The term 'applicable dollar amount' means, with respect to any year, the amount in effect under section 402(g)(1)(B), 408(p)(2)(E)(i), or 457(e)(15)(A), whichever is applicable to an applicable employer plan, for such year.

"(B) APPLICABLE EMPLOYER PLAN.—The term 'applicable employer plan' means—

"(i) an employees' trust described in section 401(a) which is exempt from tax under section 501(a),

"(ii) a plan under which amounts are contributed by an individual's employer for

an annuity contract described in section 403(b),

"(iii) an eligible deferred compensation plan under section 457 of an eligible employer as defined in section 457(e)(1)(A), and

"(iv) an arrangement meeting the requirements of section 408 (k) or (p).

"(C) ELECTIVE DEFERRAL.—The term 'elective deferral' has the meaning given such term by subsection (u)(2)(C).

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

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

"(7) CATCHUP CONTRIBUTIONS.—

"(A) IN GENERAL.—In the case of an individual who has attained the age of 50 before the close of the taxable year, the dollar amount in effect under paragraph (1)(A) for such taxable year shall be equal to the applicable percentage

of such amount determined without regard to this paragraph.

"(B) APPLICABLE PERCENTAGE.—For purposes of this paragraph, the applicable percentage shall be determined in accordance with the following table:

"For taxable years beginning in:	***The applicable percentage is:***
2001	*110 percent*
2002	*120 percent*
2003	*130 percent*
2004	*140 percent*
2005 and thereafter	*150 percent.".*

(c) EFFECTIVE DATE.—The amendment made by this section shall apply to contributions in taxable years beginning after December 31, 2000.

SEC. 322. EQUITABLE TREATMENT FOR CONTRIBUTIONS OF EMPLOYEES TO DEFINED CONTRIBUTION PLANS.

(a) EQUITABLE TREATMENT.—

(1) IN GENERAL.—Subparagraph (B) of section 415(c)(1) (relating to limitation for defined contribution plans) is amended by striking "25 percent" and inserting "100 percent".

(2) APPLICATION TO SECTION 403(b).—Section 403(b) is amended—

(A) by striking "the exclusion allowance for such taxable year" in paragraph (1) and inserting "the applicable limit under section 415",

(B) by striking paragraph (2), and

(C) by inserting "or any amount received by a former employee after the 5th taxable year following the taxable year in which such employee was terminated" before the period at the end of the second sentence of paragraph (3).

(3) CONFORMING AMENDMENTS.—

(A) Subsection (f) of section 72 is amended by striking "section 403(b)(2)(D)(iii))" and inserting "section 403(b)(2)(D)(iii), as in effect before the enactment of the Taxpayer Refund Act of 1999)".

(B) Section 404(a)(10)(B) is amended by striking ", the exclusion allowance under section 403(b)(2),".

(C) Section 415(a)(2) is amended by striking ", and the amount of the contribution for such portion shall reduce the exclusion allowance as provided in section 403(b)(2)".

(D) Section 415(c)(3) is amended by adding at the end the following new subparagraph:

"(E) ANNUITY CONTRACTS.—In the case of an annuity contract described in section 403(b), the term 'participant's compensation' means the

participant's includible compensation determined under section 403(b)(3).".

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

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

"(7) CERTAIN CONTRIBUTIONS BY CHURCH PLANS NOT TREATED AS EXCEEDING LIMIT.—

"(A) IN GENERAL.—Notwithstanding any other provision of this subsection, at the election of a participant who is an employee of a church or a convention or association of churches, including an organization described in section 414(e)(3)(B)(ii), contributions and other additions for an annuity contract or retirement income account described in section 403(b) with respect to such participant, when expressed as an annual addition to such participant's account, shall be treated as not exceeding the limitation of paragraph (1) if such annual addition is not in excess of $10,000.

"(B) $40,000 AGGREGATE LIMITATION.—The total amount of additions with respect to any participant which may be taken into ac-

count for purposes of this subparagraph for all years may not exceed $40,000.

"(C) ANNUAL ADDITION.—For purposes of this paragraph, the term 'annual addition' has the meaning given such term by paragraph (2).".

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

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

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

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

"(4) SPECIAL RULES FOR SECTIONS 403(b) AND 408.—For purposes of this section, any annuity contract described in section 403(b) for the benefit of a participant shall be treated as a defined contribution plan maintained by each employer with respect to which the participant has the control required under subsection (b) or (c) of section 414 (as modified by subsection (h)). For purposes of this section, any con-

tribution by an employer to a simplified employee pension plan for an individual for a taxable year shall be treated as an employer contribution to a defined contribution plan for such individual for such year.".

(2) EFFECTIVE DATE.—The amendments made by paragraph (1) shall apply to limitation years beginning after December 31, 2000.

(c) DEFERRED COMPENSATION PLANS OF STATE AND LOCAL GOVERNMENTS AND TAX-EXEMPT ORGANIZATIONS.—

(1) IN GENERAL.—Subparagraph (B) of section 457(b)(2) (relating to salary limitation on eligible deferred compensation plans) is amended by striking "33⅓ percent" and inserting "100 percent".

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

SEC. 323. CLARIFICATION OF TAX TREATMENT OF DIVISION OF SECTION 457 PLAN BENEFITS UPON DIVORCE.

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

(1) by inserting "or an eligible deferred compensation plan (within the meaning of section 457(b))" after "subsection (e))", and

(2) in the heading, by striking "GOVERNMENTAL AND CHURCH PLANS" and inserting "CERTAIN OTHER PLANS".

(b) WAIVER OF CERTAIN DISTRIBUTION REQUIREMENTS.—Paragraph (10) of section 414(p) is amended by striking "and section 409(d)" and inserting "section 409(d), and section 457(d)".

(c) TAX TREATMENT OF PAYMENTS FROM A SECTION 457 PLAN.—Subsection (p) of section 414 is amended by redesignating paragraph (12) as paragraph (13) and inserting after paragraph (11) the following new paragraph:

"(12) TAX TREATMENT OF PAYMENTS FROM A SECTION 457 PLAN.—If a distribution or payment from an eligible deferred compensation plan described in section 457(b) is made pursuant to a qualified domestic relations order, rules similar to the rules of section 402(e)(1)(A) shall apply to such distribution or payment.".

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

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

(a) IN GENERAL.—The Secretary of the Treasury shall revise the regulations relating to hardship distributions under section 401(k)(2)(B)(i)(IV) of the Internal Revenue Code of 1986 to provide that the period an employee is prohibited from making elective and employee contributions in order for a distribution to be deemed necessary to satisfy financial need shall be equal to 6 months.

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

SEC. 325. FASTER VESTING OF CERTAIN EMPLOYER MATCHING CONTRIBUTIONS.

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

(1) in paragraph (2), by striking "A plan" and inserting "Except as provided in paragraph (12), a plan", and

(2) by adding at the end the following:

"(12) FASTER VESTING FOR MATCHING CONTRIBUTIONS.—In the case of matching contributions (as defined in section 401(m)(4)(A)), paragraph (2) shall be applied—

"(A) by substituting '3 years' for '5 years' in subparagraph (A), and

"(B) by substituting the following table for the table contained in subparagraph (B):

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

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

(1) in paragraph (2), by striking "A plan" and inserting "Except as provided in paragraph (4), a plan", and

(2) by adding at the end the following:

"(4) FASTER VESTING FOR MATCHING CONTRIBUTIONS.—In the case of matching contributions (as defined in section 401(m)(4)(A) of the Internal Revenue Code of 1986), paragraph (2) shall be applied—

"(A) by substituting '3 years' for '5 years' in subparagraph (A), and

"(B) by substituting the following table for the table contained in subparagraph (B):

"Years of service:	***The nonforfeitable percentage is:***
2	*20*
3	*40*
4	*60*

"Years of service:	*The nonforfeitable percentage is:*
5	*80*
6	*100.".*

(c) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to contributions for plan years beginning after December 31, 2000.

(2) COLLECTIVE BARGAINING AGREEMENTS.—In the case of a plan maintained pursuant to 1 or more collective bargaining agreements between employee representatives and 1 or more employers ratified by the date of enactment of this Act, the amendments made by this section shall not apply to contributions on behalf of employees covered by any such agreement for plan years beginning before the earlier of—

(A) the later of—

(i) the date on which the last of such collective bargaining agreements terminates (determined without regard to any extension thereof on or after such date of enactment), or

(ii) January 1, 2001, or

(B) January 1, 2005.

(3) SERVICE REQUIRED.—With respect to any plan, the amendments made by this section shall not

apply to any employee before the date that such employee has 1 hour of service under such plan in any plan year to which the amendments made by this section apply.

Subtitle D—Increasing Portability for Participants

SEC. 331. ROLLOVERS ALLOWED AMONG VARIOUS TYPES OF PLANS.

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

(1) ROLLOVERS FROM SECTION 457 PLANS.—

(A) IN GENERAL.—Section 457(e) (relating to other definitions and special rules) is amended by adding at the end the following:

"(16) ROLLOVER AMOUNTS.—

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

"(i) any portion of the balance to the credit of an employee in such plan is paid to such employee in an eligible rollover distribution (within the meaning of section 402(c)(4) without regard to subparagraph (C) thereof),

"(ii) the employee transfers any portion of the property such employee receives in such distribution to an eligible retirement plan described in section 402(c)(8)(B), and

"(iii) in the case of a distribution of property other than money, the amount so transferred consists of the property distributed,

then such distribution (to the extent so transferred) shall not be includible in gross income for the taxable year in which paid.

"(B) CERTAIN RULES MADE APPLICABLE.—The rules of paragraphs (2) through (7) (other than paragraph (4)(C)) and (9) of section 402(c) and section 402(f) shall apply for purposes of subparagraph (A).

"(C) REPORTING.—Rollovers under this paragraph shall be reported to the Secretary in the same manner as rollovers from qualified retirement plans (as defined in section 4974(c)).".

(B) DEFERRAL LIMIT DETERMINED WITHOUT REGARD TO ROLLOVER AMOUNTS.—Section 457(b)(2) (defining eligible deferred compensa-

tion plan) is amended by inserting "(other than rollover amounts)" after "taxable year".

(C) DIRECT ROLLOVER.—Paragraph (1) of section 457(d) is amended by striking "and" at the end of subparagraph (A), by striking the period at the end of subparagraph (B) and inserting ", and", and by inserting after subparagraph (B) the following:

"(C) in the case of a plan maintained by an employer described in subsection (e)(1)(A), the plan meets requirements similar to the requirements of section 401(a)(31).

Any amount transferred in a direct trustee-to-trustee transfer in accordance with section 401(a)(31) shall not be includible in gross income for the taxable year of transfer.".

(D) WITHHOLDING.—

(i) Paragraph (12) of section 3401(a) is amended by adding at the end the following:

"(E) under or to an eligible deferred compensation plan which, at the time of such payment, is a plan described in section 457(b) maintained by an employer described in section 457(e)(1)(A); or".

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

"(3) ELIGIBLE ROLLOVER DISTRIBUTION.—For purposes of this subsection, the term 'eligible rollover distribution' has the meaning given such term by section 402(f)(2)(A).".

(iii) LIABILITY FOR WITHHOLDING.—Subparagraph (B) of section 3405(d)(2) is amended by striking "or" at the end of clause (ii), by striking the period at the end of clause (iii) and inserting ", or", and by adding at the end the following:

"(iv) section 457(b).".

(2) ROLLOVERS TO SECTION 457 PLANS.—

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

"(v) an eligible deferred compensation plan described in section 457(b) of an employer described in section 457(e)(1)(A).".

(B) SEPARATE ACCOUNTING.—Section 402(c) is amended by adding at the end the following new paragraph:

"(11) SEPARATE ACCOUNTING.—Unless a plan described in clause (v) of paragraph (8)(B) agrees to separately account for amounts rolled into such plan from eligible retirement plans not described in such clause, the plan described in such clause may not accept transfers or rollovers from such retirement plans.".

(C) 10 PERCENT ADDITIONAL TAX.—Subsection (t) of section 72 (relating to 10-percent additional tax on early distributions from qualified retirement plans) is amended by adding at the end the following new paragraph:

"(9) SPECIAL RULE FOR ROLLOVERS TO SECTION 457 PLANS.—For purposes of this subsection, a distribution from an eligible deferred compensation plan (as defined in section 457(b)) of an employer described in section 457(e)(1)(A) shall be treated as a distribution from a qualified retirement plan described in 4974(c)(1) to the extent that such distribution is attributable to an amount transferred to an eligible deferred compensation plan from a qualified retirement plan (as defined in section 4974(c)).".

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

(1) ROLLOVERS FROM SECTION 403(b) PLANS.—Section 403(b)(8)(A)(ii) (relating to rollover amounts) is amended by striking "such distribution" and all that follows and inserting "such distribution to an eligible retirement plan described in section 402(c)(8)(B), and".

(2) ROLLOVERS TO SECTION 403(b) PLANS.—Section 402(c)(8)(B) (defining eligible retirement plan), as amended by subsection (a), is amended by striking "and" at the end of clause (iv), by striking the period at the end of clause (v) and inserting ", and", and by inserting after clause (v) the following new clause:

"(vi) an annuity contract described in section 403(b).".

(c) EXPANDED EXPLANATION TO RECIPIENTS OF ROLLOVER DISTRIBUTIONS.—Paragraph (1) of section 402(f) (relating to written explanation to recipients of distributions eligible for rollover treatment) is amended by striking "and" at the end of subparagraph (C), by striking the period at the end of subparagraph (D) and inserting ", and", and by adding at the end the following new subparagraph:

"(E) of the provisions under which distributions from the eligible retirement plan receiving the distribution may be subject to restrictions and tax consequences which are different from those applicable to distributions from the plan making such distribution.".

(d) SPOUSAL ROLLOVERS.—Section 402(c)(9) (relating to rollover where spouse receives distribution after death of employee) is amended by striking "; except that" and all that follows up to the end period.

(e) CONFORMING AMENDMENTS.—

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

(2) Section 219(d)(2) is amended by striking "or 408(d)(3)" and inserting "408(d)(3), or 457(e)(16)".

(3) Section 401(a)(31)(B) is amended by striking "and 403(a)(4)" and inserting ", 403(a)(4), 403(b)(8), and 457(e)(16)".

(4) Subparagraph (A) of section 402(f)(2) is amended by striking "or paragraph (4) of section 403(a)" and inserting ", paragraph (4) of section 403(a), subparagraph (A) of section 403(b)(8), or subparagraph (A) of section 457(e)(16)".

(5) Paragraph (1) of section 402(f) is amended by striking "from an eligible retirement plan".

(6) Subparagraphs (A) and (B) of section 402(f)(1) are amended by striking "another eligible retirement plan" and inserting "an eligible retirement plan".

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

"(B) CERTAIN RULES MADE APPLICABLE.—The rules of paragraphs (2) through (7) and (9) of section 402(c) and section 402(f) shall apply for purposes of subparagraph (A), except that section 402(f) shall be applied to the payor in lieu of the plan administrator.".

(8) Section 408(a)(1) is amended by striking "or 403(b)(8)" and inserting ", 403(b)(8), or 457(e)(16)".

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

(10) Section 415(c)(2) is amended by striking "and 408(d)(3)" and inserting "408(d)(3), and 457(e)(16)".

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

(f) EFFECTIVE DATE; SPECIAL RULE.—

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

(2) SPECIAL RULE.—Notwithstanding any other provision of law, subsections (h)(3) and (h)(5) of section 1122 of the Tax Reform Act of 1986 shall not apply to any distribution from an eligible retirement plan (as defined in clause (iii) or (iv) of section 402(c)(8)(B) of the Internal Revenue Code of 1986) on behalf of an individual if there was a rollover to such plan on behalf of such individual which is permitted solely by reason of any amendment made by this section.

SEC. 332. ROLLOVERS OF IRAS INTO WORKPLACE RETIREMENT PLANS.

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

"(ii) the entire amount received (including money and any other property) is

paid into an eligible retirement plan for the benefit of such individual not later than the 60th day after the date on which the payment or distribution is received, except that the maximum amount which may be paid into such plan may not exceed the portion of the amount received which is includible in gross income (determined without regard to this paragraph).

For purposes of clause (ii), the term 'eligible retirement plan' means an eligible retirement plan described in clause (iii), (iv), (v), or (vi) of section 402(c)(8)(B).".

(b) CONFORMING AMENDMENTS.—

(1) Paragraph (1) of section 403(b) is amended by striking "section 408(d)(3)(A)(iii)" and inserting "section 408(d)(3)(A)(ii)".

(2) Clause (i) of section 408(d)(3)(D) is amended by striking "(i), (ii), or (iii)" and inserting "(i) or (ii)".

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

"(G) SIMPLE RETIREMENT ACCOUNTS.—In the case of any payment or distribution out of a simple retirement account (as defined in sub-

section (p)) to which section 72(t)(6) applies, this paragraph shall not apply unless such payment or distribution is paid into another simple retirement account.".

(c) EFFECTIVE DATE; SPECIAL RULE.—

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

(2) SPECIAL RULE.—Notwithstanding any other provision of law, subsections (h)(3) and (h)(5) of section 1122 of the Tax Reform Act of 1986 shall not apply to any distribution from an eligible retirement plan (as defined in clause (iii) or (iv) of section 402(c)(8)(B) of the Internal Revenue Code of 1986) on behalf of an individual if there was a rollover to such plan on behalf of such individual which is permitted solely by reason of the amendments made by this section.

SEC. 333. ROLLOVERS OF AFTER-TAX CONTRIBUTIONS.

(a) ROLLOVERS FROM EXEMPT TRUSTS.—Paragraph (2) of section 402(c) (relating to maximum amount which may be rolled over) is amended by adding at the end the following: "The preceding sentence shall not apply to such distribution to the extent—

"(A) such portion is transferred in a direct trustee-to-trustee transfer to a qualified trust which is part of a plan which is a defined contribution plan and which agrees to separately account for amounts so transferred, including separately accounting for the portion of such distribution which is includible in gross income and the portion of such distribution which is not so includible, or

"(B) such portion is transferred to an eligible retirement plan described in clause (i) or (ii) of paragraph (8)(B).".

(b) OPTIONAL DIRECT TRANSFER OF ELIGIBLE ROLLOVER DISTRIBUTIONS.—Subparagraph (B) of section 401(a)(31) (relating to limitation) is amended by adding at the end the following: "The preceding sentence shall not apply to such distribution if the plan to which such distribution is transferred—

"(i) agrees to separately account for amounts so transferred, including separately accounting for the portion of such distribution which is includible in gross income and the portion of such distribution which is not so includible, or

"(ii) is an eligible retirement plan described in clause (i) or (ii) of section 402(c)(8)(B).".

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

"(H) APPLICATION OF SECTION 72.—

"(i) IN GENERAL.—If—

"(I) a distribution is made from an individual retirement plan, and

"(II) a rollover contribution is made to an eligible retirement plan described in section 402(c)(8)(B)(iii), (iv), (v), or (vi) with respect to all or part of such distribution,

then, notwithstanding paragraph (2), the rules of clause (ii) shall apply for purposes of applying section 72.

"(ii) APPLICABLE RULES.—In the case of a distribution described in clause (i)—

"(I) section 72 shall be applied separately to such distribution,

"(II) notwithstanding the pro rata allocation of income on, and in-

vestment in the contract, to distributions under section 72, the portion of such distribution rolled over to an eligible retirement plan described in clause (i) shall be treated as from income on the contract (to the extent of the aggregate income on the contract from all individual retirement plans of the distributee), and

"(III) appropriate adjustments shall be made in applying section 72 to other distributions in such taxable year and subsequent taxable years.".

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

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

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

"(3) TRANSFER MUST BE MADE WITHIN 60 DAYS OF RECEIPT.—

"(A) IN GENERAL.—Except as provided in subparagraph (B), paragraph (1) shall not apply to any transfer of a distribution made

after the 60th day following the day on which the distributee received the property distributed.

"(B) HARDSHIP EXCEPTION.—The Secretary may waive the 60-day requirement under subparagraph (A) where the failure to waive such requirement would be against equity or good conscience, including casualty, disaster, or other events beyond the reasonable control of the individual subject to such requirement.".

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

"(I) WAIVER OF 60-DAY REQUIREMENT.—The Secretary may waive the 60-day requirement under subparagraphs (A) and (D) where the failure to waive such requirement would be against equity or good conscience, including casualty, disaster, or other events beyond the reasonable control of the individual subject to such requirement.".

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

SEC. 335. TREATMENT OF FORMS OF DISTRIBUTION.

(a) PLAN TRANSFERS.—

(1) AMENDMENT TO INTERNAL REVENUE CODE OF 1986.—Paragraph (6) of section 411(d) (relating to accrued benefit not to be decreased by amendment) is amended by adding at the end the following:

"(D) PLAN TRANSFERS.—

"(i) A defined contribution plan (in this subparagraph referred to as the 'transferee plan') shall not be treated as failing to meet the requirements of this subsection merely because the transferee plan does not provide some or all of the forms of distribution previously available under another defined contribution plan (in this subparagraph referred to as the 'transferor plan') to the extent that—

"(I) the forms of distribution previously available under the transferor plan applied to the account of a participant or beneficiary under the transferor plan that was transferred from the transferor plan to the transferee plan pursuant to a direct transfer rather than pursuant to a distribution from the transferor plan,

"(II) the terms of both the transferor plan and the transferee plan authorize the transfer described in subclause (I),

"(III) the transfer described in subclause (I) was made pursuant to a voluntary election by the participant or beneficiary whose account was transferred to the transferee plan,

"(IV) the election described in subclause (III) was made after the participant or beneficiary received a notice describing the consequences of making the election,

"(V) if the transferor plan provides for an annuity as the normal form of distribution under the plan in accordance with section 417, the transfer is made with the consent of the participant's spouse (if any), and such consent meets requirements similar to the requirements imposed by section 417(a)(2), and

"(VI) the transferee plan allows the participant or beneficiary described

in subclause (III) to receive any distribution to which the participant or beneficiary is entitled under the transferee plan in the form of a single sum distribution.

"(ii) Clause (i) shall apply to plan mergers and other transactions having the effect of a direct transfer, including consolidations of benefits attributable to different employers within a multiple employer plan.

"(E) ELIMINATION OF FORM OF DISTRIBUTION.—Except to the extent provided in regulations, a defined contribution plan shall not be treated as failing to meet the requirements of this section merely because of the elimination of a form of distribution previously available thereunder. This subparagraph shall not apply to the elimination of a form of distribution with respect to any participant unless—

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

"(ii) such single sum payment is based on the same or greater portion of the par-

ticipant's account as the form of distribution being eliminated.".

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

"(4)(A) A defined contribution plan (in this subparagraph referred to as the 'transferee plan') shall not be treated as failing to meet the requirements of this subsection merely because the transferee plan does not provide some or all of the forms of distribution previously available under another defined contribution plan (in this paragraph referred to as the 'transferor plan') to the extent that—

"(i) the forms of distribution previously available under the transferor plan applied to the account of a participant or beneficiary under the transferor plan that was transferred from the transferor plan to the transferee plan pursuant to a direct transfer rather than pursuant to a distribution from the transferor plan;

"(ii) the terms of both the transferor plan and the transferee plan authorize the transfer described in clause (i);

"(iii) the transfer described in clause (i) was made pursuant to a voluntary election by the partici-

pant or beneficiary whose account was transferred to the transferee plan;

"(iv) the election described in clause (iii) was made after the participant or beneficiary received a notice describing the consequences of making the election;

"(v) if the transferor plan provides for an annuity as the normal form of distribution under the plan in accordance with section 417, the transfer is made with the consent of the participant's spouse (if any), and such consent meets requirements similar to the requirements imposed by section 417(a)(2); and

"(vi) the transferee plan allows the participant or beneficiary described in subclause (III) to receive any distribution to which the participant or beneficiary is entitled under the transferee plan in the form of a single sum distribution.

"(B) Subparagraph (A) shall apply to plan mergers and other transactions having the effect of a direct transfer, including consolidations of benefits attributable to different employers within a multiple employer plan.

"(5) ELIMINATION OF FORM OF DISTRIBUTION.—Except to the extent provided in regulations, a defined contribution plan shall not be treated as failing to meet the requirements of this section merely because of the elimi-

nation of a form of distribution previously available thereunder. This paragraph shall not apply to the elimination of a form of distribution with respect to any participant unless—

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

"(B) such single sum payment is based on the same or greater portion of the participant's account as the form of distribution being eliminated.".

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

(b) REGULATIONS.—

(1) AMENDMENT TO INTERNAL REVENUE CODE OF 1986.—The last sentence of paragraph (6)(B) of section 411(d) (relating to accrued benefit not to be decreased by amendment) is amended to read as follows: "The Secretary may by regulations provide that this subparagraph shall not apply to any plan amendment that does not adversely affect the rights of participants in a material manner.".

(2) AMENDMENT TO ERISA.—The last sentence of section 204(g)(2) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1054(g)(2)) is

amended to read as follows: "The Secretary of the Treasury may by regulations provide that this paragraph shall not apply to any plan amendment that does not adversely affect the rights of participants in a material manner.".

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

SEC. 336. RATIONALIZATION OF RESTRICTIONS ON DISTRIBUTIONS.

(a) MODIFICATION OF SAME DESK EXCEPTION.—

(1) SECTION 401(k).—

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

(B) Subparagraph (A) of section 401(k)(10) (relating to distributions upon termination of

plan or disposition of assets or subsidiary) is amended to read as follows:

"(A) IN GENERAL.—An event described in this subparagraph is the termination of the plan without establishment or maintenance of another defined contribution plan (other than an employee stock ownership plan as defined in section 4975(e)(7)).".

(C) Section 401(k)(10) is amended—

(i) in subparagraph (B)—

(I) by striking "An event" in clause (i) and inserting "A termination", and

(II) by striking "the event" in clause (i) and inserting "the termination",

(ii) by striking subparagraph (C), and

(iii) by striking "OR DISPOSITION OF ASSETS OR SUBSIDIARY" in the heading.

(2) SECTION 403(b).—

(A) Paragraphs (7)(A)(ii) and (11)(A) of section 403(b) are each amended by striking "separates from service" and inserting "has a severance from employment".

(B) The heading for paragraph (11) of section 403(b) is amended by striking "SEPARATION FROM SERVICE" and inserting "SEVERANCE FROM EMPLOYMENT".

(3) SECTION 457.—Clause (ii) of section 457(d)(1)(A) is amended by striking "is separated from service" and inserting "has a severance from employment".

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

SEC. 337. PURCHASE OF SERVICE CREDIT IN GOVERNMENTAL DEFINED BENEFIT PLANS.

(a) 403(b) PLANS.—Subsection (b) of section 403 is amended by adding at the end the following new paragraph:

"(13) TRUSTEE-TO-TRUSTEE TRANSFERS TO PURCHASE PERMISSIVE SERVICE CREDIT.—No amount shall be includible in gross income by reason of a direct trustee-to-trustee transfer to a defined benefit governmental plan (as defined in section 414(d)) if such transfer is—

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

"(B) a repayment to which section 415 does not apply by reason of subsection (k)(3) thereof.".

(b) 457 PLANS.—

(1) Subsection (e) of section 457 is amended by adding after paragraph (17) the following new paragraph:

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

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

"(B) a repayment to which section 415 does not apply by reason of subsection (k)(3) thereof.".

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

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

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

(a) QUALIFIED PLANS.—

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

"(D) SPECIAL RULE FOR ROLLOVER CONTRIBUTIONS.—A plan shall not fail to meet the requirements of this paragraph if, under the terms of the plan, the present value of the nonforfeitable accrued benefit is determined without regard to that portion of such benefit which is attributable to rollover contributions (and earnings allocable thereto). For purposes of this subparagraph, the term 'rollover contributions' means any rollover contribution under sections 402(c), 403(a)(4), 403(b)(8), 408(d)(3)(A)(ii), and 457(e)(16).".

(2) AMENDMENT TO ERISA.—Section 203(e) of the Employee Retirement Income Security Act of

1974 (29 U.S.C. 1053(c)) is amended by adding at the end the following:

"(4) A plan shall not fail to meet the requirements of this subsection if, under the terms of the plan, the present value of the nonforfeitable accrued benefit is determined without regard to that portion of such benefit which is attributable to rollover contributions (and earnings allocable thereto). For purposes of this subparagraph, the term 'rollover contributions' means any rollover contribution under sections 402(c), 403(a)(4), 403(b)(8), 408(d)(3)(A)(ii), and 457(e)(16) of the Internal Revenue Code of 1986.".

(b) ELIGIBLE DEFERRED COMPENSATION PLANS.—Clause (i) of section 457(e)(9)(A) is amended by striking "such amount" and inserting "the portion of such amount which is not attributable to rollover contributions (as defined in section 411(a)(11)(D))".

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

SEC. 339. INCLUSION REQUIREMENTS FOR SECTION 457 PLANS.

(a) YEAR OF INCLUSION.—Subsection (a) of section 457 (relating to year of inclusion in gross income) is amended to read as follows:

"(a) YEAR OF INCLUSION IN GROSS INCOME.—

"(1) IN GENERAL.—Any amount of compensation deferred under an eligible deferred compensation plan, and any income attributable to the amounts so deferred, shall be includible in gross income only for the taxable year in which such compensation or other income—

"(A) is paid to the participant or other beneficiary, in the case of a plan of an eligible employer described in subsection (e)(1)(A), and

"(B) is paid or otherwise made available to the participant or other beneficiary, in the case of a plan of an eligible employer described in subsection (e)(1)(B).

"(2) SPECIAL RULE FOR ROLLOVER AMOUNTS.—To the extent provided in section 72(t)(9), section 72(t) shall apply to any amount includible in gross income under this subsection.".

(b) CONFORMING AMENDMENT.—So much of paragraph (9) of section 457(e) as precedes subparagraph (A) is amended to read as follows:

"(9) BENEFITS OF TAX EXEMPT ORGANIZATION PLANS NOT TREATED AS MADE AVAILABLE BY REASON OF CERTAIN ELECTIONS, ETC.—In the case of an eligible deferred compensation plan of an employer described in paragraph (1)(B)—".

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

Subtitle E—Strengthening Pension Security and Enforcement

SEC. 341. REPEAL OF 150 PERCENT OF CURRENT LIABILITY FUNDING LIMIT.

(a) AMENDMENT TO INTERNAL REVENUE CODE OF 1986.—Section 412(c)(7) (relating to full-funding limitation) is amended—

(1) by striking "the applicable percentage" in subparagraph (A)(i)(I) and inserting "in the case of plan years beginning before January 1, 2004, the applicable percentage", and

(2) by amending subparagraph (F) to read as follows:

"(F) APPLICABLE PERCENTAGE.—For purposes of subparagraph (A)(i)(I), the applicable percentage shall be determined in accordance with the following table:

"In the case of any plan year beginning in—	*The applicable percentage is—*
2001	*160*
2002	*165*
2003	*170.".*

(b) AMENDMENT TO ERISA.—Section 302(c)(7) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1082(c)(7)) is amended—

(1) by striking "the applicable percentage" in subparagraph (A)(i)(I) and inserting "in the case of plan years beginning before January 1, 2004, the applicable percentage", and

(2) by amending subparagraph (F) to read as follows:

"(F) APPLICABLE PERCENTAGE.—For purposes of subparagraph (A)(i)(I), the applicable percentage shall be determined in accordance with the following table:

"In the case of any plan year beginning in—	***The applicable percentage is—***
2001	*160*
2002	*165*
2003	*170.".*

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

SEC. 342. EXTENSION OF MISSING PARTICIPANTS PROGRAM TO MULTIEMPLOYER PLANS.

(a) IN GENERAL.—Section 4050 of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1350) is amended by redesignating subsection (c) as subsection (d) and by inserting after subsection (b) the following:

"(c) MULTIEMPLOYER PLANS.—The corporation shall prescribe rules similar to the rules in subsection (a) for multiemployer plans covered by this title that terminate under section 4041A.".

(b) CONFORMING AMENDMENT.—Section 206(f) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1056(f)) is amended by striking "the plan shall provide that,".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to distributions made after final regulations implementing subsection (c) of section 4050 of the Employee Retirement Income Security Act of 1974 (as added by subsection (a)) are prescribed.

SEC. 343. EXCISE TAX RELIEF FOR SOUND PENSION FUNDING.

(a) IN GENERAL.—Subsection (c) of section 4972 (relating to nondeductible contributions) is amended by adding at the end the following new paragraph:

"(7) DEFINED BENEFIT PLAN EXCEPTION.—In determining the amount of nondeductible contributions for any taxable year, an employer may elect for such year not to take into account any contributions to a defined benefit plan except to the extent that such contributions exceed the full-funding limitation (as defined in section 412(c)(7), determined without regard to subparagraph (A)(i)(I) thereof). For purposes of this paragraph, the deductible limits under section 404(a)(7) shall first be applied to amounts contributed to defined contribution plans and then to

amounts described in this paragraph. If an employer makes an election under this paragraph for a taxable year, paragraph (6) shall not apply to such employer for such taxable year.".

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

SEC. 344. FAILURE TO PROVIDE NOTICE BY DEFINED BENEFIT PLANS SIGNIFICANTLY REDUCING FUTURE BENEFIT ACCRUALS.

(a) EXCISE TAX.—

(1) IN GENERAL.—Chapter 43 of subtitle D (relating to qualified pension, etc., plans) is amended by adding at the end the following new section:

"SEC. 4980F. FAILURE OF DEFINED BENEFIT PLANS REDUCING BENEFIT ACCRUALS TO SATISFY NOTICE REQUIREMENTS.

"(a) IMPOSITION OF TAX.—There is hereby imposed a tax on the failure of an applicable pension plan to meet the requirements of subsection (e) with respect to any applicable individual.

"(b) AMOUNT OF TAX.—

"(1) IN GENERAL.—The amount of the tax imposed by subsection (a) on any failure with respect to any applicable individual shall be $100 for each day

in the noncompliance period with respect to such failure.

"(2) NONCOMPLIANCE PERIOD.—For purposes of this section, the term 'noncompliance period' means, with respect to any failure, the period beginning on the date the failure first occurs and ending on the date the failure is corrected.

"(3) MINIMUM TAX FOR NONCOMPLIANCE PERIOD WHERE FAILURE DISCOVERED AFTER NOTICE OF EXAMINATION.—Notwithstanding paragraphs (1) and (2) of subsection (c)—

"(A) IN GENERAL.—In the case of 1 or more failures with respect to an applicable individual—

"(i) which are not corrected before the date a notice of examination of income tax liability is sent to the employer, and

"(ii) which occurred or continued during the period under examination,

the amount of tax imposed by subsection (a) by reason of such failures with respect to such beneficiary shall not be less than the lesser of $2,500 or the amount of tax which would be imposed by subsection (a) without regard to such paragraphs.

"(B) HIGHER MINIMUM TAX WHERE VIOLATIONS ARE MORE THAN DE MINIMIS.—To the extent violations by the employer (or the plan in the case of a multiemployer plan) for any year are more than de minimis, subparagraph (A) shall be applied by substituting '$15,000' for '$2,500' with respect to the employer (or such plan).

"(c) LIMITATIONS ON AMOUNT OF TAX.—

"(1) TAX NOT TO APPLY WHERE FAILURE NOT DISCOVERED EXERCISING REASONABLE DILIGENCE.—No tax shall be imposed by subsection (a) on any failure during any period for which it is established to the satisfaction of the Secretary that none of the persons referred to in subsection (d) knew, or exercising reasonable diligence would have known, that the failure existed.

"(2) TAX NOT TO APPLY TO FAILURES CORRECTED WITHIN 30 DAYS.—No tax shall be imposed by subsection (a) on any failure if—

"(A) such failure was due to reasonable cause and not to willful neglect, and

"(B) such failure is corrected during the 30-day period beginning on the first date any of the persons referred to in subsection (d) knew, or ex-

ercising reasonable diligence would have known, that such failure existed.

"(3) OVERALL LIMITATION FOR UNINTENTIONAL FAILURES.—

"(A) IN GENERAL.—In the case of failures that are due to reasonable cause and not to willful neglect, the tax imposed by subsection (a) for failures during the taxable year of the employer (or, in the case of a multiemployer plan, the taxable year of the trust forming part of the plan) shall not exceed $500,000. For purposes of the preceding sentence, all multiemployer plans of which the same trust forms a part shall be treated as 1 plan.

"(B) TAXABLE YEARS IN THE CASE OF CERTAIN CONTROLLED GROUPS.—For purposes of this paragraph, if all persons who are treated as a single employer for purposes of this section do not have the same taxable year, the taxable years taken into account shall be determined under principles similar to the principles of section 1561.

"(4) WAIVER BY SECRETARY.—In the case of a failure which is due to reasonable cause and not to willful neglect, the Secretary may waive part or all

of the tax imposed by subsection (a) to the extent that the payment of such tax would be excessive relative to the failure involved.

"(d) LIABILITY FOR TAX.—The following shall be liable for the tax imposed by subsection (a):

"(1) In the case of a plan other than a multiemployer plan, the employer.

"(2) In the case of a multiemployer plan, the plan.

"(e) NOTICE REQUIREMENTS FOR PLANS SIGNIFICANTLY REDUCING BENEFIT ACCRUALS.—

"(1) IN GENERAL.—If a defined benefit plan adopts an amendment which has the effect of significantly reducing the rate of future benefit accrual of 1 or more participants (including any elimination or reduction of an early retirement benefit or retirement-type subsidy), the plan administrator shall, not later than the 30th day before the effective date of the amendment, provide written notice to each applicable individual (and to each employee organization representing applicable individuals) which—

"(A) sets forth the plan amendment and its effective date, and

"(B) includes sufficient information (as determined in accordance with regulations pre-

scribed by the Secretary) to allow such participants and beneficiaries to understand how the amendment generally affects different classes of employees.

"(2) ADDITIONAL NOTICE REQUIRED IN CERTAIN CASES.—

"(A) IN GENERAL.—If a plan amendment to which paragraph (1) applies—

"(i) either—

"(I) provides for a significant change in the manner in which the accrued benefit of an applicable individual is determined under the plan, or

"(II) requires an applicable individual to choose between 2 or more benefit formulas, and

"(ii) may reasonably be expected to affect such applicable individual,

the plan shall, not later than the date which is 6 months after the effective date of the amendment, provide written notice to such applicable individual which includes the information described in subparagraph (B).

"(B) ADDITIONAL INFORMATION.—The notice under subparagraph (A) shall include the following information:

"(i) The accrued benefit (and if the amendment adds the option of an immediate lump sum distribution, the present value of the accrued benefit) as of the effective date, determined under the terms of the plan in effect immediately before the effective date.

"(ii) The accrued benefit as of the effective date, determined under the terms of the plan in effect on the effective date and without regard to any minimum accrued benefit required by reason of section 411(d)(6).

"(iii) Sufficient information (as determined in accordance with regulations prescribed by the Secretary) for an applicable individual to compute their projected accrued benefit under the terms of the plan in effect on the effective date or to acquire information necessary to compute such projected accrued benefit.

"(C) OPTION TO PROVIDE PROJECTED ACCRUED BENEFIT.—A plan may, in lieu of the in-

formation described in subparagraph (B)(iii), include a determination of an applicable individual's projected accrued benefit under the terms of the plan in effect on the effective date. Such determination shall include a disclosure of the assumptions used by the plan in determining such benefit and such assumptions must be reasonable in the aggregate.

"(D) RULES FOR COMPUTING BENEFITS.—For purposes of this paragraph, an applicable individual's accrued benefit and projected accrued benefit shall be computed—

"(i) as if the accrued benefit were in the form of a single life annuity commencing at normal retirement age (and by taking into account any early retirement subsidy), and

"(ii) by using the applicable mortality table and the applicable interest rate under section 417(e)(3)(A).

"(3) SECRETARY MAY CHANGE NOTICE AND TIME FOR NOTICE.—If a plan amendment to which paragraph (1) applies requires an applicable individual to choose between 2 or more benefit formulas, the Sec-

retary may, after consultation with the Secretary of Labor—

"(A) require additional information to be provided in either of the notices described in paragraph (1) or (2), and

"(B) require either of such notices to be provided at a time other than the time required under either such paragraph.

"(4) NOTICE BEFORE ADOPTION OF AMENDMENT.—A plan shall not be treated as failing to meet the requirements of paragraph (1) or (2) merely because notice is provided before the adoption of the plan amendment if no material modification of the amendment occurs before the amendment is adopted.

"(5) NOTICE TO DESIGNEE.—Any notice under paragraph (1) or (2) may be provided to a person designated, in writing, by the person to which it would otherwise be provided.

"(f) APPLICABLE INDIVIDUAL.—For purposes of this section—

"(1) IN GENERAL.—The term 'applicable individual' means, with respect to any plan amendment—

"(A) any participant in the plan, and

"(B) any beneficiary who is an alternate payee (within the meaning of section 414(p)(8)) under an applicable qualified domestic relations order (within the meaning of section 414(p)(1)(A)).

"(2) EXCEPTION FOR PARTICIPANTS WITH LESS THAN 1 YEAR OF PARTICIPATION.—Such term shall not include a participant who has less than 1 year of participation (within the meaning of section 411(b)(4)) under the plan as of the effective date of the plan amendment.

"(3) PARTICIPANTS GETTING HIGHER OF BENEFITS.—Such term shall not include a participant or beneficiary who, under the terms of the plan as of the effective date of the plan amendment, is entitled to the greater of the accrued benefit under such terms or the accrued benefit under the terms of the plan in effect immediately before the effective date.

"(g) APPLICABLE PENSION PLAN.—For purposes of this section, the term 'applicable pension plan' means—

"(1) a defined benefit plan, or

"(2) an individual account plan which is subject to the funding standards of section 412.

Such term shall not include a governmental plan (within the meaning of section 414(d)) or a church plan (within

the meaning of section 414(e)) with respect to which an election under section 410(d) has not been made.".

(2) CONFORMING AMENDMENT.—The table of sections for chapter 43 of subtitle D is amended by adding at the end the following new item:

"Sec. 4980F. Failure of defined benefit plans reducing benefit accruals to satisfy notice requirements.".

(b) AMENDMENT TO ERISA.—Section 204(h) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1054(h)) is amended to read as follows:

"(h)(1) An applicable pension plan may not adopt an amendment which has the effect of significantly reducing the rate of future benefit accrual of 1 or more participants (including any elimination or reduction of an early retirement benefit or retirement-type subsidy) unless the plan administrator provides, not later than the 30th day before the effective date of the amendment, written notice to each applicable individual (and to each employee organization representing applicable individuals) which—

"(A) sets forth the plan amendment and its effective date, and

"(B) includes sufficient information (as determined in accordance with regulations prescribed by the Secretary of the Treasury) to allow applicable individuals to understand how the amendment generally affects different classes of employees.

"(2)(A) If a plan amendment to which paragraph (1) applies—

"(i) either—

"(I) provides for a significant change in the manner in which the accrued benefit is determined under the plan, or

"(II) requires an applicable individual to choose between 2 or more benefit formulas, and

"(ii) may reasonably be expected to affect such applicable individual,

the plan shall, not later than the date which is 6 months after the effective date of the amendment, provide written notice to such applicable individual which includes the information described in subparagraph (B).

"(B) The notice under subparagraph (A) shall include the following information:

"(i) The accrued benefit (and if the amendment adds the option of an immediate lump sum distribution, the present value of the accrued benefit) as of the effective date, determined under the terms of the plan in effect immediately before the effective date.

"(ii) The accrued benefit as of the effective date, determined under the terms of the plan in effect on the effective date and without regard to any min-

imum accrued benefit required by reason of section 204(g).

"(iii) Sufficient information (as determined in accordance with regulations prescribed by the Secretary of the Treasury) for an applicable individual to compute their projected accrued benefit under the terms of the plan in effect on the effective date or to acquire information necessary to compute such projected accrued benefit.

"(C) A plan may, in lieu of the information described in subparagraph (B)(iii), include a determination of an applicable individual's projected accrued benefit under the terms of the plan in effect on the effective date. Such determination shall include a disclosure of the assumptions used by the plan in determining such benefit and such assumptions must be reasonable in the aggregate.

"(D) For purposes of this paragraph, an applicable individual's accrued benefit and projected accrued benefit shall be computed—

"(i) as if the accrued benefit were in the form of a single life annuity commencing at normal retirement age (and by taking into account any early retirement subsidy), and

"(ii) by using the applicable mortality table and the applicable interest rate under section 205(g)(3)(A).

"(3) If a plan amendment to which paragraph (1) applies requires an applicable individual to choose between 2 or more benefit formulas, the Secretary of the Treasury may, after consultation with the Secretary—

"(A) require additional information to be provided in either of the notices described in paragraph (1) or (2), and

"(B) require either of such notices to be provided at a time other than the time required under either such paragraph.

"(4) A plan shall not be treated as failing to meet the requirements of paragraph (1) or (2) merely because notice is provided before the adoption of the plan amendment if no material modification of the amendment occurs before the amendment is adopted.

"(5) Any notice under paragraph (1) or (2) may be provided to a person designated, in writing, by the person to which it would otherwise be provided.

"(6)(A) For purposes of this subsection, the term 'applicable individual' means, with respect to any plan amendment—

"(i) any participant in the plan, and

"(ii) any beneficiary who is an alternate payee (within the meaning of section 206(d)(3)(K)) under an applicable qualified domestic relations order (within the meaning of section 206(d)(3)(B)).

"(B) Such term shall not include a participant who has less than 1 year of participation (within the meaning of section 204(b)(4)) under the plan as of the effective date of the plan amendment.

"(C) Such term shall not include a participant or beneficiary who, under the terms of the plan as of the effective date of the plan amendment, is entitled to the greater of the accrued benefit under such terms or the accrued benefit under the terms of the plan in effect immediately before the effective date.

"(7) For purposes of this subsection, the term 'applicable pension plan' means—

"(A) a defined benefit plan, or

"(B) an individual account plan which is subject to the funding standards of section 302.

Such term shall not include a governmental plan (within the meaning of section 3(32)) or a church plan (within the meaning of section 3(33)) with respect to which an election under section 410(d) of the Internal Revenue Code of 1986 has not been made.".

(c) EFFECTIVE DATES.—

(1) IN GENERAL.—The amendments made by this section shall apply to plan amendments taking effect on or after the date of the enactment of this Act.

(2) SPECIAL RULE FOR COLLECTIVELY BARGAINED PLANS.—In the case of a plan maintained pursuant to 1 or more collective bargaining agreements between employee representatives and 1 or more employers ratified by the date of the enactment of this Act, the amendments made by this section shall not apply to plan amendments taking effect before the earlier of—

(A) the later of—

(i) the date on which the last of such collective bargaining agreements terminates (determined without regard to any extension thereof on or after such date of enactment), or

(ii) January 1, 2000, or

(B) January 1, 2002.

(3) SPECIAL RULE.—The period for providing any notice required by the amendments made by this section shall not end before the date which is 3 months after the date of the enactment of this Act.

SEC. 345. PROTECTION OF INVESTMENT OF EMPLOYEE CONTRIBUTIONS TO 401(K) PLANS.

(a) IN GENERAL.—Section 1524(b) of the Taxpayer Relief Act of 1997 is amended to read as follows:

"(b) EFFECTIVE DATE.—

"(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to elective deferrals for plan years beginning after December 31, 1998.

"(2) NONAPPLICATION TO PREVIOUSLY ACQUIRED PROPERTY.—The amendments made by this section shall not apply to any elective deferral used to acquire an interest in the income or gain from employer securities or employer real property acquired—

"(A) before January 1, 1999, or

"(B) after such date pursuant to a written contract which was binding on such date and at all times thereafter on such plan.".

(b) EFFECTIVE DATE.—The amendment made by this section shall apply as if included in the provision of the Taxpayer Relief Act of 1997 to which it relates.

SEC. 346. TREATMENT OF MULTIEMPLOYER PLANS UNDER SECTION 415.

(a) COMPENSATION LIMIT.—Paragraph (11) of section 415(b) (relating to limitation for defined benefit plans) is amended to read as follows:

"(11) SPECIAL LIMITATION RULE FOR GOVERNMENTAL AND MULTIEMPLOYER PLANS.—In the case of a governmental plan (as defined in section 414(d)) or a multiemployer plan (as defined in section 414(f)), subparagraph (B) of paragraph (1) shall not apply.".

(b) COMBINING AND AGGREGATION OF PLANS.—

(1) COMBINING OF PLANS.—Subsection (f) of section 415 (relating to combining of plans) is amended by adding at the end the following:

"(3) EXCEPTION FOR MULTIEMPLOYER PLANS.—Notwithstanding paragraph (1) and subsection (g), a multiemployer plan (as defined in section 414(f)) shall not be combined or aggregated with any other plan maintained by an employer for purposes of applying the limitations established in this section. The preceding sentence shall not apply for purposes of applying subsection (b)(1)(A) to a plan which is not a multiemployer plan.".

(2) CONFORMING AMENDMENT FOR AGGREGATION OF PLANS.—Subsection (g) of section 415 (relating to aggregation of plans) is amended by striking "The Secretary" and inserting "Except as provided in subsection (f)(3), the Secretary".

(c) APPLICATION OF SPECIAL EARLY RETIREMENT RULES.—Section 415(b)(2)(F) (relating to plans main-

tained by governments and tax-exempt organizations) is amended—

(1) by inserting "a multiemployer plan (within the meaning of section 414(f)," after "section 414(d)),", and

(2) by striking the heading and inserting:

"(F) SPECIAL EARLY RETIREMENT RULES FOR CERTAIN PLANS.—".

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

SEC. 347. MAXIMUM CONTRIBUTION DEDUCTION RULES MODIFIED AND APPLIED TO ALL DEFINED BENEFIT PLANS.

(a) IN GENERAL.—Subparagraph (D) of section 404(a)(1) (relating to special rule in case of certain plans) is amended to read as follows:

"(D) SPECIAL RULE IN CASE OF CERTAIN PLANS.—

"(i) IN GENERAL.—In the case of any defined benefit plan, except as provided in regulations, the maximum amount deductible under the limitations of this paragraph shall not be less than the unfunded termination liability (determined as if the pro-

posed termination date referred to in section 4041(b)(2)(A)(i)(II) of the Employee Retirement Income Security Act of 1974 were the last day of the plan year).

"(ii) PLANS WITH LESS THAN 100 PARTICIPANTS.—For purposes of this subparagraph, in the case of a plan which has less than 100 participants for the plan year, termination liability shall not include the liability attributable to benefit increases for highly compensated employees (as defined in section 414(q)) resulting from a plan amendment which is made or becomes effective, whichever is later, within the last 2 years before the termination date.

"(iii) RULE FOR DETERMINING NUMBER OF PARTICIPANTS.—For purposes of determining whether a plan has more than 100 participants, all defined benefit plans maintained by the same employer (or any member of such employer's controlled group (within the meaning of section 412(l)(8)(C))) shall be treated as 1 plan, but only employees of such member or employer shall be taken into account.

"(iv) PLANS ESTABLISHED AND MAINTAIN BY PROFESSIONAL SERVICE EMPLOYERS.—Clause (i) shall not apply to a plan described in section 4021(b)(13) of the Employee Retirement Income Security Act of 1974.".

(b) CONFORMING AMENDMENT.—Paragraph (6) of section 4972(c) is amended to read as follows:

"(6) EXCEPTIONS.—In determining the amount of nondeductible contributions for any taxable year, there shall not be taken into account so much of the contributions to 1 or more defined contribution plans which are not deductible when contributed solely because of section 404(a)(7) as does not exceed the greater of—

"(A) the amount of contributions not in excess of 6 percent of compensation (within the meaning of section 404(a)) paid or accrued (during the taxable year for which the contributions were made) to beneficiaries under the plans, or

"(B) the sum of—

"(i) the amount of contributions described in section 401(m)(4)(A), plus

"(ii) the amount of contributions described in section 402(g)(3)(A).

For purposes of this paragraph, the deductible limits under section 404(a)(7) shall first be applied to amounts contributed to a defined benefit plan and then to amounts described in subparagraph (B).".

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

SEC. 348. INCREASE IN SECTION 415 EARLY RETIREMENT LIMIT FOR GOVERNMENTAL AND OTHER PLANS.

(a) IN GENERAL.—Subclause (II) of section 415(b)(2)(F)(i), as amended by section 346(c), is amended—

(1) by striking "$75,000" and inserting "80 percent of the dollar amount in effect under paragraph (1)(A)", and

(2) by striking "the $75,000 limitation" and inserting "80 percent of such dollar amount".

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to years beginning after December 31, 1999.

Subtitle F—Encouraging Retirement Education

SEC. 351. PERIODIC PENSION BENEFITS STATEMENTS.

(a) IN GENERAL.—Section 105(a) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1025 (a)) is amended to read as follows:

"(a)(1) Except as provided in paragraph (2)—

"(A) the administrator of an individual account plan shall furnish a pension benefit statement—

"(i) to a plan participant at least once annually, and

"(ii) to a plan beneficiary upon written request, and

"(B) the administrator of a defined benefit plan shall furnish a pension benefit statement—

"(i) at least once every 3 years to each participant with a nonforfeitable accrued benefit who is employed by the employer maintaining the plan at the time the statement is furnished to participants, and

"(ii) to a participant or beneficiary of the plan upon written request.

"(2) Notwithstanding paragraph (1), the administrator of a plan to which more than 1 unaffiliated employer is required to contribute shall only be required to furnish

a pension benefit statement under paragraph (1) upon the written request of a participant or beneficiary of the plan.

"(3) A pension benefit statement under paragraph (1)—

"(A) shall indicate, on the basis of the latest available information—

"(i) the total benefits accrued, and

"(ii) the nonforfeitable pension benefits, if any, which have accrued, or the earliest date on which benefits will become nonforfeitable,

"(B) shall be written in a manner calculated to be understood by the average plan participant, and

"(C) may be provided in written, electronic, telephonic, or other appropriate form.

"(4) In the case of a defined benefit plan, the requirements of paragraph (1)(B)(i) shall be treated as met with respect to a participant if the administrator provides the participant at least once each year with notice of the availability of the pension benefit statement and the ways in which the participant may obtain such statement. Such notice shall be provided in written, electronic, telephonic, or other appropriate form, and may be included with other communications to the participant if done in a manner reasonably designed to attract the attention of the participant.".

(b) CONFORMING AMENDMENTS.—

(1) Section 105 of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1025) is amended by striking subsection (d).

(2) Section 105(b) of such Act (29 U.S.C. 1025(b)) is amended to read as follows:

"(b) In no case shall a participant or beneficiary of a plan be entitled to more than one statement described in subsection (a)(1)(A) or (a)(1)(B)(ii), whichever is applicable, in any 12-month period.".

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

SEC. 352. CLARIFICATION OF TREATMENT OF EMPLOYER-PROVIDED RETIREMENT ADVICE.

(a) IN GENERAL.—Subsection (a) of section 132 (relating to exclusion from gross income) is amended by striking "or" at the end of paragraph (5), by striking the period at the end of paragraph (6) and inserting ", or", and by adding at the end the following new paragraph:

"(7) qualified retirement planning services.".

(b) QUALIFIED RETIREMENT PLANNING SERVICES DEFINED.—Section 132 is amended by redesignating subsection (m) as subsection (n) and by inserting after subsection (l) the following:

"(m) QUALIFIED RETIREMENT PLANNING SERVICES.—

"(1) IN GENERAL.—For purposes of this section, the term 'qualified retirement planning services' means any retirement planning service provided to an employee and his spouse by an employer maintaining a qualified employer plan.

"(2) NONDISCRIMINATION RULE.—Subsection (a)(7) shall apply in the case of highly compensated employees only if such services are available on substantially the same terms to each member of the group of employees normally provided education and information regarding the employer's qualified employer plan.

"(3) QUALIFIED EMPLOYER PLAN.—For purposes of this subsection, the term 'qualified employer plan' means a plan, contract, pension, or account described in section 219(g)(5).".

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

Subtitle G—Reducing Regulatory Burdens

SEC. 361. FLEXIBILITY IN NONDISCRIMINATION AND COVERAGE RULES.

(a) NONDISCRIMINATION.—

(1) IN GENERAL.—The Secretary of the Treasury shall, by regulation, provide that a plan shall be deemed to satisfy the requirements of section 401(a)(4) of the Internal Revenue Code of 1986 if such plan satisfies the facts and circumstances test under section 401(a)(4) of such Code, as in effect before January 1, 1994, but only if—

(A) the plan satisfies conditions prescribed by the Secretary to appropriately limit the availability of such test, and

(B) the plan is submitted to the Secretary for a determination of whether it satisfies such test.

Subparagraph (B) shall only apply to the extent provided by the Secretary.

(2) EFFECTIVE DATES.—

(A) REGULATIONS.—The regulation required by subsection (a) shall apply to years beginning after December 31, 2000.

(B) CONDITIONS OF AVAILABILITY.—Any condition of availability prescribed by the Secretary under paragraph (1)(A) shall not apply before the first year beginning not less than 120 days after the date on which such condition is prescribed.

(b) COVERAGE TEST.—

(1) IN GENERAL.—Section 410(b)(1) (relating to minimum coverage requirements) is amended by adding at the end the following:

"(D) In the case that the plan fails to meet the requirements of subparagraphs (A), (B) and (C), the plan—

"(i) satisfies subparagraph (B), as in effect immediately before the enactment of the Tax Reform Act of 1986,

"(ii) is submitted to the Secretary for a determination of whether it satisfies the requirement described in clause (i), and

"(iii) satisfies conditions prescribed by the Secretary by regulation that appropriately limit the availability of this subparagraph.

Clause (ii) shall apply only to the extent provided by the Secretary.".

(2) EFFECTIVE DATES.—

(A) IN GENERAL.—The amendment made by subsection (a) shall apply to years beginning after December 31, 2000.

(B) CONDITIONS OF AVAILABILITY.—Any condition of availability prescribed by the Secretary under regulations prescribed by the Secretary under section 410(b)(1)(D) of the Internal Revenue Code of 1986 shall not apply before the first year beginning not less than 120 days after the date on which such condition is prescribed.

SEC. 362. MODIFICATION OF TIMING OF PLAN VALUATIONS.

(a) IN GENERAL.—Section 412(c)(9) (relating to annual valuation) is amended—

(1) by striking "For purposes" and inserting the following:

"(A) IN GENERAL.—For purposes", and

(2) by adding at the end the following:

"(B) ELECTION TO USE PRIOR YEAR VALUATION.—

"(i) IN GENERAL.—Except as provided in clause (ii), if, for any plan year—

"(I) an election is in effect under this subparagraph with respect to a plan, and

"(II) the assets of the plan are not less than 125 percent of the plan's current liability (as defined in paragraph (7)(B)), determined as of the valuation date for the preceding plan year,

then this section shall be applied using the information available as of such valuation date.

"(ii) EXCEPTIONS.—

"(I) ACTUAL VALUATION EVERY 3 YEARS.—Clause (i) shall not apply for more than 2 consecutive plan years and valuation shall be under subparagraph (A) with respect to any plan year to which clause (i) does not apply by reason of this subclause.

"(II) REGULATIONS.—Clause (i) shall not apply to the extent that more frequent valuations are required under the regulations under subparagraph (A).

"(iii) ADJUSTMENTS.—Information under clause (i) shall, in accordance with regulations, be actuarially adjusted to reflect significant differences in participants.

"(iv) ELECTION.—An election under this subparagraph, once made, shall be irrevocable without the consent of the Secretary.".

(b) AMENDMENTS TO ERISA.—Paragraph (9) of section 302(c) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1053(c)) is amended—

(1) by inserting "(A)" after "(9)", and

(2) by adding at the end the following:

"(B)(i) Except as provided in clause (ii), if, for any plan year—

"(I) an election is in effect under this subparagraph with respect to a plan, and

"(II) the assets of the plan are not less than 125 percent of the plan's current liability (as defined in paragraph (7)(B)), determined as of the valuation date for the preceding plan year,

then this section shall be applied using the information available as of such valuation date.

"(ii)(I) Clause (i) shall not apply for more than 2 consecutive plan years and valuation shall be under subparagraph (A) with respect to any plan year to which clause (i) does not apply by reason of this subclause.

"(II) Clause (i) shall not apply to the extent that more frequent valuations are required under the regulations under subparagraph (A).

"(iii) Information under clause (i) shall, in accordance with regulations, be actuarially adjusted to reflect significant differences in participants.

"(iv) An election under this subparagraph, once made, shall be irrevocable without the consent of the Secretary of the Treasury.".

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

SEC. 363. SUBSTANTIAL OWNER BENEFITS IN TERMINATED PLANS.

(a) MODIFICATION OF PHASE-IN OF GUARANTEE.—Section 4022(b)(5) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1322(b)(5)) is amended to read as follows:

"(5)(A) For purposes of this paragraph, the term 'majority owner' means an individual who, at any time during the 60-month period ending on the date the determination is being made—

"(i) owns the entire interest in an unincorporated trade or business,

"(ii) in the case of a partnership, is a partner who owns, directly or indirectly, 50 percent or more of either the capital interest or the profits interest in such partnership, or

"(iii) in the case of a corporation, owns, directly or indirectly, 50 percent or more in value of either the voting stock of that corporation or all the stock of that corporation.

For purposes of clause (iii), the constructive ownership rules of section 1563(e) of the Internal Revenue Code of 1986 shall apply (determined without regard to section 1563(e)(3)(C)).

"(B) In the case of a participant who is a majority owner, the amount of benefits guaranteed under this section shall equal the product of—

"(i) a fraction (not to exceed 1) the numerator of which is the number of years from the later of the effective date or the adoption date of the plan to the termination date, and the denominator of which is 10, and

"(ii) the amount of benefits that would be guaranteed under this section if the participant were not a majority owner.".

(b) MODIFICATION OF ALLOCATION OF ASSETS.—

(1) Section 4044(a)(4)(B) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1344(a)(4)(B)) is amended by striking "section 4022(b)(5)" and inserting "section 4022(b)(5)(B)".

(2) Section 4044(b) of such Act (29 U.S.C. 1344(b)) is amended—

(A) by striking "(5)" in paragraph (2) and inserting "(4), (5),", and

(B) by redesignating paragraphs (3) through (6) as paragraphs (4) through (7), respectively, and by inserting after paragraph (2) the following:

"(3) If assets available for allocation under paragraph (4) of subsection (a) are insufficient to satisfy in full the benefits of all individuals who are described in that paragraph, the assets shall be allocated first to benefits described in subparagraph (A) of that paragraph. Any remaining assets shall then be allocated to benefits described in subparagraph (B) of that paragraph. If assets allocated to such subparagraph (B) are insufficient to satisfy in full the benefits described in that subparagraph, the assets shall be allocated pro rata among individuals on the basis of the present value (as of the termination date) of their respective benefits described in that subparagraph.".

(c) CONFORMING AMENDMENTS.—

(1) Section 4021 of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1321) is amended—

(A) in subsection (b)(9), by striking "as defined in section 4022(b)(6)", and

(B) by adding at the end the following:

"(d) For purposes of subsection (b)(9), the term 'substantial owner' means an individual who, at any time during the 60-month period ending on the date the determination is being made—

"(1) owns the entire interest in an unincorporated trade or business,

"(2) in the case of a partnership, is a partner who owns, directly or indirectly, more than 10 percent of either the capital interest or the profits interest in such partnership, or

"(3) in the case of a corporation, owns, directly or indirectly, more than 10 percent in value of either the voting stock of that corporation or all the stock of that corporation.

For purposes of paragraph (3), the constructive ownership rules of section 1563(e) of the Internal Revenue Code of 1986 shall apply (determined without regard to section 1563(e)(3)(C)).".

(2) Section 4043(c)(7) of such Act (29 U.S.C. 1343(c)(7)) is amended by striking "section 4022(b)(6)" and inserting "section 4021(d)".

(d) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to plan terminations—

(A) under section 4041(c) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1341(c)) with respect to which notices of intent to terminate are provided under section 4041(a)(2) of such Act (29 U.S.C. 1341(a)(2)) after December 31, 2000, and

(B) under section 4042 of such Act (29 U.S.C. 1342) with respect to which proceedings are instituted by the corporation after such date.

(2) CONFORMING AMENDMENTS.—The amendments made by subsection (c) shall take effect on the date of enactment of this Act.

SEC. 364. ESOP DIVIDENDS MAY BE REINVESTED WITHOUT LOSS OF DIVIDEND DEDUCTION.

(a) IN GENERAL.—Section 404(k)(2)(A) (defining applicable dividends) is amended by striking "or" at the end of clause (ii), by redesignating clause (iii) as clause (iv), and by inserting after clause (ii) the following new clause:

"(iii) is, at the election of such participants or their beneficiaries—

"(I) payable as provided in clause (i) or (ii), or

"(II) paid to the plan and reinvested in qualifying employer securities, or".

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

SEC. 365. NOTICE AND CONSENT PERIOD REGARDING DISTRIBUTIONS.

(a) EXPANSION OF PERIOD.—

(1) IN GENERAL.—

(A) AMENDMENT OF INTERNAL REVENUE CODE OF 1986.—Subparagraph (A) of section 417(a)(6) is amended by striking "90-day" and inserting "1-year".

(B) AMENDMENT TO ERISA.—Subparagraph (A) of section 205(c)(7) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1055(c)(7)) is amended by striking "90-day" and inserting "1-year".

(2) MODIFICATION OF REGULATIONS.—The Secretary of the Treasury shall modify the regulations

under sections 402(f), 411(a)(11), and 417 of the Internal Revenue Code of 1986 to substitute "1-year" for "90 days" each place it appears in Treasury Regulations sections 1.402(f)–1, 1.411(a)–11(c), and 1.417(e)–1(b).

(3) EFFECTIVE DATE.—The amendments made by paragraph (1) and the modifications required by paragraph (2) shall apply to years beginning after December 31, 2000.

(b) CONSENT REGULATION INAPPLICABLE TO CERTAIN DISTRIBUTIONS.—

(1) IN GENERAL.—The Secretary of the Treasury shall modify the regulations under section 411(a)(11) of the Internal Revenue Code of 1986 to provide that the description of a participant's right, if any, to defer receipt of a distribution shall also describe the consequences of failing to defer such receipt.

(2) EFFECTIVE DATE.—The modifications required by paragraph (1) shall apply to years beginning after December 31, 2000.

SEC. 366. REPEAL OF TRANSITION RULE RELATING TO CERTAIN HIGHLY COMPENSATED EMPLOYEES.

(a) IN GENERAL.—Paragraph (4) of section 1114(c) of the Tax Reform Act of 1986 is hereby repealed.

(b) EFFECTIVE DATE.—The repeal made by subsection (a) shall apply to plan years beginning after December 31, 1999.

SEC. 367. EMPLOYEES OF TAX-EXEMPT ENTITIES.

(a) IN GENERAL.—The Secretary of the Treasury shall modify Treasury Regulations section 1.410(b)–6(g) to provide that employees of an organization described in section 403(b)(1)(A)(i) of the Internal Revenue Code of 1986 who are eligible to make contributions under section 403(b) of such Code pursuant to a salary reduction agreement may be treated as excludable with respect to a plan under section 401 (k) or (m) of such Code that is provided under the same general arrangement as a plan under such section 401(k), if—

(1) no employee of an organization described in section 403(b)(1)(A)(i) of such Code is eligible to participate in such section 401(k) plan or section 401(m) plan, and

(2) 95 percent of the employees who are not employees of an organization described in section 403(b)(1)(A)(i) of such Code are eligible to participate in such plan under such section 401 (k) or (m).

(b) EFFECTIVE DATE.—The modification required by subsection (a) shall apply as of the same date set forth in

section 1426(b) of the Small Business Job Protection Act of 1996.

SEC. 368. EXTENSION TO INTERNATIONAL ORGANIZATIONS OF MORATORIUM ON APPLICATION OF CERTAIN NONDISCRIMINATION RULES APPLICABLE TO STATE AND LOCAL PLANS.

(a) IN GENERAL.—Subparagraph (G) of section 401(a)(5), subparagraph (H) of section 401(a)(26), subparagraph (G) of section 401(k)(3), and paragraph (2) of section 1505(d) of the Taxpayer Relief Act of 1997 are each amended by inserting "or by an international organization which is described in section 414(d)" after "or instrumentality thereof)".

(b) CONFORMING AMENDMENTS.—

(1) The headings for subparagraph (G) of section 401(a)(5) and subparagraph (H) of section 401(a)(26) are each amended by inserting "AND INTERNATIONAL ORGANIZATION" after "GOVERNMENTAL".

(2) Subparagraph (G) of section 401(k)(3) is amended by inserting "STATE AND LOCAL GOVERNMENTAL AND INTERNATIONAL ORGANIZATION PLANS.—" after "(G)".

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

SEC. 369. ANNUAL REPORT DISSEMINATION.

(a) IN GENERAL.—Section 104(b)(3) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1024(b)(3)) is amended by striking "shall furnish" and inserting "shall make available for examination (and, upon request, shall furnish)".

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to reports for years beginning after December 31, 1998.

SEC. 370. MODIFICATION OF EXCLUSION FOR EMPLOYER PROVIDED TRANSIT PASSES AND PASSENGERS PERMITTED TO UTILIZE OTHERWISE EMPTY SEATS ON AIRCRAFT.

(a) IN GENERAL.—Section 132(f)(3) (relating to cash reimbursements) is amended by striking the last sentence.

(b) Subsection (h) of section 132 of the Internal Revenue Code of 1986 (relating to certain fringe benefits) is amended by adding at the end thereof the following new paragraph:

"(4) SPECIAL RULE FOR PASSENGERS TRAVELING ON NONCOMMERCIAL AIRCRAFT.—Any use of noncommercial air transportation by an individual

shall be treated as use by an employee if no regularly scheduled commercial flight is available that day from the air facility at the individual's location.".

(c) Subsection (j) of section 132 of the Internal Revenue Code of 1986 (relating to certain fringe benefits) is amended by adding at the end thereof the following new paragraph:

"(9) SPECIAL RULE FOR CERTAIN NONCOMMERCIAL AIR TRANSPORTATION.—For the purposes of subsection (b) the term 'no-additional-cost service' includes the value of transportation provided by an employer to an employee on a noncommercially operated aircraft if—

"(A) such transportation is provided on a flight made in the ordinary course of the trade or business of the employer owning or leasing such aircraft for use in such trade or business,

"(B) the flight on which the transportation is provided by the employer would have been made whether or not such employee was transported on the flight, and

"(C) the employer incurs no substantial additional cost in providing such transportation to such employee.

For purposes of this paragraph, an aircraft is non-commercially operated if transportation provided by the employer is not provided or made available to the general public by purchase of a ticket or other fare.".

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

SEC. 371. REPORTING SIMPLIFICATION.

(a) SIMPLIFIED ANNUAL FILING REQUIREMENT FOR OWNERS AND THEIR SPOUSES.—

(1) IN GENERAL.—The Secretary of the Treasury shall modify the requirements for filing annual returns with respect to one-participant retirement plans to ensure that such plans with assets of $500,000 or less as of the close of the plan year need not file a return for that year.

(2) ONE-PARTICIPANT RETIREMENT PLAN DEFINED.—For purposes of this subsection, the term "one-participant retirement plan" means a retirement plan that—

(A) on the first day of the plan year—

(i) covered only the employer (and the employer's spouse) and the employer owned the entire business (whether or not incorporated), or

(ii) covered only one or more partners (and their spouses) in a business partnership (including partners in an S or C corporation),

(B) meets the minimum coverage requirements of section 410(b) of the Internal Revenue Code of 1986 without being combined with any other plan of the business that covers the employees of the business,

(C) does not provide benefits to anyone except the employer (and the employer's spouse) or the partners (and their spouses),

(D) does not cover a business that is a member of an affiliated service group, a controlled group of corporations, or a group of businesses under common control, and

(E) does not cover a business that leases employees.

(3) OTHER DEFINITIONS.—Terms used in paragraph (2) which are also used in section 414 of the Internal Revenue Code of 1986 shall have the respective meanings given such terms by such section.

(b) SIMPLIFIED ANNUAL FILING REQUIREMENT FOR PLANS WITH FEWER THAN 25 EMPLOYEES.—In the case of a retirement plan which covers less than 25 employees

on the 1st day of the plan year and meets the requirements described in subparagraphs (B), (D), and (E) of subsection (a)(2), the Secretary of the Treasury shall provide for the filing of a simplified annual return that is substantially similar to the annual return required to be filed by a one-participant retirement plan.

(c) EFFECTIVE DATE.—The provisions of this section shall take effect on January 1, 2001.

Subtitle H—Plan Amendments

SEC. 381. PROVISIONS RELATING TO PLAN AMENDMENTS.

(a) IN GENERAL.—If this section applies to any plan or contract amendment—

(1) such plan or contract shall be treated as being operated in accordance with the terms of the plan during the period described in subsection (b)(2)(A), and

(2) such plan shall not fail to meet the requirements of section 411(d)(6) of the Internal Revenue Code of 1986 by reason of such amendment.

(b) AMENDMENTS TO WHICH SECTION APPLIES.—

(1) IN GENERAL.—This section shall apply to any amendment to any plan or annuity contract which is made—

(A) pursuant to any amendment made by this title, or pursuant to any regulation issued under this title, and

(B) on or before the last day of the first plan year beginning on or after January 1, 2003.

In the case of a government plan (as defined in section 414(d) of the Internal Revenue Code of 1986), this paragraph shall be applied by substituting "2005" for "2003".

(2) CONDITIONS.—This section shall not apply to any amendment unless—

(A) during the period—

(i) beginning on the date the legislative or regulatory amendment described in paragraph (1)(A) takes effect (or in the case of a plan or contract amendment not required by such legislative or regulatory amendment, the effective date specified by the plan), and

(ii) ending on the date described in paragraph (1)(B) (or, if earlier, the date the plan or contract amendment is adopted),

the plan or contract is operated as if such plan or contract amendment were in effect, and

(B) such plan or contract amendment applies retroactively for such period.

TITLE IV—EDUCATION TAX RELIEF PROVISIONS

SEC. 401. ELIMINATION OF 60-MONTH LIMIT AND INCREASE IN INCOME LIMITATION ON STUDENT LOAN INTEREST DEDUCTION.

(a) ELIMINATION OF 60-MONTH LIMIT.—

(1) IN GENERAL.—Section 221 (relating to interest on education loans) is amended by striking subsection (d) and by redesignating subsections (e), (f), and (g) as subsections (d), (e), and (f), respectively.

(2) CONFORMING AMENDMENT.—Section 6050S(e) is amended by striking "section 221(e)(1)" and inserting "section 221(d)(1)".

(3) EFFECTIVE DATE.—The amendments made by this subsection shall apply with respect to any loan interest paid after December 31, 1999, in taxable years ending after such date.

(b) INCREASE IN INCOME LIMITATION.—

(1) IN GENERAL.—Section 221(b)(2)(B) (relating to amount of reduction) is amended by striking clauses (i) and (ii) and inserting the following:

"(i) the excess of—

"(I) the taxpayer's modified adjusted gross income for such taxable year, over

"(II) $50,000 (twice such dollar amount in the case of a joint return), bears to

"(ii) $15,000.".

(2) CONFORMING AMENDMENT.—Section 221(g)(1) is amended by striking "$40,000 and $60,000 amounts" and inserting "$50,000 amount".

(3) EFFECTIVE DATE.—The amendments made by this subsection shall apply to taxable years ending after December 31, 1999.

SEC. 402. MODIFICATIONS TO QUALIFIED TUITION PROGRAMS.

(a) SHORT TITLE.—This section may be cited as the "Collegiate Learning and Student Savings (CLASS) Act".

(b) ELIGIBLE EDUCATIONAL INSTITUTIONS PERMITTED TO MAINTAIN QUALIFIED TUITION PROGRAMS.—

(1) IN GENERAL.—Section 529(b)(1) (defining qualified State tuition program) is amended by inserting "or by 1 or more eligible educational institutions" after "maintained by a State or agency or instrumentality thereof".

(2) PRIVATE QUALIFIED TUITION PROGRAMS LIMITED TO BENEFIT PLANS.—Clause (ii) of section 529(b)(1)(A) is amended by inserting "in the case of a program established and maintained by a State or agency or instrumentality thereof," before "may make".

(3) CONFORMING AMENDMENTS.—

(A) Sections 72(e)(9), 135(c)(2)(C), 135(d)(1)(D), 529, 530(b)(2)(B), 4973(e), and 6693(a)(2)(C) are each amended by striking "qualified State tuition" each place it appears and inserting "qualified tuition".

(B) The headings for sections 72(e)(9) and 135(c)(2)(C) are each amended by striking "QUALIFIED STATE TUITION" and inserting "QUALIFIED TUITION".

(C) The headings for sections 529(b) and 530(b)(2)(B) are each amended by striking "QUALIFIED STATE TUITION" and inserting "QUALIFIED TUITION".

*(D) The heading for section 529 is amended by striking "**STATE**".*

(E) The item relating to section 529 in the table of sections for part VIII of subchapter F of chapter 1 is amended by striking "State".

(c) EXCLUSION FROM GROSS INCOME OF EDUCATION DISTRIBUTIONS FROM QUALIFIED TUITION PROGRAMS.—

(1) IN GENERAL.—Section 529(c)(3)(B) (relating to distributions) is amended to read as follows:

"(B) DISTRIBUTIONS FOR QUALIFIED HIGHER EDUCATION EXPENSES.—For purposes of this paragraph—

"(i) IN-KIND DISTRIBUTIONS.—No amount shall be includible in gross income under subparagraph (A) by reason of a distribution which consists of providing a benefit to the distributee which, if paid for by the distributee, would constitute payment of a qualified higher education expense.

"(ii) CASH DISTRIBUTIONS.—In the case of distributions not described in clause (i), if—

"(I) such distributions do not exceed the qualified higher education expenses (reduced by expenses described in clause (i)), no amount shall be includible in gross income, and

"(II) in any other case, the amount otherwise includible in gross income shall be reduced by an amount

which bears the same ratio to such amount as such expenses bear to such distributions.

"(iii) EXCEPTION FOR INSTITUTIONAL PROGRAMS.—In the case of any taxable year beginning before January 1, 2004, clauses (i) and (ii) shall not apply with respect to any distribution during such taxable year under a qualified tuition program established and maintained by 1 or more eligible educational institutions.

"(iv) TREATMENT AS DISTRIBUTIONS.—Any benefit furnished to a designated beneficiary under a qualified tuition program shall be treated as a distribution to the beneficiary for purposes of this paragraph.

"(v) COORDINATION WITH HOPE AND LIFETIME LEARNING CREDITS.—The total amount of qualified higher education expenses with respect to an individual for the taxable year shall be reduced—

"(I) as provided in section 25A(g)(2), and

"(II) by the amount of such expenses which were taken into account in determining the credit allowed to the taxpayer or any other person under section 25A.

"(vi) COORDINATION WITH EDUCATION INDIVIDUAL RETIREMENT ACCOUNTS.—If, with respect to an individual for any taxable year—

"(I) the aggregate distributions to which clauses (i) and (ii) and section 530(d)(2)(A) apply, exceed

"(II) the total amount of qualified higher education expenses otherwise taken into account under clauses (i) and (ii) (after the application of clause (v)) for such year,

the taxpayer shall allocate such expenses among such distributions for purposes of determining the amount of the exclusion under clauses (i) and (ii) and section 530(d)(2)(A).".

(2) CONFORMING AMENDMENTS.—

(A) Section 135(d)(2)(B) is amended by striking "the exclusion under section 530(d)(2)"

and inserting "the exclusions under sections 529(c)(3)(B)(i) and 530(d)(2)".

(B) Section 221(e)(2)(A) is amended by inserting "529," after "135,".

(d) COORDINATION WITH HOPE AND LIFETIME LEARNING CREDITS AND QUALIFIED TUITION PROGRAMS.—

(1) IN GENERAL.—Section 530(d)(2)(C) is amended to read as follows:

"(C) COORDINATION WITH HOPE AND LIFETIME LEARNING CREDITS AND QUALIFIED TUITION PROGRAMS.—For purposes of subparagraph (A)—

"(i) CREDIT COORDINATION.—The total amount of qualified higher education expenses with respect to an individual for the taxable year shall be reduced—

"(I) as provided in section 25A(g)(2), and

"(II) by the amount of such expenses which were taken into account in determining the credit allowed to the taxpayer or any other person under section 25A.

"(ii) COORDINATION WITH QUALIFIED TUITION PROGRAMS.—If, with respect to an individual for any taxable year—

"(I) the aggregate distributions during such year to which subparagraph (A) and section 529(c)(3)(B) apply, exceed

"(II) the total amount of qualified higher education expenses otherwise taken into account under subparagraph (A) (after the application of clause (i)) for such year,

the taxpayer shall allocate such expenses among such distributions for purposes of determining the amount of the exclusion under subparagraph (A) and section 529(c)(3)(B).".

(2) CONFORMING AMENDMENTS.—

(A) Subsection (e) of section 25A is amended to read as follows:

"(e) ELECTION TO HAVE SECTION APPLY.—No credit shall be allowed under subsection (a) for a taxable year with respect to the qualified tuition and related expenses of an individual unless the taxpayer elects to have this section apply with respect to such individual for such year.".

(B) Section 135(d)(2)(A) is amended by striking "allowable" and inserting "allowed".

(C) Section 530(d)(2)(D) is amended—

(i) by striking "or credit", and

(ii) by striking "CREDIT OR" in the heading.

(e) ROLLOVER TO DIFFERENT PROGRAM FOR BENEFIT OF SAME DESIGNATED BENEFICIARY.—Section 529(c)(3)(C) (relating to change in beneficiaries) is amended—

(1) by striking "transferred to the credit" in clause (i) and inserting "transferred—

"(I) to another qualified tuition program for the benefit of the designated beneficiary, or

"(II) to the credit",

(2) by adding at the end the following new clause:

"(iii) LIMITATION ON CERTAIN ROLLOVERS.—Clause (i)(I) shall not apply to any amount transferred with respect to a designated beneficiary if, at any time during the 1-year period ending on the day of such transfer, any other amount was transferred with respect to such beneficiary

which was not includible in gross income by reason of clause (i)(I).", and

(3) by inserting "OR PROGRAMS" after "BENEFICIARIES" in the heading.

(f) MEMBER OF FAMILY INCLUDES FIRST COUSIN.—Section 529(e)(2) (defining member of family) is amended by striking "and" at the end of subparagraph (B), by striking the period at the end of subparagraph (C) and by inserting "; and", and by adding at the end the following new subparagraph:

"(D) any first cousin of such beneficiary.".

(g) DEFINITION OF QUALIFIED HIGHER EDUCATION EXPENSES.—

(1) IN GENERAL.—Subparagraph (A) of section 529(e)(3) (relating to definition of qualified higher education expenses) is amended to read as follows:

"(A) IN GENERAL.—The term 'qualified higher education expenses' means—

"(i) tuition and fees required for the enrollment or attendance of a designated beneficiary at an eligible educational institution for courses of instruction of such beneficiary at such institution, and

"(ii) expenses for books, supplies, and equipment which are incurred in connection

with such enrollment or attendance, but not to exceed the allowance for books and supplies included in the cost of attendance (as defined in section 472 of the Higher Education Act of 1965 (20 U.S.C. 1087ll), as in effect on the date of enactment of the Taxpayer Refund Act of 1999) as determined by the eligible educational institution.".

(2) EXCEPTION FOR EDUCATION INVOLVING SPORTS, ETC.—Paragraph (3) of section 529(e) (relating to qualified higher education expenses) is amended by adding at the end the following new subparagraph:

"(C) EXCEPTION FOR EDUCATION INVOLVING SPORTS, ETC.—The term 'qualified higher education expenses' shall not include expenses with respect to any course or other education involving sports, games, or hobbies unless such course or other education is part of the beneficiary's degree program or is taken to acquire or improve job skills of the beneficiary.".

(h) EFFECTIVE DATES.—

(1) IN GENERAL.—The amendments made by this section shall apply to taxable years beginning after December 31, 1999.

(2) QUALIFIED HIGHER EDUCATION EXPENSES.—The amendments made by subsection (g) shall apply to amounts paid for courses beginning after December 31, 1999.

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.

(a) IN GENERAL.—Section 117(c) (relating to the exclusion from gross income amounts received as a qualified scholarship) is amended—

(1) by striking "Subsections (a)" and inserting the following:

"(1) IN GENERAL.—Except as provided in paragraph (2), subsections (a)", and

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

"(2) EXCEPTIONS.—Paragraph (1) shall not apply to any amount received by an individual under—

"(A) the National Health Service Corps Scholarship program under section

338A(g)(1)(A) of the Public Health Service Act, or

"(B) the Armed Forces Health Professions Scholarship and Financial Assistance program under subchapter I of chapter 105 of title 10, United States Code.".

(b) EFFECTIVE DATE.—The amendments made by subsection (a) shall apply to amounts received in taxable years beginning after December 31, 1993.

SEC. 404. EXTENSION OF EXCLUSION FOR EMPLOYER-PROVIDED EDUCATIONAL ASSISTANCE.

(a) IN GENERAL.—Section 127(d) (relating to termination of exclusion for educational assistance programs) is amended by striking "May 31, 2000" and inserting "December 31, 2003".

(b) REPEAL OF LIMITATION ON GRADUATE EDUCATION.—

(1) IN GENERAL.—The last sentence of section 127(c)(1) is amended by striking ", and such term also does not include any payment for, or the provision of any benefits with respect to, any graduate level course of a kind normally taken by an individual pursuing a program leading to a law, business, medical, or other advanced academic or professional degree".

(2) EFFECTIVE DATE.—The amendment made by paragraph (1) shall apply with respect to expenses relating to courses beginning after December 31, 1999.

SEC. 405. ADDITIONAL INCREASE IN ARBITRAGE REBATE EXCEPTION FOR GOVERNMENTAL BONDS USED TO FINANCE EDUCATIONAL FACILITIES.

(a) IN GENERAL.—Section 148(f)(4)(D)(vii) (relating to increase in exception for bonds financing public school capital expenditures) is amended by striking "$5,000,000" the second place it appears and inserting "$10,000,000".

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to obligations issued in calendar years beginning after December 31, 1999.

SEC. 406. TREATMENT OF QUALIFIED PUBLIC EDUCATIONAL FACILITY BONDS AS EXEMPT FACILITY BONDS.

(a) TREATMENT AS EXEMPT FACILITY BOND.—Subsection (a) of section 142 (relating to exempt facility bond) is amended by striking "or" at the end of paragraph (11), by striking the period at the end of paragraph (12) and inserting ", or", and by adding at the end the following new paragraph:

"(13) qualified public educational facilities.".

(b) QUALIFIED PUBLIC EDUCATIONAL FACILITIES.—Section 142 (relating to exempt facility bond) is amended by adding at the end the following new subsection:

"(k) QUALIFIED PUBLIC EDUCATIONAL FACILITIES.—

"(1) IN GENERAL.—For purposes of subsection (a)(13), the term 'qualified public educational facility' means any school facility which is—

"(A) part of a public elementary school or a public secondary school, and

"(B) owned by a private, for-profit corporation pursuant to a public-private partnership agreement with a State or local educational agency described in paragraph (2).

"(2) PUBLIC-PRIVATE PARTNERSHIP AGREEMENT DESCRIBED.—A public-private partnership agreement is described in this paragraph if it is an agreement—

"(A) under which the corporation agrees—

"(i) to do 1 or more of the following: construct, rehabilitate, refurbish, or equip a school facility, and

"(ii) at the end of the term of the agreement, to transfer the school facility to such agency for no additional consideration, and

"(B) the term of which does not exceed the last maturity date of any bond which is a part of the issue to be used to finance the activities described in subparagraph (A)(i).

"(3) SCHOOL FACILITY.—For purposes of this subsection, the term 'school facility' means—

"(A) school buildings,

"(B) functionally related and subordinate facilities and land with respect to such buildings, including any stadium or other facility primarily used for school events, and

"(C) any property, to which section 168 applies (or would apply but for section 179), for use in the facility.

"(4) PUBLIC SCHOOLS.—For purposes of this subsection, the terms 'elementary school' and 'secondary school' have the meanings given such terms by section 14101 of the Elementary and Secondary Education Act of 1965 (20 U.S.C. 8801), as in effect on the date of the enactment of this subsection.

"(5) ANNUAL AGGREGATE FACE AMOUNT OF TAX-EXEMPT FINANCING.—

"(A) IN GENERAL.—An issue shall not be treated as an issue described in subsection (a)(13) if the aggregate face amount of bonds

issued by the State pursuant thereto (when added to the aggregate face amount of bonds previously so issued during the calendar year) exceeds an amount equal to the greater of—

"(i) $10 multiplied by the State population, or

"(ii) $5,000,000.

"(B) ALLOCATION RULES.—

"(i) IN GENERAL.—Except as otherwise provided in this subparagraph, the State may allocate the amount described in subparagraph (A) for any calendar year in such manner as the State determines appropriate.

"(ii) RULES FOR CARRYFORWARD OF UNUSED LIMITATION.—A State may elect to carry forward an unused limitation for any calendar year for 3 calendar years following the calendar year in which the unused limitation arose under rules similar to the rules of section 146(f), except that the only purpose for which the carryforward may be elected is the issuance of exempt facility bonds described in subsection (a)(13).".

(c) EXEMPTION FROM GENERAL STATE VOLUME CAPS.—Paragraph (3) of section 146(g) (relating to exception for certain bonds) is amended—

(1) by striking "or (12)" and inserting "(12), or (13)", and

(2) by striking "and environmental enhancements of hydroelectric generating facilities" and inserting "environmental enhancements of hydroelectric generating facilities, and qualified public educational facilities".

(d) EXEMPTION FROM LIMITATION ON USE FOR LAND ACQUISITION.—Section 147(h) (relating to certain rules not to apply to mortgage revenue bonds, qualified student loan bonds, and qualified 501(c)(3) bonds) is amended by adding at the end the following new paragraph:

"(3) EXEMPT FACILITY BONDS FOR QUALIFIED PUBLIC-PRIVATE SCHOOLS.—Subsection (c) shall not apply to any exempt facility bond issued as part of an issue described in section 142(a)(13) (relating to qualified public educational facilities).".

(e) CONFORMING AMENDMENT.—The heading for section 147(h) is amended by striking "MORTGAGE REVENUE BONDS, QUALIFIED STUDENT LOAN BONDS, AND QUALIFIED 501(c)(3) BONDS" and inserting "CERTAIN BONDS".

(f) EFFECTIVE DATE.—The amendments made by this section shall apply to bonds issued after December 31, 1999.

SEC. 407. FEDERAL GUARANTEE OF SCHOOL CONSTRUCTION BONDS BY FEDERAL HOME LOAN BANKS.

(a) IN GENERAL.—Section 149(b)(3) (relating to exceptions) is amended by adding at the end the following new subparagraph:

"(E) CERTAIN GUARANTEED SCHOOL CONSTRUCTION BONDS.—Any bond issued as part of an issue 95 percent or more of the net proceeds of which are used for public school construction shall not be treated as federally guaranteed by reason of any guarantee by any Federal Home Loan Bank under the Federal Home Loan Bank Act (12 U.S.C. 1421 et seq.), to the extent the Federal Housing Finance Board allocates authority to such Bank to so guarantee such bond. For purposes of the preceding sentence, the aggregate face amount of such bonds which may be so guaranteed may not exceed $500,000,000 in any calendar year.".

(b) EFFECTIVE DATE.—Subparagraph (E) of section 149(b)(3) of the Internal Revenue Code of 1986, as added by the amendment made by subsection (a), shall take effect

upon the enactment, after the date of the enactment of this Act, of legislation authorizing the Federal Housing Finance Board to allocate authority to Federal Home Loan Banks to guarantee any bond described in such subparagraph, but only if such legislation makes specific reference to such subparagraph.

SEC. 408. CERTAIN EDUCATIONAL BENEFITS PROVIDED BY AN EMPLOYER TO CHILDREN OF EMPLOYEES EXCLUDABLE FROM GROSS INCOME AS A SCHOLARSHIP.

(a) IN GENERAL.—Section 117 (relating to qualified scholarships) is amended by adding at the end the following:

"(e) EMPLOYER-PROVIDED EDUCATIONAL BENEFITS PROVIDED TO CHILDREN OF EMPLOYEES.—

"(1) IN GENERAL.—In determining whether any amount is a qualified scholarship for purposes of subsection (a), the fact that such amount is provided in connection with an employment relationship shall be disregarded if—

"(A) such amount is provided by the employer to a child (as defined in section 161(c)(3)) of an employee of such employer,

"(B) such amount is provided pursuant to a plan which meets the nondiscrimination requirements of subsection (d)(3), and

"(C) amounts provided under such plan are in addition to any other compensation payable to employees and such plan does not provide employees with a choice between such amounts and any other benefit.

For purposes of subparagraph (C), the business practices of the employer (as well as such plan) shall be taken into account.

"(2) DOLLAR LIMITATIONS.—

"(A) PER CHILD.—The amount excluded from the gross income of the employee by reason of paragraph (1) for a taxable year with respect to amounts provided to each child of such employee shall not exceed $2,000.

"(B) AGGREGATE LIMIT.—The amount excluded from the gross income of the employee by reason of paragraph (1) for a taxable year (after the application of subparagraph (A)) shall not exceed the excess of the dollar amount contained in section 127(a)(2) over the amount excluded from the employee's gross income under section 127 for such year.

"(3) PRINCIPAL SHAREHOLDERS AND OWNERS.—Paragraph (1) shall not apply to any amount provided to any child of any individual if such indi-

vidual (or such individual's spouse) owns (on any day of the year) more than 5 percent of the stock or of the capital or profits interest in the employer.

"(4) DEGREE REQUIREMENT NOT TO APPLY.—In the case of an amount which is treated as a qualified scholarship by reason of this subsection, subsection (a) shall be applied without regard to the requirement that the recipient be a candidate for a degree.

"(5) CERTAIN OTHER RULES TO APPLY.—Rules similar to the rules of paragraphs (4), (5), and (7) of section 127(c) shall apply for purposes of this subsection.".

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

TITLE V—HEALTH CARE TAX RELIEF PROVISIONS

SEC. 501. DEDUCTION FOR HEALTH AND LONG-TERM CARE INSURANCE COSTS OF INDIVIDUALS NOT PARTICIPATING IN EMPLOYER-SUBSIDIZED HEALTH PLANS.

(a) IN GENERAL.—Part VII of subchapter B of chapter 1 is amended by redesignating section 222 as section 223 and by inserting after section 221 the following new section:

"SEC. 222. HEALTH AND LONG-TERM CARE INSURANCE COSTS.

"(a) IN GENERAL.—In the case of an individual, there shall be allowed as a deduction an amount equal to the applicable percentage of the amount paid during the taxable year for insurance which constitutes medical care for the taxpayer and the taxpayer's spouse and dependents.

"(b) APPLICABLE PERCENTAGE.—For purposes of subsection (a), the applicable percentage shall be determined 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.*

"(c) LIMITATION BASED ON OTHER COVERAGE.—

"(1) COVERAGE UNDER CERTAIN SUBSIDIZED EMPLOYER PLANS.—

"(A) IN GENERAL.—Subsection (a) shall not apply to any taxpayer for any calendar month for which the taxpayer participates in any health plan maintained by any employer of the taxpayer or of the spouse of the taxpayer if 50 percent or more of the cost of coverage under such plan (determined under section 4980B and without regard to payments made with respect to any coverage described in subsection (e)) is paid or incurred by the employer.

"(B) EMPLOYER CONTRIBUTIONS TO CAFETERIA PLANS, FLEXIBLE SPENDING ARRANGEMENTS, AND MEDICAL SAVINGS ACCOUNTS.—Employer contributions to a cafeteria plan, a flexible spending or similar arrangement, or a medical savings account which are excluded from gross income under section 106 shall be treated for purposes of subparagraph (A) as paid by the employer.

"(C) AGGREGATION OF PLANS OF EMPLOYER.—A health plan which is not otherwise described in subparagraph (A) shall be treated as described in such subparagraph if such plan would be so described if all health plans of persons treated as a single employer under subsections (b), (c), (m), or (o) of section 414 were treated as one health plan.

"(D) SEPARATE APPLICATION TO HEALTH INSURANCE AND LONG-TERM CARE INSURANCE.—Subparagraphs (A) and (C) shall be applied separately with respect to—

"(i) plans which include primarily coverage for qualified long-term care services or are qualified long-term care insurance contracts, and

"(ii) plans which do not include such coverage and are not such contracts.

"(2) COVERAGE UNDER CERTAIN FEDERAL PROGRAMS.—

"(A) IN GENERAL.—Subsection (a) shall not apply to any amount paid for any coverage for an individual for any calendar month if, as of the first day of such month, the individual is covered under any medical care program described in—

"(i) title XVIII, XIX, or XXI of the Social Security Act,

"(ii) chapter 55 of title 10, United States Code,

"(iii) chapter 17 of title 38, United States Code,

"(iv) chapter 89 of title 5, United States Code, or

"(v) the Indian Health Care Improvement Act.

"(B) EXCEPTIONS.—

"(i) QUALIFIED LONG-TERM CARE.—Subparagraph (A) shall not apply to amounts paid for coverage under a qualified long-term care insurance contract.

"(ii) CONTINUATION COVERAGE OF FEHBP.—Subparagraph (A)(iv) shall not apply to coverage which is comparable to continuation coverage under section 4980B.

"(d) LONG-TERM CARE DEDUCTION LIMITED TO QUALIFIED LONG-TERM CARE INSURANCE CONTRACTS.—In the case of a qualified long-term care insurance contract, only eligible long-term care premiums (as defined in section 213(d)(10)) may be taken into account under subsection (a).

"(e) DEDUCTION NOT AVAILABLE FOR PAYMENT OF ANCILLARY COVERAGE PREMIUMS.—Any amount paid as a premium for insurance which provides for—

"(1) coverage for accidents, disability, dental care, vision care, or a specified illness, or

"(2) making payments of a fixed amount per day (or other period) by reason of being hospitalized. shall not be taken into account under subsection (a).

"(f) SPECIAL RULES.—

"(1) COORDINATION WITH DEDUCTION FOR HEALTH INSURANCE COSTS OF SELF-EMPLOYED INDIVIDUALS.—The amount taken into account by the taxpayer in computing the deduction under section 162(l) shall not be taken into account under this section.

"(2) COORDINATION WITH MEDICAL EXPENSE DEDUCTION.—The amount taken into account by the taxpayer in computing the deduction under this section shall not be taken into account under section 213.

"(g) REGULATIONS.—The Secretary shall prescribe such regulations as may be appropriate to carry out this section, including regulations requiring employers to report to their employees and the Secretary such information as the Secretary determines to be appropriate.".

(b) DEDUCTION ALLOWED WHETHER OR NOT TAXPAYER ITEMIZES OTHER DEDUCTIONS.—Subsection (a) of section 62 is amended by inserting after paragraph (17) the following new item:

"(18) HEALTH AND LONG-TERM CARE INSURANCE COSTS.—The deduction allowed by section 222.".

(c) CLERICAL AMENDMENT.—The table of sections for part VII of subchapter B of chapter 1 is amended by striking the last item and inserting the following new items:

"Sec. 222. Health and long-term care insurance costs.
"Sec. 223. Cross reference.".

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

SEC. 502. LONG-TERM CARE INSURANCE PERMITTED TO BE OFFERED UNDER CAFETERIA PLANS AND FLEXIBLE SPENDING ARRANGEMENTS.

(a) CAFETERIA PLANS.—

(1) IN GENERAL.—Subsection (f) of section 125 (defining qualified benefits) is amended by inserting before the period at the end "; except that such term shall include the payment of premiums for any qualified long-term care insurance contract (as defined in section 7702B) to the extent the amount of such payment does not exceed the eligible long-term care premiums (as defined in section 213(d)(10)) for such contract.".

(b) FLEXIBLE SPENDING ARRANGEMENTS.—Section 106 (relating to contributions by employer to accident and health plans) is amended by striking subsection (c).

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

SEC. 503. ADDITIONAL PERSONAL EXEMPTION FOR TAXPAYER CARING FOR ELDERLY FAMILY MEMBER IN TAXPAYER'S HOME.

(a) IN GENERAL.—Section 151 (relating to allowance of deductions for personal exemptions) is amended by adding at the end redesignating subsection (e) as subsection (f)

and by inserting after subsection (d) the following new subsection:

"(e) ADDITIONAL EXEMPTION FOR CERTAIN ELDERLY FAMILY MEMBERS RESIDING WITH TAXPAYER.—

"(1) IN GENERAL.—An exemption of the exemption amount for each qualified family member of the taxpayer.

"(2) QUALIFIED FAMILY MEMBER.—For purposes of this subsection, the term 'qualified family member' means, with respect to any taxable year, any individual—

"(A) who is—

"(i) the father or mother, or an ancestor of either, or

"(ii) a stepfather or stepmother,

of the taxpayer or of the taxpayer's spouse or former spouse,

"(B) who is a member for the entire taxable year of a household maintained by the taxpayer, and

"(C) who has been certified, before the due date for filing the return of tax for the taxable year (without extensions), by a physician (as defined in section 1861(r)(1) of the Social Security

Act) as being an individual with long-term care needs described in paragraph (3) for a period—

"(i) which is at least 180 consecutive days, and

"(ii) a portion of which occurs within the taxable year.

Such term shall not include any individual otherwise meeting the requirements of the preceding sentence unless within the 39½ month period ending on such due date (or such other period as the Secretary prescribes) a physician (as so defined) has certified that such individual meets such requirements.

"(3) INDIVIDUALS WITH LONG-TERM CARE NEEDS.—An individual is described in this paragraph if the individual—

"(A) is unable to perform (without substantial assistance from another individual) at least 2 activities of daily living (as defined in section 7702B(c)(2)(B)) due to a loss of functional capacity, or

"(B) requires substantial supervision to protect such individual from threats to health and safety due to severe cognitive impairment and is unable to perform, without reminding or

cuing assistance, at least 1 activity of at least 1 activity of daily living (as so defined) or to the extent provided in regulations prescribed by the Secretary (in consultation with the Secretary of Health and Human Services), is unable to engage in age appropriate activities.

"(4) SPECIAL RULES.—Rules similar to the rules of paragraphs (1), (2), (3), (4), and (5) of section 21(e) shall apply for purposes of this subsection.".

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

SEC. 504. INCLUSION OF CERTAIN VACCINES AGAINST STREPTOCOCCUS PNEUMONIAE TO LIST OF TAXABLE VACCINES; REDUCTION IN PER DOSE TAX RATE.

(a) INCLUSION OF VACCINES.—

(1) IN GENERAL.—Section 4132(a)(1) (defining taxable vaccine) is amended by adding at the end the following new subparagraph:

"(L) Any conjugate vaccine against streptococcus pneumoniae.".

(2) EFFECTIVE DATE.—

(A) SALES.—The amendment made by this subsection shall apply to vaccine sales beginning

on the day after the date on which the Centers for Disease Control makes a final recommendation for routine administration to children of any conjugate vaccine against streptococcus pneumoniae, but shall not take effect if subsection (c) does not take effect.

(B) DELIVERIES.—For purposes of subparagraph (A), in the case of sales on or before the date described in such subparagraph for which delivery is made after such date, the delivery date shall be considered the sale date.

(b) REDUCTION IN PER DOSE TAX RATE.—

(1) IN GENERAL.—Section 4131(b)(1) (relating to amount of tax) is amended by striking "75 cents" and inserting "25 cents".

(2) EFFECTIVE DATE.—

(A) SALES.—The amendment made by this subsection shall apply to vaccine sales after December 31, 2004, but shall not take effect if subsection (c) does not take effect.

(B) DELIVERIES.—For purposes of subparagraph (A), in the case of sales on or before the date described in such subparagraph for which delivery is made after such date, the delivery date shall be considered the sale date.

(3) LIMITATION ON CERTAIN CREDITS OR REFUNDS.—For purposes of applying section 4132(b) of the Internal Revenue Code of 1986 with respect to any claim for credit or refund filed after August 31, 2004, the amount of tax taken into account shall not exceed the tax computed under the rate in effect on January 1, 2005.

(c) VACCINE TAX AND TRUST FUND AMENDMENTS.—

(1) Sections 1503 and 1504 of the Vaccine Injury Compensation Program Modification Act (and the amendments made by such sections) are hereby repealed.

(2) Subparagraph (A) of section 9510(c)(1) is amended by striking "August 5, 1997" and inserting "October 21, 1998".

(3) The amendments made by this subsection shall take effect as if included in the provisions of the Tax and Trade Relief Extension Act of 1998 to which they relate.

(d) REPORT.—Not later than 1 year after the date of the enactment of this Act, the Comptroller General of the United States shall prepare and submit a report to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate on the operation the Vaccine Injury Compensation Trust Fund

and on the adequacy of such Fund to meet future claims made under the Vaccine Injury Compensation Program.

TITLE VI—SMALL BUSINESS TAX RELIEF PROVISIONS

SEC. 601. DEDUCTION FOR 100 PERCENT OF HEALTH INSURANCE COSTS OF SELF-EMPLOYED INDIVIDUALS.

(a) IN GENERAL.—Paragraph (1) of section 162(l) is amended to read as follows:

"(1) ALLOWANCE OF DEDUCTION.—In the case of an individual who is an employee within the meaning of section 401(c)(1), there shall be allowed as a deduction under this section an amount equal to 100 percent of the amount paid during the taxable year for insurance which constitutes medical care for the taxpayer and the taxpayer's spouse and dependents.".

(b) CLARIFICATION OF LIMITATIONS ON OTHER COVERAGE.—The first sentence of section 162(l)(2)(B) of the Internal Revenue Code of 1986 is amended to read as follows: "Paragraph (1) shall not apply to any taxpayer for any calendar month for which the taxpayer participates in any subsidized health plan maintained by any employer (other than an employer described in section 401(c)(4)) of the taxpayer or the spouse of the taxpayer.".

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

SEC. 602. INCREASE IN EXPENSE TREATMENT FOR SMALL BUSINESSES.

(a) IN GENERAL.—Paragraph (1) of section 179(b) (relating to dollar limitation) is amended to read as follows:

"(1) DOLLAR LIMITATION.—The aggregate cost which may be taken into account under subsection (a) for any taxable year shall not exceed $30,000.".

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

SEC. 603. REPEAL OF FEDERAL UNEMPLOYMENT SURTAX.

Section 3301 (relating to rate of Federal unemployment tax) is amended—

(1) by striking "2007" and inserting "2004", and

(2) by striking "2008" and inserting "2005".

SEC. 604. INCOME AVERAGING FOR FARMERS AND FISHERMEN NOT TO INCREASE ALTERNATIVE MINIMUM TAX LIABILITY.

(a) IN GENERAL.—Section 55(c) (defining regular tax) is amended by redesignating paragraph (2) as paragraph (3) and by inserting after paragraph (1) the following:

"(2) COORDINATION WITH INCOME AVERAGING FOR FARMERS AND FISHERMEN.—Solely for purposes of this section, section 1301 (relating to averaging of farm and fishing income) shall not apply in computing the regular tax.".

(b) ALLOWING INCOME AVERAGING FOR FISHERMEN.—(1) Section 1301(a) of the Internal Revenue Code of 1986 is amended by striking "farming business" and inserting "farming business or fishing business,".

(2) Section 1301(b)(1)(A)(i) is amended by striking "and" and inserting "or", and by striking subsection (b)(1)(A)(ii) and replacing it with "(b)(1)(A)(ii) a fishing business; and" and by redesignating subsection (b)(1)(A)(ii) as subsection (b)(1)(A)(iii).

(3) Section 1301(b) is amended by inserting the following paragraph after subsection (b)(3):

"(4) FISHING BUSINESS.—The term fishing business means the conduct of commercial fishing as defined in section 3 of the Magnuson-Stevens Fishery Conservation and Management Act (16 U.S.C. 1802).".

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

SEC. 605. FARM, FISHING, AND RANCH RISK MANAGEMENT ACCOUNTS.

(a) IN GENERAL.—Subpart C of part II of subchapter E of chapter 1 (relating to taxable year for which deductions taken) is amended by inserting after section 468B the following:

"SEC. 468C. FARM AND RANCH RISK MANAGEMENT ACCOUNTS.

"(a) DEDUCTION ALLOWED.—In the case of an individual engaged in an eligible farming business or commercial fishing, there shall be allowed as a deduction for any taxable year the amount paid in cash by the taxpayer during the taxable year to a Farm, Fishing, and Ranch Risk Management Account (hereinafter referred to as the 'FFARRM Account').

"(b) LIMITATION.—(1) The amount which a taxpayer may pay into the FFARRM Account for any taxable year shall not exceed 20 percent of so much of the taxable income of the taxpayer (determined without regard to this section) which is attributable (determined in the manner applicable under section 1301) to any eligible farming business or commercial fishing.

"(2) Distributions from a FFARRM Account may not be used to purchase, lease, or finance any new fishing vessel, add capacity to any fishery, or otherwise contribute to the overcapitalization of any fishery. The Secretary of Com-

merce shall implement regulations to enforce this paragraph.

"(c) ELIGIBLE FARMING BUSINESS.—(1) For purposes of this section, the term 'eligible farming business' means any farming business (as defined in section 263A(e)(4)) which is not a passive activity (within the meaning of section 469(c)) of the taxpayer.

"(2) COMMERCIAL FISHING.—For purposes of this section, the term 'commercial fishing' is defined under section (3) of the Magnuson-Stevens Fishery Conservation and Management Act (16 U.S.C. 1802).

"(d) FFARRM ACCOUNT.—For purposes of this section—

"(1) IN GENERAL.—The term 'FFARRM Account' means a trust created or organized in the United States for the exclusive benefit of the taxpayer, but only if the written governing instrument creating the trust meets the following requirements:

"(A) No contribution will be accepted for any taxable year in excess of the amount allowed as a deduction under subsection (a) for such year.

"(B) The trustee is a bank (as defined in section 408(n)) or another person who demonstrates to the satisfaction of the Secretary that

the manner in which such person will administer the trust will be consistent with the requirements of this section.

"(C) The assets of the trust consist entirely of cash or of obligations which have adequate stated interest (as defined in section 1274(c)(2)) and which pay such interest not less often than annually.

"(D) All income of the trust is distributed currently to the grantor.

"(E) The assets of the trust will not be commingled with other property except in a common trust fund or common investment fund.

"(2) ACCOUNT TAXED AS GRANTOR TRUST.—The grantor of a FFARRM Account shall be treated for purposes of this title as the owner of such Account and shall be subject to tax thereon in accordance with subpart E of part I of subchapter J of this chapter (relating to grantors and others treated as substantial owners).

"(e) INCLUSION OF AMOUNTS DISTRIBUTED.—

"(1) IN GENERAL.—Except as provided in paragraph (2), there shall be includible in the gross income of the taxpayer for any taxable year—

"(A) any amount distributed from a FFARRM Account of the taxpayer during such taxable year, and

"(B) any deemed distribution under—

"(i) subsection (f)(1) (relating to deposits not distributed within 5 years),

"(ii) subsection (f)(2) (relating to cessation in eligible farming business), and

"(iii) subparagraph (A) or (B) of subsection (f)(3) (relating to prohibited transactions and pledging account as security).

"(2) EXCEPTIONS.—Paragraph (1)(A) shall not apply to—

"(A) any distribution to the extent attributable to income of the Account, and

"(B) the distribution of any contribution paid during a taxable year to a FFARRM Account to the extent that such contribution exceeds the limitation applicable under subsection (b) if requirements similar to the requirements of section 408(d)(4) are met.

For purposes of subparagraph (A), distributions shall be treated as first attributable to income and then to other amounts.

"(f) SPECIAL RULES.—

"(1) TAX ON DEPOSITS IN ACCOUNT WHICH ARE NOT DISTRIBUTED WITHIN 5 YEARS.—

"(A) IN GENERAL.—If, at the close of any taxable year, there is a nonqualified balance in any FFARRM Account—

"(i) there shall be deemed distributed from such Account during such taxable year an amount equal to such balance, and

"(ii) the taxpayer's tax imposed by this chapter for such taxable year shall be increased by 10 percent of such deemed distribution.

The preceding sentence shall not apply if an amount equal to such nonqualified balance is distributed from such Account to the taxpayer before the due date (including extensions) for filing the return of tax imposed by this chapter for such year (or, if earlier, the date the taxpayer files such return for such year).

"(B) NONQUALIFIED BALANCE.—For purposes of subparagraph (A), the term 'nonqualified balance' means any balance in the Account on the last day of the taxable year which is attributable to amounts deposited in such Account before the 4th preceding taxable year.

"(C) ORDERING RULE.—For purposes of this paragraph, distributions from a FFARRM Account (other than distributions of current income) shall be treated as made from deposits in the order in which such deposits were made, beginning with the earliest deposits.

"(2) CESSATION IN ELIGIBLE BUSINESS.—At the close of the first disqualification period after a period for which the taxpayer was engaged in an eligible farming business or commercial fishing, there shall be deemed distributed from the FFARRM Account of the taxpayer an amount equal to the balance in such Account (if any) at the close of such disqualification period. For purposes of the preceding sentence, the term 'disqualification period' means any period of 2 consecutive taxable years for which the taxpayer is not engaged in an eligible farming business or commercial fishing.

"(3) CERTAIN RULES TO APPLY.—Rules similar to the following rules shall apply for purposes of this section:

"(A) Section 220(f)(8) (relating to treatment on death).

"(B) Section 408(e)(2) (relating to loss of exemption of account where individual engages in prohibited transaction).

"(C) Section 408(e)(4) (relating to effect of pledging account as security).

"(D) Section 408(g) (relating to community property laws).

"(E) Section 408(h) (relating to custodial accounts).

"(4) TIME WHEN PAYMENTS DEEMED MADE.—For purposes of this section, a taxpayer shall be deemed to have made a payment to a FFARRM Account on the last day of a taxable year if such payment is made on account of such taxable year and is made on or before the due date (without regard to extensions) for filing the return of tax for such taxable year.

"(5) INDIVIDUAL.—For purposes of this section, the term 'individual' shall not include an estate or trust.

"(6) DEDUCTION NOT ALLOWED FOR SELF-EMPLOYMENT TAX.—The deduction allowable by reason of subsection (a) shall not be taken into account in determining an individual's net earnings from self-

employment (within the meaning of section 1402(a)) for purposes of chapter 2.

"(g) REPORTS.—The trustee of a FFARRM Account shall make such reports regarding such Account to the Secretary and to the person for whose benefit the Account is maintained with respect to contributions, distributions, and such other matters as the Secretary may require under regulations. The reports required by this subsection shall be filed at such time and in such manner and furnished to such persons at such time and in such manner as may be required by such regulations.".

(b) TAX ON EXCESS CONTRIBUTIONS.—

(1) Subsection (a) of section 4973 (relating to tax on excess contributions to certain tax-favored accounts and annuities), as amended by section 304(b)(1), is amended by striking "or" at the end of paragraph (4), by redesignating paragraphs (4) and (5) as paragraphs (5) and (6), respectively, and by inserting after paragraph (3) the following:

"(4) a FFARRM Account (within the meaning of section 468C(d)), or".

(2) Section 4973, as amended by section 304(b)(2), is amended by adding at the end the following:

"(h) EXCESS CONTRIBUTIONS TO FFARRM ACCOUNTS.—For purposes of this section, in the case of a FFARRM Account (within the meaning of section 468C(d)), the term 'excess contributions' means the amount by which the amount contributed for the taxable year to the Account exceeds the amount which may be contributed to the Account under section 468C(b) for such taxable year. For purposes of this subsection, any contribution which is distributed out of the FFARRM Account in a distribution to which section 468C(e)(2)(B) applies shall be treated as an amount not contributed.".

(3) The section heading for section 4973 is amended to read as follows:

"SEC. 4973. EXCESS CONTRIBUTIONS TO CERTAIN ACCOUNTS, ANNUITIES, ETC.".

(4) The table of sections for chapter 43 is amended by striking the item relating to section 4973 and inserting the following:

"Sec. 4973. Excess contributions to certain accounts, annuities, etc.".

(c) TAX ON PROHIBITED TRANSACTIONS.—

(1) Subsection (c) of section 4975 (relating to tax on prohibited transactions) is amended by adding at the end the following:

"(6) SPECIAL RULE FOR FFARRM ACCOUNTS.—A person for whose benefit a FFARRM Account (within

the meaning of section 468C(d)) is established shall be exempt from the tax imposed by this section with respect to any transaction concerning such account (which would otherwise be taxable under this section) if, with respect to such transaction, the account ceases to be a FFARRM Account by reason of the application of section 468C(f)(3)(A) to such account.".

(2) Paragraph (1) of section 4975(e) is amended by redesignating subparagraphs (E) and (F) as subparagraphs (F) and (G), respectively, and by inserting after subparagraph (D) the following:

"(E) a FFARRM Account described in section 468C(d),".

(d) FAILURE TO PROVIDE REPORTS ON FFARRM ACCOUNTS.—Paragraph (2) of section 6693(a) (relating to failure to provide reports on certain tax-favored accounts or annuities), as amended by section 304(d), is amended by redesignating subparagraphs (C), (D), and (E) as subparagraphs (D), (E), and (F), respectively, and by inserting after subparagraph (B) the following:

"(C) section 468C(g) (relating to FFARRM Accounts),".

(e) CLERICAL AMENDMENT.—The table of sections for subpart C of part II of subchapter E of chapter 1 is amend-

ed by inserting after the item relating to section 468B the following:

"Sec. 468C. Farm, Fishing and Ranch Risk Management Accounts.".

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

SEC. 606. EXCLUSION OF INVESTMENT SECURITIES INCOME FROM PASSIVE INCOME TEST FOR BANK S CORPORATIONS.

(a) IN GENERAL.—Section 1362(d)(3)(C) (defining passive investment income) is amended by adding at the end the following:

"(v) EXCEPTION FOR BANKS; ETC.—In the case of a bank (as defined in section 581), a bank holding company (as defined in section 246A(c)(3)(B)(ii)), or a qualified subchapter S subsidiary bank, the term 'passive investment income' shall not include—

"(I) interest income earned by such bank, bank holding company, or qualified subchapter S subsidiary bank, or

"(II) dividends on assets required to be held by such bank, bank holding

company, or qualified subchapter S subsidiary bank to conduct a banking business, including stock in the Federal Reserve Bank, the Federal Home Loan Bank, or the Federal Agricultural Mortgage Bank or participation certificates issued by a Federal Intermediate Credit Bank.''.

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

SEC. 607. TREATMENT OF QUALIFYING DIRECTOR SHARES.

(a) IN GENERAL.—Section 1361 is amended by adding at the end the following:

''(f) TREATMENT OF QUALIFYING DIRECTOR SHARES.—

''(1) IN GENERAL.—For purposes of this subchapter—

''(A) qualifying director shares shall not be treated as a second class of stock, and

''(B) no person shall be treated as a shareholder of the corporation by reason of holding qualifying director shares.

''(2) QUALIFYING DIRECTOR SHARES DEFINED.—For purposes of this subsection, the term 'qualifying

director shares' means any shares of stock in a bank (as defined in section 581) or in a bank holding company registered as such with the Federal Reserve System—

"(i) which are held by an individual solely by reason of status as a director of such bank or company or its controlled subsidiary; and

"(ii) which are subject to an agreement pursuant to which the holder is required to dispose of the shares of stock upon termination of the holder's status as a director at the same price as the individual acquired such shares of stock.

"(3) DISTRIBUTIONS.—A distribution (not in part or full payment in exchange for stock) made by the corporation with respect to qualifying director shares shall be includible as ordinary income of the holder and deductible to the corporation as an expense in computing taxable income under section 1363(b) in the year such distribution is received.".

(b) CONFORMING AMENDMENTS.—

(1) Section 1361(b)(1) is amended by inserting ", except as provided in subsection (f)," before "which does not".

(2) Section 1366(a) is amended by adding at the end the following:

"(3) ALLOCATION WITH RESPECT TO QUALIFYING DIRECTOR SHARES.—The holders of qualifying director shares (as defined in section 1361(f)) shall not, with respect to such shares of stock, be allocated any of the items described in paragraph (1).".

(3) Section 1373(a) is amended by striking "and" at the end of paragraph (1), by striking the period at the end of paragraph (2) and inserting ", and", and adding at the end the following:

"(3) no amount of an expense deductible under this subchapter by reason of section 1361(f)(3) shall be apportioned or allocated to such income.".

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

SEC. 608. INCREASE IN ESTATE TAX DEDUCTION FOR FAMILY-OWNED BUSINESS INTEREST.

(a) IN GENERAL.—Section 2057(a)(2) (relating to maximum deduction) is amended by striking "$675,000" and inserting "$1,975,000".

(b) CONFORMING AMENDMENTS.—Section 2057(a)(3)(B) (relating to coordination with unified credit)

is amended by striking "$675,000" each place it appears in the text and heading and inserting "$1,975,000".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to estates of decedents dying after December 31, 2000.

SEC. 609. CREDIT FOR EMPLOYEE HEALTH INSURANCE EXPENSES.

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

"SEC. 45E. EMPLOYEE HEALTH INSURANCE EXPENSES.

"(a) GENERAL RULE.—For purposes of section 38, in the case of a small employer, the employee health insurance expenses credit determined under this section is an amount equal to the applicable percentage of the amount paid by the taxpayer during the taxable year for qualified employee health insurance expenses.

"(b) APPLICABLE PERCENTAGE.—For purposes of subsection (a), the applicable percentage is equal to—

"(1) 60 percent in the case of self-only coverage, and

"(2) 70 percent in the case of family coverage (as defined in section 220(c)(5)).

"(c) PER EMPLOYEE DOLLAR LIMITATION.—The amount of qualified employee health insurance expenses

taken into account under subsection (a) with respect to any qualified employee for any taxable year shall not exceed—

"(1) $1,000 in the case of self-only coverage, and

"(2) $1,715 in the case of family coverage (as so defined).

"(d) DEFINITIONS.—For purposes of this section—

"(1) SMALL EMPLOYER.—

"(A) IN GENERAL.—The term 'small employer' means, with respect to any calendar year, any employer if such employer employed an average of 9 or fewer employees on business days during either of the 2 preceding calendar years. For purposes of the preceding sentence, a preceding calendar year may be taken into account only if the employer was in existence throughout such year.

"(B) EMPLOYERS NOT IN EXISTENCE IN PRECEDING YEAR.—In the case of an employer which was not in existence throughout the 1st preceding calendar year, the determination under subparagraph (A) shall be based on the average number of employees that it is reasonably expected such employer will employ on business days in the current calendar year.

"(2) QUALIFIED EMPLOYEE HEALTH INSURANCE EXPENSES.—

"(A) IN GENERAL.—The term 'qualified employee health insurance expenses' means any amount paid by an employer for health insurance coverage to the extent such amount is attributable to coverage provided to any employee while such employee is a qualified employee.

"(B) EXCEPTION FOR AMOUNTS PAID UNDER SALARY REDUCTION ARRANGEMENTS.—No amount paid or incurred for health insurance coverage pursuant to a salary reduction arrangement shall be taken into account under subparagraph (A).

"(C) HEALTH INSURANCE COVERAGE.—The term 'health insurance coverage' has the meaning given such term by section 9832(b)(1).

"(3) QUALIFIED EMPLOYEE.—

"(A) IN GENERAL.—The term 'qualified employee' means, with respect to any period, an employee of an employer if the total amount of wages paid or incurred by such employer to such employee at an annual rate during the taxable year exceeds $5,000 but does not exceed $16,000.

"(B) TREATMENT OF CERTAIN EMPLOYEES.—For purposes of subparagraph (A), the term 'employee'—

"(i) shall not include an employee within the meaning of section 401(c)(1), but

"(ii) shall include a leased employee within the meaning of section 414(n).

"(C) WAGES.—The term 'wages' has the meaning given such term by section 3121(a) (determined without regard to any dollar limitation contained in such section).

"(D) INFLATION ADJUSTMENT.—

"(i) IN GENERAL.—In the case of any taxable year beginning in a calendar year after 2001, the $16,000 amount contained in subparagraph (A) shall be increased by an amount equal to—

"(I) such dollar amount, multiplied by

"(II) the cost-of-living adjustment under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting 'calendar year 2000' for 'calendar year 1992' in subparagraph (B) thereof.

"(ii) ROUNDING.—If any increase determined under clause (i) is not a multiple of $100, such amount shall be rounded to the nearest multiple of $100.

"(e) CERTAIN RULES MADE APPLICABLE.—For purposes of this section, rules similar to the rules of section 52 shall apply.

"(f) DENIAL OF DOUBLE BENEFIT.—No deduction or credit under any other provision of this chapter shall be allowed with respect to qualified employee health insurance expenses taken into account under subsection (a).".

(b) CREDIT TO BE PART OF GENERAL BUSINESS CREDIT.—Section 38(b) (relating to current year business credit) is amended by striking "plus" at the end of paragraph (13), by striking the period at the end of paragraph (14) and inserting ", plus", and by adding at the end the following:

"(15) the employee health insurance expenses credit determined under section 45E.".

(c) NO CARRYBACKS.—Subsection (d) of section 39 (relating to carryback and carryforward of unused credits) is amended by adding at the end the following:

"(10) NO CARRYBACK OF SECTION 45E CREDIT BEFORE EFFECTIVE DATE.—No portion of the unused business credit for any taxable year which is attrib-

utable to the employee health insurance expenses credit determined under section 45E may be carried back to a taxable year ending before January 1, 2001.".

(d) CLERICAL AMENDMENT.—The table of sections for subpart D of part IV of subchapter A of chapter 1 is amended by adding at the end the following:

"Sec. 45E. Employee health insurance expenses.".

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to amounts paid or incurred in taxable years beginning after December 31, 2000.

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.

(a) MAXIMUM RATE OF TAX REDUCED TO 53 PERCENT.—The table contained in section 2001(c)(1) is amended by striking the 2 highest brackets and inserting the following:

"Over $2,500,000	*$1,025,800, plus 53% of the excess over $2,500,000.".*

(b) REPEAL OF PHASEOUT OF GRADUATED RATES.—Subsection (c) of section 2001 is amended by striking paragraph (2).

(c) EFFECTIVE DATES.—

(1) SUBSECTION (a).—The amendment made by subsection (a) shall apply to estates of decedents dying, and gifts made, after December 31, 2000.

(2) SUBSECTION (b).—The amendment made by subsection (b) shall apply to estates of decedents dying, and gifts made, after December 31, 2003.

SEC. 702. UNIFIED CREDIT AGAINST ESTATE AND GIFT TAXES REPLACED WITH UNIFIED EXEMPTION AMOUNT.

(a) IN GENERAL.—

(1) ESTATE TAX.—Part IV of subchapter A of chapter 11 is amended by inserting after section 2051 the following new section:

"SEC. 2052. EXEMPTION.

"(a) IN GENERAL.—For purposes of the tax imposed by section 2001, the value of the taxable estate shall be determined by deducting from the value of the gross estate an amount equal to the excess (if any) of—

"(1) the exemption amount for the calendar year in which the decedent died, over

"(2) the sum of—

"(A) the aggregate amount allowed as an exemption under section 2521 with respect to

gifts made by the decedent after December 31, 2003, and

"(B) the aggregate amount of gifts made by the decedent for which credit was allowed by section 2505 (as in effect on the day before the date of the enactment of the Taxpayer Refund Act of 1999).

Gifts which are includible in the gross estate of the decedent shall not be taken into account in determining the amounts under paragraph (2).

"(b) EXEMPTION AMOUNT.—For purposes of subsection (a), the term 'exemption amount' means the 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.".*

(2) GIFT TAX.—Subchapter C of chapter 12 (relating to deductions) is amended by inserting before section 2522 the following new section:

"SEC. 2521. EXEMPTION.

"(a) IN GENERAL.—In computing taxable gifts for any calendar year, there shall be allowed as a deduction in the case of a citizen or resident of the United States an amount equal to the excess of—

"(1) the exemption amount determined under section 2052 for such calendar year, over

"(2) the sum of—

"(A) the aggregate amount allowed as an exemption under this section for all preceding calendar years after 2003, and

"(B) the aggregate amount of gifts for which credit was allowed by section 2505 (as in effect on the day before the date of the enactment of the Taxpayer Refund Act of 1999).".

(b) REPEAL OF UNIFIED CREDITS.—

(1) Section 2010 (relating to unified credit against estate tax) is hereby repealed.

(2) Section 2505 (relating to unified credit against gift tax) is hereby repealed.

(c) CONFORMING AMENDMENTS.—

(1)(A) Subparagraph (B) of section 2001(b)(1) is amended by inserting before the comma "reduced by the amount described in section 2052(a)(2)".

(B) Subsection (b) of section 2001 is amended by adding at the end the following new sentence: "For purposes of paragraph (2), the amount of the tax payable under chapter 12 shall be determined without regard to the credit provided by section 2505 (as in ef-

fect on the day before the date of the enactment of the Taxpayer Refund Act of 1999).".

(2) Subsection (f) of section 2011 is amended by striking ", reduced by the amount of the unified credit provided by section 2010".

(3) Subsection (a) of section 2012 is amended by striking "and the unified credit provided by section 2010".

(4) Subsection (b) of section 2013 is amended by inserting before the period at the end of the first sentence "and increased by the exemption allowed under section 2052 or 2106(a)(4) (or the corresponding provisions of prior law) in determining the taxable estate of the transferor for purposes of the estate tax".

(5) Subparagraph (A) of section 2013(c)(1) is amended by striking "2010,".

(6) Paragraph (2) of section 2014(b) is amended by striking "2010,".

(7) Clause (ii) of section 2056A(b)(12)(C) is amended to read as follows:

> *"(ii) to treat any reduction in the tax imposed by paragraph (1)(A) by reason of the credit allowable under section 2010 (as in effect on the day before the date of the enactment of the Taxpayer Refund Act of*

1999) or the exemption allowable under section 2052 with respect to the decedent as such a credit or exemption (as the case may be) allowable to such surviving spouse for purposes of determining the amount of the exemption allowable under section 2521 with respect to taxable gifts made by the surviving spouse during the year in which the spouse becomes a citizen or any subsequent year,".

(8) Section 2102 is amended by striking subsection (c).

(9) Subsection (a) of section 2106 is amended by adding at the end the following new paragraph:

"(4) EXEMPTION.—

"(A) IN GENERAL.—An exemption of $60,000.

"(B) RESIDENTS OF POSSESSIONS OF THE UNITED STATES.—In the case of a decedent who is considered to be a nonresident not a citizen of the United States under section 2209, the exemption under this paragraph shall be the greater of—

"(i) $60,000, or

"(ii) that proportion of $175,000 which the value of that part of the decedent's gross estate which at the time of his death is situated in the United States bears to the value of his entire gross estate wherever situated.

"(C) SPECIAL RULES.—

"(i) COORDINATION WITH TREATIES.—To the extent required under any treaty obligation of the United States, the exemption allowed under this paragraph shall be equal to the amount which bears the same ratio to the exemption amount under section 2052 (for the calendar year in which the decedent died) as the value of the part of the decedent's gross estate which at the time of his death is situated in the United States bears to the value of his entire gross estate wherever situated. For purposes of the preceding sentence, property shall not be treated as situated in the United States if such property is exempt from the tax imposed by this subchapter under any treaty obligation of the United States.

"(ii) COORDINATION WITH GIFT TAX EXEMPTION AND UNIFIED CREDIT.—If an exemption has been allowed under section 2521 (or a credit has been allowed under section 2505 as in effect on the day before the date of the enactment of the Taxpayer Refund Act of 1999) with respect to any gift made by the decedent, each dollar amount contained in subparagraph (A) or (B) or the exemption amount applicable under clause (i) of this subparagraph (whichever applies) shall be reduced by the exemption so allowed under 2521 (or, in the case of such a credit, by the amount of the gift for which the credit was so allowed).".

(10) Subsection (c) of section 2107 is amended—

(A) by striking paragraph (1) and by redesignating paragraphs (2) and (3) as paragraphs (1) and (2), respectively, and

(B) by striking the second sentence of paragraph (2) (as so redesignated).

(11) Section 2206 is amended by striking "the taxable estate" in the first sentence and inserting "the sum of the taxable estate and the amount of the ex-

emption allowed under section 2052 or 2106(a)(4) in computing the taxable estate".

(12) Section 2207 is amended by striking "the taxable estate" in the first sentence and inserting "the sum of the taxable estate and the amount of the exemption allowed under section 2052 or 2106(a)(4) in computing the taxable estate".

(13) Subparagraph (B) of section 2207B(a)(1) is amended to read as follows:

"(B) the sum of the taxable estate and the amount of the exemption allowed under section 2052 or 2106(a)(4) in computing the taxable estate.".

(14) Subsection (a) of section 2503 is amended by striking "section 2522" and inserting "section 2521".

(15) Paragraph (1) of section 6018(a) is amended by striking "the applicable exclusion amount" and inserting "the exemption amount under section 2052 for the calendar year which includes the date of death".

(16) Subparagraph (A) of section 6601(j)(2) is amended to read as follows:

"(A)(i) the amount of the tax which would be imposed by chapter 11 on an amount of tax-

able estate equal to the sum of $1,000,000 and the exemption amount allowable under section 2052, reduced by

"(ii) the amount of tax which would be so imposed if the taxable estate equaled such exemption amount, or".

(17) The table of sections for part II of subchapter A of chapter 11 is amended by striking the item relating to section 2010.

(18) The table of sections for subchapter A of chapter 12 is amended by striking the item relating to section 2505.

(d) EFFECTIVE DATE.—The amendments made by this section—

(1) insofar as they relate to the tax imposed by chapter 11 of the Internal Revenue Code of 1986, shall apply to estates of decedents dying after December 31, 2003, and

(2) insofar as they relate to the tax imposed by chapter 12 of such Code, shall apply to gifts made after December 31, 2003.

Subtitle B—Conservation Easements

SEC. 711. EXPANSION OF ESTATE TAX RULE FOR CONSERVATION EASEMENTS.

(a) WHERE LAND IS LOCATED.—

(1) IN GENERAL.—Clause (i) of section 2031(c)(8)(A) (defining land subject to a conservation easement) is amended—

(A) by striking "25 miles" both places it appears and inserting "50 miles", and

(B) striking "10 miles" and inserting "25 miles".

(2) EFFECTIVE DATE.—The amendments made by this subsection shall apply to estates of decedents dying after December 31, 1999.

(b) CLARIFICATION OF DATE FOR DETERMINING VALUE OF LAND AND EASEMENT.—

(1) IN GENERAL.—Section 2031(c)(2) (defining applicable percentage) is amended by adding at the end the following new sentence: "The values taken into account under the preceding sentence shall be such values as of the date of the contribution referred to in paragraph (8)(B).".

(2) EFFECTIVE DATE.—The amendment made by this subsection shall apply to estates of decedents dying after December 31, 1997.

Subtitle C—Annual Gift Exclusion

SEC. 721. INCREASE IN ANNUAL GIFT EXCLUSION.

(a) IN GENERAL.—Section 2503(b) (relating to exclusions from gifts) is amended—

(1) by striking the following:

"(b) EXCLUSIONS FROM GIFTS.—

"(1) IN GENERAL.—In the case of gifts",

(2) by inserting the following:

"(b) EXCLUSIONS FROM GIFTS.—In the case of gifts",

(3) by striking paragraph (2), and

(4) by striking "$10,000" and inserting "$20,000".

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to gifts made after December 31, 2004.

Subtitle D—Simplification of Generation-Skipping Transfer Tax

SEC. 731. RETROACTIVE ALLOCATION OF GST EXEMPTION.

(a) IN GENERAL.—Section 2632 (relating to special rules for allocation of GST exemption) is amended by redesignating subsection (c) as subsection (d) and by inserting after subsection (b) the following new subsection:

"(c) RETROACTIVE ALLOCATIONS.—

"(1) IN GENERAL.—If—

"(A) a non-skip person has an interest or a future interest in a trust to which any transfer has been made,

"(B) such person—

"(i) is a lineal descendant of a grandparent of the transferor or of a grandparent of the transferor's spouse, and

"(ii) is assigned to a generation below the generation assignment of the transferor, and

"(C) such person predeceases the transferor, then the transferor may make an allocation of any of such transferor's unused GST exemption to any previous transfer or transfers to the trust on a chronological basis.

"(2) SPECIAL RULES.—If the allocation under paragraph (1) by the transferor is made on a gift tax return filed on or before the date prescribed by section 6075(b) for gifts made within the calendar year within which the non-skip person's death occurred—

"(A) the value of such transfer or transfers for purposes of section 2642(a) shall be determined as if such allocation had been made on a

timely filed gift tax return for each calendar year within which each transfer was made,

"(B) such allocation shall be effective immediately before such death, and

"(C) the amount of the transferor's unused GST exemption available to be allocated shall be determined immediately before such death.

"(3) FUTURE INTEREST.—For purposes of this subsection, a person has a future interest in a trust if the trust may permit income or corpus to be paid to such person on a date or dates in the future.".

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to deaths of non-skip persons occurring after the date of the enactment of this Act.

SEC. 732. SEVERING OF TRUSTS.

(a) IN GENERAL.—Subsection (a) of section 2642 (relating to inclusion ratio) is amended by adding at the end the following new paragraph:

"(3) SEVERING OF TRUSTS.—

"(A) IN GENERAL.—If a trust is severed in a qualified severance, the trusts resulting from such severance shall be treated as separate trusts thereafter for purposes of this chapter.

"(B) QUALIFIED SEVERANCE.—For purposes of subparagraph (A)—

"(i) IN GENERAL.—The term 'qualified severance' means the division of a single trust and the creation (by any means available under the governing instrument or under local law) of 2 or more trusts if—

"(I) the single trust was divided on a fractional basis, and

"(II) the terms of the new trusts, in the aggregate, provide for the same succession of interests of beneficiaries as are provided in the original trust.

"(ii) TRUSTS WITH INCLUSION RATIO GREATER THAN ZERO.—If a trust has an inclusion ratio of greater than zero and less than 1, a severance is a qualified severance only if the single trust is divided into 2 trusts, one of which receives a fractional share of the total value of all trust assets equal to the applicable fraction of the single trust immediately before the severance. In such case, the trust receiving such fractional share shall have an inclusion ratio of zero and the other trust shall have an inclusion ratio of 1.

"(iii) REGULATIONS.—The term 'qualified severance' includes any other severance permitted under regulations prescribed by the Secretary.

"(C) TIMING AND MANNER OF SEVERANCES.—A severance pursuant to this paragraph may be made at any time. The Secretary shall prescribe by forms or regulations the manner in which the qualified severance shall be reported to the Secretary.".

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to severances after the date of the enactment of this Act.

SEC. 733. MODIFICATION OF CERTAIN VALUATION RULES.

(a) GIFTS FOR WHICH GIFT TAX RETURN FILED OR DEEMED ALLOCATION MADE.—Paragraph (1) of section 2642(b) (relating to valuation rules, etc.) is amended to read as follows:

"(1) GIFTS FOR WHICH GIFT TAX RETURN FILED OR DEEMED ALLOCATION MADE.—If the allocation of the GST exemption to any transfers of property is made on a gift tax return filed on or before the date prescribed by section 6075(b) for such transfer or is deemed to be made under section 2632(b)(1)—

"(A) the value of such property for purposes of subsection (a) shall be its value as finally determined for purposes of chapter 12 (within the meaning of section 2001(f)(2)), or, in the case of an allocation deemed to have been made at the close of an estate tax inclusion period, its value at the time of the close of the estate tax inclusion period, and

"(B) such allocation shall be effective on and after the date of such transfer, or, in the case of an allocation deemed to have been made at the close of an estate tax inclusion period, on and after the close of such estate tax inclusion period.".

(b) TRANSFERS AT DEATH.—Subparagraph (A) of section 2642(b)(2) is amended to read as follows:

"(A) TRANSFERS AT DEATH.—If property is transferred as a result of the death of the transferor, the value of such property for purposes of subsection (a) shall be its value as finally determined for purposes of chapter 11; except that, if the requirements prescribed by the Secretary respecting allocation of post-death changes in value are not met, the value of such property shall be

determined as of the time of the distribution concerned.".

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect as if included in the amendments made by section 1431 of the Tax Reform Act of 1986.

SEC. 734. RELIEF PROVISIONS.

(a) IN GENERAL.—Section 2642 is amended by adding at the end the following new subsection:

"(g) RELIEF PROVISIONS.—

"(1) RELIEF FOR LATE ELECTIONS.—

"(A) IN GENERAL.—The Secretary shall by regulation prescribe such circumstances and procedures under which extensions of time will be granted to make—

"(i) an allocation of GST exemption described in paragraph (1) or (2) of subsection (b), and

"(ii) an election under section 2632(b)(3).

Such regulations shall include procedures for requesting comparable relief with respect to transfers made before the date of enactment of this paragraph.

"(B) BASIS FOR DETERMINATIONS.—In determining whether to grant relief under this

paragraph, the Secretary shall take into account all relevant circumstances, including evidence of intent contained in the trust instrument or instrument of transfer and such other factors as the Secretary deems relevant. For purposes of determining whether to grant relief under this paragraph, the time for making the allocation (or election) shall be treated as if not expressly prescribed by statute.

"(2) SUBSTANTIAL COMPLIANCE.—An allocation of GST exemption under section 2632 that demonstrates an intent to have the lowest possible inclusion ratio with respect to a transfer or a trust shall be deemed to be an allocation of so much of the transferor's unused GST exemption as produces the lowest possible inclusion ratio. In determining whether there has been substantial compliance, all relevant circumstances shall be taken into account, including evidence of intent contained in the trust instrument or instrument of transfer and such other factors as the Secretary deems relevant.".

(b) EFFECTIVE DATES.—

(1) RELIEF FOR LATE ELECTIONS.—Section 2642(g)(1) (as added by subsection (a)) shall apply to

requests pending on, or filed after, the date of the enactment of this Act.

(2) SUBSTANTIAL COMPLIANCE.—Section 2642(g)(2) (as so added) shall take effect on the date of the enactment of this Act and shall apply to allocations made prior to such date for purposes of determining the tax consequences of generation-skipping transfers with respect to which the period of time for filing claims for refund has not expired. No implication is intended with respect to the availability of relief for late elections or the application of a rule of substantial compliance before the enactment of this amendment.

TITLE VIII—TAX EXEMPT ORGANIZATIONS PROVISIONS

SEC. 801. EXEMPTION FROM INCOME TAX FOR STATE-CREATED ORGANIZATIONS PROVIDING PROPERTY AND CASUALTY INSURANCE FOR PROPERTY FOR WHICH SUCH COVERAGE IS OTHERWISE UNAVAILABLE.

(a) IN GENERAL.—Subsection (c) of section 501 (relating to exemption from tax on corporations, certain trusts, etc.) is amended by adding at the end the following new paragraph:

"(28)(A) Any association created before January 1, 1999, by State law and organized and operated exclusively to provide property and casualty insurance coverage for property located within the State for which the State has determined that coverage in the authorized insurance market is limited or unavailable at reasonable rates, if—

"(i) no part of the net earnings of which inures to the benefit of any private shareholder or individual,

"(ii) except as provided in clause (v), no part of the assets of which may be used for, or diverted to, any purpose other than—

"(I) to satisfy, in whole or in part, the liability of the association for, or with respect to, claims made on policies written by the association,

"(II) to invest in investments authorized by applicable law,

"(III) to pay reasonable and necessary administration expenses in connection with the establishment and operation of the association and the processing of claims against the association, or

"(IV) to make remittances pursuant to State law to be used by the State to provide for the payment of claims on policies written by the association, purchase reinsurance covering losses under such policies, or to support governmental programs to prepare for or mitigate the effects of natural catastrophic events,

"(iii) the State law governing the association permits the association to levy assessments on insurance companies authorized to sell property and casualty insurance in the State, or on property and casualty insurance policyholders with insurable interests in property located in the State to fund deficits of the association, including the creation of reserves,

"(iv) the plan of operation of the association is subject to approval by the chief executive officer or other executive branch official of the State, by the State legislature, or both, and

"(v) the assets of the association revert upon dissolution to the State, the State's designee, or an entity designated by the State law governing the association, or State law does not permit the dissolution of the association.

"(B)(i) An entity described in clause (ii) shall be disregarded as a separate entity and treated as part of the association described in subparagraph (A) from which it receives remittances described in clause (ii) if an election is made within 30 days after the date that such association is determined to be exempt from tax.

"(ii) An entity is described in this clause if it is an entity or fund created before January 1, 1999, pursuant to State law and organized and operated exclusively to receive, hold, and invest remittances from an association described in subparagraph (A) and exempt from tax under subsection (a) and to make disbursements to pay claims on insurance contracts issued by such association, and to make disbursements to support governmental programs to prepare for or mitigate the effects of natural catastrophic events.".

(b) UNRELATED BUSINESS TAXABLE INCOME.—Subsection (a) of section 512 (relating to unrelated business taxable income) is amended by adding at the end the following new paragraph:

"(6) SPECIAL RULE APPLICABLE TO ORGANIZATIONS DESCRIBED IN SECTION 501(C)(28).—In the case of an organization described in section 501(c)(28), the

term 'unrelated business taxable income' means taxable income for a taxable year computed without the application of section 501(c)(28) if, at the end of the immediately preceding taxable year, the organization's net equity exceeded 15 percent of the total coverage in force under insurance contracts issued by the organization and outstanding at the end of such preceding year.".

(c) TRANSITIONAL RULE.—No income or gain shall be recognized by an association as a result of a change in status to that of an association described by section 501(c)(28) of the Internal Revenue Code of 1986, as amended by subsection (a).

(d) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 1999.

SEC. 802. MODIFICATIONS TO SECTION 512(b)(13).

(a) IN GENERAL.—Paragraph (13) of section 512(b) is amended by redesignating subparagraph (E) as subparagraph (F) and by inserting after subparagraph (D) the following new paragraph:

"(E) PARAGRAPH TO APPLY ONLY TO EXCESS PAYMENTS.—

"(i) IN GENERAL.—Subparagraph (A) shall apply only to the portion of a speci-

fied payment received by the controlling organization which exceeds the amount which would have been paid if such payment met the requirements prescribed under section 482.

"(ii) ADDITION TO TAX FOR VALUATION MISSTATEMENTS.—The tax imposed by this chapter on the controlling organization shall be increased by an amount equal to 20 percent of such excess.".

(b) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendment made by this section shall apply to payments received or accrued after December 31, 1999.

(2) PAYMENTS SUBJECT TO BINDING CONTRACT TRANSITION RULE.—If the amendments made by section 1041 of the Taxpayer Relief Act of 1997 do not apply to any amount received or accrued after the date of the enactment of this Act under any contract described in subsection (b)(2) of such section, such amendments also shall not apply to amounts received or accrued under such contract before January 1, 2000.

SEC. 803. SIMPLIFICATION OF LOBBYING EXPENDITURE LIMITATION.

(a) REPEAL OF GRASSROOTS EXPENDITURE LIMIT.—Paragraph (1) of section 501(h) (relating to expenditures by public charities to influence legislation) is amended to read as follows:

"(1) GENERAL RULE.—In the case of an organization to which this subsection applies, exemption from taxation under subsection (a) shall be denied because a substantial part of the activities of such organization consists of carrying on propaganda, or otherwise attempting, to influence legislation, but only if such organization normally makes lobbying expenditures in excess of the lobbying ceiling amount for such organization for each taxable year.".

(b) CONFORMING AMENDMENTS.—

(1) Section 501(h)(2) is amended by striking subparagraphs (C) and (D).

(2) Section 4911(b) is amended to read as follows:

"(b) EXCESS LOBBYING EXPENDITURES.—For purposes of this section, the term 'excess lobbying expenditures' means, for a taxable year, the amount by which the lobbying expenditures made by the organization during the taxable year exceed the lobbying nontaxable amount for such organization for such taxable year.".

(3) Section 4911(c) is amended by striking paragraphs (3) and (4).

(4) Paragraph (1)(A) of section 4911(f) is amended by striking "limits of section 501(h)(1) have" and inserting "limit of section 501(h)(1) has".

(5) Paragraph (1)(C) of section 4911(f) is amended by striking "limits of section 501(h)(1) are" and inserting "limit of section 501(h)(1) is".

(6) Paragraphs (4)(A) and (4)(B) of section 4911(f) are each amended by striking "limits of section 501(h)(1)" and inserting "limit of section 501(h)(1)".

(7) Paragraph (8) of section 6033(b) (relating to certain organizations described in section 501(c)(3)) is amended by inserting "and" at the end of subparagraph (A) and by striking subparagraphs (C) and (D).

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

SEC. 804. TAX-FREE DISTRIBUTIONS FROM INDIVIDUAL RETIREMENT ACCOUNTS FOR CHARITABLE PURPOSES.

(a) IN GENERAL.—Subsection (d) of section 408 (relating to individual retirement accounts) is amended by adding at the end the following new paragraph:

"(8) DISTRIBUTIONS FOR CHARITABLE PURPOSES.—

"(A) IN GENERAL.—In the case of a qualified charitable distribution from an individual retirement account to an organization described in section 170(c), no amount shall be includible in the gross income of the distributee.

"(B) SPECIAL RULES RELATING TO CHARITABLE REMAINDER TRUSTS, POOLED INCOME FUNDS, AND CHARITABLE GIFT ANNUITIES.—

"(i) IN GENERAL.—In the case of a qualified charitable distribution from an individual retirement account—

"(I) to a charitable remainder annuity trust or a charitable remainder unitrust (as such terms are defined in section 664(d)),

"(II) to a pooled income fund (as defined in section 642(c)(5)), or

"(III) for the issuance of a charitable gift annuity (as defined in section 501(m)(5)),

no amount shall be includible in gross income of the distributee. The preceding sentence shall apply only if no person holds any interest in the amounts in the trust, fund, or annuity attributable to such distribution other than one or more of the following: the individual for whose benefit such account is maintained, the spouse of such individual, or any organization described in section 170(c).

"(ii) DETERMINATION OF INCLUSION OF AMOUNTS DISTRIBUTED.—In determining the amount includible in the gross income of the distributee of a distribution from a trust described in clause (i)(I) or an annuity (as described in clause (i)(III)), the portion of any qualified charitable distribution to such trust or for such annuity which would (but for this subparagraph) have been includible in gross income—

"(I) in the case of any such trust, shall be treated as income described in section 664(b)(1), or

"(II) in the case of any such annuity, shall not be treated as an investment in the contract.

"(iii) NO INCLUSION FOR DISTRIBUTION TO POOLED INCOME FUND.—No amount shall be includible in the gross income of a pooled income fund (as so defined) by reason of a qualified charitable distribution to such fund.

"(C) QUALIFIED CHARITABLE DISTRIBUTION.—For purposes of this paragraph, the term 'qualified charitable distribution' means any distribution from an individual retirement account—

"(i) which is made on or after the date that the individual for whose benefit the account is maintained has attained age 70½, and

"(ii) which is a charitable contribution (as defined in section 170(c)) made directly from the account to—

"(I) an organization described in section 170(c), or

"(II) a trust, fund, or annuity described in subparagraph (B).

"(D) DENIAL OF DEDUCTION.—The amount allowable as a deduction to the taxpayer for the taxable year under section 170 for qualified charitable distributions shall be reduced (but not below zero) by the sum of the amounts of the qualified charitable distributions during such year which (but for this paragraph) would have been includible in the gross income of the taxpayer for such year.".

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 2000.

SEC. 805. MILEAGE REIMBURSEMENTS TO CHARITABLE VOLUNTEERS EXCLUDED FROM GROSS INCOME.

(a) IN GENERAL.—Part III of subchapter B of chapter 1 is amended by inserting after section 138 the following new section:

"SEC. 138A. MILEAGE REIMBURSEMENTS TO CHARITABLE VOLUNTEERS.

"(a) IN GENERAL.—Gross income of an individual does not include amounts received, from an organization described in section 170(c), as reimbursement of operating expenses with respect to use of a passenger automobile for the benefit of such organization for which a deduction would otherwise be allowable under section 170. The preceding sentence shall apply only to the extent that such reimbursement would be deductible under section 274(d) (determined by applying the standard business mileage rate established pursuant to section 274(d)) if the organization were not so described and such individual were an employee of such organization.

"(b) NO DOUBLE BENEFIT.—Subsection (a) shall not apply with respect to any expenses if the individual claims a deduction or credit for such expenses under any other provision of this title.

"(c) EXEMPTION FROM REPORTING REQUIREMENTS.—Section 6041 shall not apply with respect to reimbursements excluded from income under subsection (a).".

(b) CLERICAL AMENDMENT.—The table of sections for part III of subchapter B of chapter 1 is amended by inserting after the item relating to section 138 the following new items:

"Sec. 138A. Reimbursement for use of passenger automobile for charity.".

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

SEC. 806. CHARITABLE CONTRIBUTION DEDUCTION FOR CERTAIN EXPENSES INCURRED IN SUPPORT OF NATIVE ALASKAN SUBSISTENCE WHALING.

(a) IN GENERAL.—Section 170 (relating to charitable, etc., contributions and gifts) is amended by redesignating subsection (m) as subsection (n) and by inserting after subsection (l) the following new subsection:

"(m) EXPENSES PAID BY CERTAIN WHALING CAPTAINS IN SUPPORT OF NATIVE ALASKAN SUBSISTENCE WHALING.—

"(1) IN GENERAL.—In the case of an individual who is recognized by the Alaska Eskimo Whaling Commission as a whaling captain charged with the responsibility of maintaining and carrying out sanctioned whaling activities and who engages in such activities during the taxable year, the amount described in paragraph (2) (to the extent such amount does not exceed $7,500 for the taxable year) shall be treated for purposes of this section as a charitable contribution.

"(2) AMOUNT DESCRIBED.—

"(A) IN GENERAL.—The amount described in this paragraph is the aggregate of the reasonable and necessary whaling expenses paid by the taxpayer during the taxable year in carrying out sanctioned whaling activities.

"(B) WHALING EXPENSES.—For purposes of subparagraph (A), the term 'whaling expenses' includes expenses for—

"(i) the acquisition and maintenance of whaling boats, weapons, and gear used in sanctioned whaling activities,

"(ii) the supplying of food for the crew and other provisions for carrying out such activities, and

"(iii) storage and distribution of the catch from such activities.

"(3) SANCTIONED WHALING ACTIVITIES.—For purposes of this subsection, the term 'sanctioned whaling activities' means subsistence bowhead whale hunting activities conducted pursuant to the management plan of the Alaska Eskimo Whaling Commission.".

(b) EFFECTIVE DATE.—The amendments made by subsection (a) shall apply to taxable years beginning after December 31, 1999.

SEC. 807. CHARITABLE CONTRIBUTIONS TO CERTAIN LOW INCOME SCHOOLS MAY BE MADE IN NEXT TAXABLE YEAR.

(a) IN GENERAL.—Section 170(f) (relating to disallowance of deduction in certain cases and special rules) is amended by adding at the end the following new paragraph:

"(10) TIME WHEN CERTAIN CONTRIBUTIONS DEEMED MADE.—

"(A) IN GENERAL.—At the election of the taxpayer, a qualified low-income school contribution shall be deemed to be made on the last day of the preceding taxable year if the contribution is made on account of such taxable year and is made not later than the time prescribed by law for filing the return for such taxable year (not including extensions thereof). The election may be made at the time of the filing of the return for such table year, and shall be made and substantiated in such manner as the Secretary shall by regulations prescribe.

"(B) QUALIFIED LOW-INCOME SCHOOL CONTRIBUTION.—For purposes of subparagraph (A), the term 'qualified low-income school contribution' means a charitable contribution to an edu-

cational organization described in subsection (b)(1)(A)(ii)—

"(i) which is a public, private, or sectarian school which provides elementary or secondary education (through grade 12), as determined under State law, and

"(ii) with respect to which at least 50 percent of the students attending such school are eligible for free or reduced-cost lunches under the school lunch program established under the National School Lunch Act.".

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

SEC. 808. DEDUCTION FOR PORTION OF CHARITABLE CONTRIBUTIONS TO BE ALLOWED TO INDIVIDUALS WHO DO NOT ITEMIZE DEDUCTIONS.

(a) IN GENERAL.—Section 170 (relating to charitable, etc., contributions and gifts), as amended by section 806, is amended by redesignating subsection (n) as subsection (o) and by inserting after subsection (m) the following new subsection:

"(n) DEDUCTION FOR INDIVIDUALS NOT ITEMIZING DEDUCTIONS.—In the case of an individual who does not itemize his deductions for the taxable year, there shall be

taken into account as a direct charitable deduction under section 63 an amount equal to the lesser of—

"(1) the amount allowable as a deduction under subsection (a) for the taxable year, or

"(2) $50 ($100 in the case of a joint return).".

(b) DIRECT CHARITABLE DEDUCTION.—

(1) IN GENERAL.—Subsection (b) of section 63 is amended by striking "and" at the end of paragraph (1), by striking the period at the end of paragraph (2) and inserting ", and", and by adding at the end thereof the following new paragraph:

"(3) the direct charitable deduction.".

(2) DEFINITION.—Section 63 is amended by redesignating subsection (g) as subsection (h) and by inserting after subsection (f) the following new subsection:

"(g) DIRECT CHARITABLE DEDUCTION.—For purposes of this section, the term 'direct charitable deduction' means that portion of the amount allowable under section 170(a) which is taken as a direct charitable deduction for the taxable year under section 170(n).".

(3) CONFORMING AMENDMENT.—Subsection (d) of section 63 is amended by striking "and" at the end of paragraph (1), by striking the period at the end of

paragraph (2) and inserting ", and", and by adding at the end thereof the following new paragraph:

"(3) the direct charitable deduction.".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2004, and before January 1, 2007.

SEC. 809. INCREASE IN LIMIT ON CHARITABLE CONTRIBUTIONS AS PERCENTAGE OF AGI.

(a) IN GENERAL.—

(1) INDIVIDUAL LIMIT.—Section 170(b)(1) (relating to percentage limitations) is amended—

(A) by striking "50 percent" in subparagraph (A) and inserting "the applicable percentage", and

(B) by striking "30 percent" each place it appears in subparagraph (C) and inserting "the applicable percentage".

(2) CORPORATE LIMIT.—Section 170(b)(2) is amended by striking "10 percent" and inserting "the applicable percentage".

(b) APPLICABLE PERCENTAGE.—Section 170(b) is amended by adding at the end the following new paragraph:

"(3) APPLICABLE PERCENTAGE.—For purposes of this subsection, the applicable percentage shall be determined under the following tables:

"(A) In the case of paragraph (1)(A):

"For taxable year—	***The applicable percentage is—***
2002	*52*
2003	*54*
2004	*56*
2005	*58*
2006	*60*
2007 and thereafter	*70.*

"(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.*

"(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.".*

(c) CONFORMING AMENDMENT.—Section 170(d)(1)(A) is amended by striking "50 percent" each place it appears and inserting "the applicable percentage in effect under subsection (b)(1)(A)".

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2001.

SEC. 810. LIMITED EXCEPTION TO EXCESS BUSINESS HOLDINGS RULE.

(a) IN GENERAL.—Section 4943(c)(2) (relating to permitted holdings in a corporation) is amended by adding at the end the following new subparagraphs:

"(D) RULE WHERE VOTING STOCK IS PUBLICLY TRADED.—

"(i) IN GENERAL.—If—

"(I) the private foundation and all disqualified persons together do not own more than the applicable percentage of the voting stock and not more than the applicable percentage in value of all outstanding shares of all classes of stock of an incorporated business enterprise,

"(II) the voting stock owned by the private foundation and all disqualified persons together is stock for which market quotations are readily available on an established securities market, and

"(III) the requirements of clause (ii) are met,

then subparagraph (A) shall be applied by substituting 'the applicable percentage' for '20 percent'.

"(ii) REQUIREMENTS TO BE MET.—The requirements of this clause are met during any taxable year—

"(I) in which disqualified persons with respect to the private foundation do not receive compensation (as an employee or otherwise) from the corporation or engage in any act with such corporation which would constitute self-dealing within the meaning of section 4941(d) if such corporation were a private foundation and if each such disqualified person were a disqualified person with respect to such corporation,

"(II) in which disqualified persons with respect to such private foundation do not own in the aggregate more than 2 percent of the voting stock and not more than 2 percent in value of all outstanding shares of all classes of stock in such corporation, and

"(III) for which there is submitted with the annual return of the private foundation for such year (filed within the time prescribed by law, including extensions, for filing such return) a certification which is signed by all the

members of an audit committee of the Board of Directors of such corporation consisting of a majority of persons who are not disqualified persons with respect to such private foundation and which certifies that such members, after due inquiry, are not aware that any disqualified person has received compensation from such corporation or has engaged in any act with such corporation that would constitute self-dealing within the meaning of section 4941(d) if such corporation were a private foundation and if each such disqualified person were a disqualified person with respect to such corporation.

For purposes of this clause, the fact that a disqualified person has received compensation from such corporation or has engaged in any act with such corporation which would constitute self-dealing within the meaning of section 4941(d) shall be disregarded if such receipt or act is corrected not later than the due date (not including extensions thereof) for the filing of the pri-

vate foundation's annual return for the year in which the receipt or act occurs and on the terms that would be necessary to correct such receipt or act and thereby avoid imposition of tax under section 4941(b).

"(E) APPLICABLE PERCENTAGE.—For purposes of this paragraph, the applicable percentage shall be determined under the following table:

"For taxable year—	***The applicable percentage is—***
2007	*40*
2008 and thereafter	*49.".*

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to foundations established by bequest of decedents dying after December 31, 2006.

SEC. 811. CERTAIN COSTS OF PRIVATE FOUNDATION IN REMOVING HAZARDOUS SUBSTANCES TREATED AS QUALIFYING DISTRIBUTION.

(a) IN GENERAL.—In the case of any taxable year beginning after December 31, 1999, the distributable amount of a private foundation for such taxable year for purposes of section 4942 of the Internal Revenue Code of 1986 shall be reduced (but not below zero) by any amount paid or incurred (or set aside) by such private foundation for the investigatory costs and direct costs of removal or taking remedial action with respect to a hazardous substance released at a facility which was owned or operated by such private foundation.

(b) LIMITATIONS.—Subsection (a) shall only apply to costs—

(1) incurred with respect to hazardous substances disposed of at a facility owned or operated by the private foundation but only if—

(A) such facility was transferred to such foundation by bequest before December 11, 1980, and

(B) the active operation of such facility by such foundation was terminated before December 12, 1980, and

(2) which were not incurred pursuant to a pending order issued to the private foundation unilaterally by the President or the President's assignee under section 106 of the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (42 U.S.C. 9606), or pursuant to a nonconsensual judgment against the private foundation issued in a governmental cost recovery action under section 107 of such Act (42 U.S.C. 9607).

(c) HAZARDOUS SUBSTANCE.—For purposes of this section, the term "hazardous substance" has the meaning given such term by section 101(14) of the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (42 U.S.C. 9601(14)).

SEC. 812. HOLDING PERIOD REDUCED TO 12 MONTHS FOR PURPOSES OF DETERMINING WHETHER HORSES ARE SECTION 1231 ASSETS.

(a) IN GENERAL.—Subparagraph (A) of section 1231(b)(3) (relating to definition of property used in the trade or business) is amended by striking "and horses".

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

TITLE IX—INTERNATIONAL TAX RELIEF

SEC. 901. INTEREST ALLOCATION RULES.

(a) ELECTION TO ALLOCATE INTEREST ON A WORLDWIDE BASIS.—Subsection (e) of section 864 (relating to rules for allocating interest, etc.) is amended by redesignating paragraphs (6) and (7) as paragraphs (7) and (8), respectively, and by inserting after paragraph (5) the following new paragraph:

"(6) ELECTION TO ALLOCATE INTEREST ON A WORLDWIDE BASIS.—

"(A) IN GENERAL.—Except as provided in this paragraph, this subsection shall be applied by treating a worldwide affiliated group for which an election is in effect under this paragraph as an affiliated group solely for purposes of allocating and apportioning interest expense

of each domestic corporation which is a member of such group.

"(B) WORLDWIDE AFFILIATED GROUP.—For purposes of this paragraph, the term 'worldwide affiliated group' means the group of corporations which consists of—

"(i) all corporations in an affiliated group (as defined in paragraph (5)(A), except that section 1504 shall also be applied without regard to subsection (b)(2) thereof), and

"(ii) all foreign corporations (other than a FSC, as defined in section 922(a)) which would be a member of such affiliated group if paragraph (3) of section 1504 (b) did not apply.

"(C) TREATMENT OF WORLDWIDE AFFILIATED GROUP.—For purposes of applying paragraph (1), the taxable income of the domestic members of a worldwide affiliated group from sources outside the United States shall be determined by allocating and apportioning the interest expense of such domestic members to such income in an amount equal to the excess (if any) of—

"(i) the total interest expense of the worldwide affiliated group multiplied by the ratio which the foreign assets of the worldwide affiliated group bears to all the assets of the worldwide affiliated group, over

"(ii) the interest expense of all foreign corporations which are members of the worldwide affiliated group to the extent such interest expense of such foreign corporations would have been allocated and apportioned to foreign source income if this subsection were applied to a group consisting of all the foreign corporations in such worldwide affiliated group.

"(D) ELECTION.—An election under this paragraph with respect to any worldwide affiliated group may be made only by the common parent of the affiliated group referred to in subparagraph (B)(i) and may be made only for the first taxable year beginning after December 31, 2004, in which a worldwide affiliated group exists which includes such affiliated group and at least 1 corporation described in subparagraph (B)(ii). Such an election, once made, shall apply

to such common parent and all other corporations which are members of such worldwide affiliated group for such taxable year and all subsequent years unless revoked with the consent of the Secretary.".

(b) ELECTION TO EXPAND FINANCIAL INSTITUTION GROUP OF WORLDWIDE GROUP.—Section 864 is amended by redesignating subsection (f) as subsection (g) and by inserting after subsection (e) the following new subsection:

"(f) ELECTION TO EXPAND FINANCIAL INSTITUTION GROUP OF WORLDWIDE GROUP.—

"(1) IN GENERAL.—If a worldwide affiliated group for which an election under subsection (e)(6) is in effect elects the application of this subsection, all financial corporations which—

"(A) are members of such worldwide affiliated group, but

"(B) are not corporations described in subsection (e)(5)(C),

shall be treated as described in subsection (e)(5)(C) for purposes of applying subsection (e)(5)(B). Subsection (e) shall apply to any such group in the same manner as subsection (e) applies to the pre-election worldwide affiliated group of which such group is a part.

"(2) FINANCIAL CORPORATION.—For purposes of this subsection, the term 'financial corporation' means any corporation if at least 80 percent of its gross income is income described in section 904(d)(2)(C)(ii) and the regulations thereunder which is derived from transactions with persons not bearing a relationship described in section 267(b) or 707(b)(1) to the corporation.

"(3) ANTIABUSE RULES.—In the case of a corporation which is a member of an electing financial institution group, to the extent that such corporation—

"(A) distributes dividends or makes other distributions with respect to its stock after the date of the enactment of this paragraph to any member of the pre-election worldwide affiliated group (other than to a member of the electing financial institution group) in excess of the greater of—

"(i) its average annual dividend (expressed as a percentage of current earnings and profits) during the 5-taxable-year period ending with the taxable year preceding the taxable year, or

"(ii) 25 percent of its average annual earnings and profits for such 5 taxable year period, or

"(B) deals with any person in any manner not clearly reflecting the income of the corporation (as determined under principles similar to the principles of section 482),

an amount of indebtedness of the electing financial institution group equal to the excess distribution or the understatement or overstatement of income, as the case may be, shall be recharacterized (for the taxable year and subsequent taxable years) for purposes of this subsection as indebtedness of the worldwide affiliated group (excluding the electing financial institution group). If a corporation has not been in existence for 5 taxable years, this subparagraph shall be applied with respect to the period it was in existence.

"(4) ELECTION.—An election under this subsection with respect to any financial institution group may be made only by the common parent of the pre-election worldwide affiliated group and may be made only for the first taxable year beginning after December 31, 2004, in which such affiliated group includes 1 or more financial corporations described in paragraph (1)(B). Such an election, once made, shall

apply to all financial corporations which are members of the electing financial institution group for such taxable year and all subsequent years unless revoked with the consent of the Secretary.

"(5) DEFINITIONS RELATING TO GROUPS.—For purposes of this subsection—

"(A) PRE-ELECTION WORLDWIDE AFFILIATED GROUP.—The term 'pre-election worldwide affiliated group' means, with respect to a corporation, the worldwide affiliated group of which such corporation would (but for an election under this subsection) be a member for purposes of applying subsection (e).

"(B) ELECTING FINANCIAL INSTITUTION GROUP.—The term 'electing financial institution group' means the group of corporations to which subsection (e) applies separately by reason of the application of subsection (e)(5)(B) and which includes financial corporations by reason of an election under paragraph (1).

"(6) REGULATIONS.—The Secretary shall prescribe such regulations as may be appropriate to carry out this subsection and subsection (e), including regulations—

"(A) providing for the direct allocation of interest expense in other circumstances where such allocation would be appropriate to carry out the purposes of this subsection,

"(B) preventing assets or interest expense from being taken into account more than once, and

"(C) dealing with changes in members of any group (through acquisitions or otherwise) treated under this subsection as an affiliated group for purposes of subsection (e).".

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

SEC. 902. LOOK-THRU RULES TO APPLY TO DIVIDENDS FROM NONCONTROLLED SECTION 902 CORPORATIONS.

(a) IN GENERAL.—Section 904(d)(4) (relating to application of look-thru rules to dividends from noncontrolled section 902 corporations) is amended to read as follows:

"(4) LOOK-THRU APPLIES TO DIVIDENDS FROM NONCONTROLLED SECTION 902 CORPORATIONS.—

"(A) IN GENERAL.—For purposes of this subsection, any dividend from a noncontrolled section 902 corporation with respect to the tax-

payer shall be treated as income in a separate category in proportion to the ratio of—

"(i) the portion of earnings and profits attributable to income in such category, to

"(ii) the total amount of earnings and profits.

"(B) SPECIAL RULES.—For purposes of this paragraph—

"(i) IN GENERAL.—Rules similar to the rules of paragraph (3)(F) shall apply, except that the term 'separate category' shall include the category of income described in paragraph (1)(I).

"(ii) EARNINGS AND PROFITS.—

"(I) IN GENERAL.—The rules of section 316 shall apply.

"(II) REGULATIONS.—The Secretary may prescribe regulations regarding the treatment of distributions out of earnings and profits for periods before the taxpayer's acquisition of the stock to which the distributions relate.

"(iii) DIVIDENDS NOT ALLOCABLE TO SEPARATE CATEGORY.—The portion of any dividend from a noncontrolled section 902

corporation which is not treated as income in a separate category under subparagraph (A) shall be treated as a dividend to which subparagraph (A) does not apply.

"(iv) LOOK-THRU WITH RESPECT TO CARRYFORWARDS OF CREDIT.—Rules similar to subparagraph (A) also shall apply to any carryforward under subsection (c) from a taxable year beginning before January 1, 2005, of tax allocable to a dividend from a noncontrolled section 902 corporation with respect to the taxpayer.".

(b) CONFORMING AMENDMENTS.—

(1) Subparagraph (E) of section 904(d)(1), as in effect both before and after the amendments made by section 1105 of the Taxpayer Relief Act of 1997, is hereby repealed.

(2) Section 904(d)(2)(C)(iii), as so in effect, is amended by striking subclause (II) and by redesignating subclause (III) as subclause (II).

(3) The last sentence of section 904(d)(2)(D), as so in effect, is amended to read as follows: "Such term does not include any financial services income.".

(4) Section 904(d)(2)(E) is amended by striking clauses (ii) and (iv) and by redesignating clause (iii) as clause (ii).

(5) Section 904(d)(3)(F) is amended by striking "(D), or (E)" and inserting "or (D)".

(6) Section 864(d)(5)(A)(i) is amended by striking "(C)(iii)(III)" and inserting "(C)(iii)(II)".

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

SEC. 903. CLARIFICATION OF TREATMENT OF PIPELINE TRANSPORTATION INCOME.

(a) IN GENERAL.—Section 954(g)(1) (defining foreign base company oil related income) is amended by striking "or" at the end of subparagraph (A), by striking the period at the end of subparagraph (B) and inserting ", or", and by inserting after subparagraph (B) the following new subparagraph:

"(C) the pipeline transportation of oil or gas within such foreign country.".

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years of controlled foreign corporations beginning after December 31, 2002, and taxable years of United States shareholders with or within which such taxable years of controlled foreign corporations end.

SEC. 904. SUBPART F TREATMENT OF INCOME FROM TRANSMISSION OF HIGH VOLTAGE ELECTRICITY.

(a) IN GENERAL.—Paragraph (2) of section 954(e) (relating to foreign base company services income) is amended by striking "or" at the end of subparagraph (A), by striking the period at the end of subparagraph (B) and inserting ", or", and by inserting after subparagraph (B) the following new subparagraph:

"(C) the transmission of high voltage electricity.".

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years of controlled foreign corporations beginning after December 31, 2002, and taxable years of United States shareholders with or within which such taxable years of controlled foreign corporations end.

SEC. 905. ADVANCE PRICING AGREEMENTS TREATED AS CONFIDENTIAL TAXPAYER INFORMATION.

(a) IN GENERAL.—

(1) TREATMENT AS RETURN INFORMATION.—Paragraph (2) of section 6103(b) (defining return information) is amended by striking "and" at the end of subparagraph (A), by inserting "and" at the end of subparagraph (B), and by inserting after subparagraph (B) the following new subparagraph:

"(C) any advance pricing agreement entered into by a taxpayer and the Secretary and

any background information related to such agreement or any application for an advance pricing agreement,".

(2) EXCEPTION FROM PUBLIC INSPECTION AS WRITTEN DETERMINATION.—Paragraph (1) of section 6110(b) (defining written determination) is amended by adding at the end the following new sentence: "Such term shall not include any advance pricing agreement entered into by a taxpayer and the Secretary and any background information related to such agreement or any application for an advance pricing agreement.".

(3) EFFECTIVE DATE.—The amendments made by this subsection shall take effect on the date of the enactment of this Act.

(b) ANNUAL REPORT REGARDING ADVANCE PRICING AGREEMENTS.—

(1) IN GENERAL.—Not later than 90 days after the end of each calendar year, the Secretary of the Treasury shall prepare and publish a report regarding advance pricing agreements.

(2) CONTENTS OF REPORT.—The report shall include the following for the calendar year to which such report relates:

(A) Information about the structure, composition, and operation of the advance pricing agreement program office.

(B) A copy of each model advance pricing agreement.

(C) The number of—

(i) applications filed during such calendar year for advanced pricing agreements;

(ii) advance pricing agreements executed cumulatively to date and during such calendar year;

(iii) renewals of advanced pricing agreements issued;

(iv) pending requests for advance pricing agreements;

(v) pending renewals of advance pricing agreements;

(vi) for each of the items in clauses (ii) through (v), the number that are unilateral, bilateral, and multilateral, respectively;

(vii) advance pricing agreements revoked or canceled, and the number of withdrawals from the advance pricing agreement program; and

(viii) advanced pricing agreements finalized or renewed by industry.

(D) General descriptions of—

(i) the nature of the relationships between the related organizations, trades, or businesses covered by advance pricing agreements;

(ii) the covered transactions and the business functions performed and risks assumed by such organizations, trades, or businesses;

(iii) the related organizations, trades, or businesses whose prices or results are tested to determine compliance with transfer pricing methodologies prescribed in advanced pricing agreements;

(iv) methodologies used to evaluate tested parties and transactions and the circumstances leading to the use of those methodologies;

(v) critical assumptions made and sources of comparables used;

(vi) comparable selection criteria and the rationale used in determining such criteria;

(vii) the nature of adjustments to comparables or tested parties;

(viii) the nature of any ranges agreed to, including information regarding when no range was used and why, when interquartile ranges were used, and when there was a statistical narrowing of the comparables;

(ix) adjustment mechanisms provided to rectify results that fall outside of the agreed upon advance pricing agreement range;

(x) the various term lengths for advance pricing agreements, including roll-back years, and the number of advance pricing agreements with each such term length;

(xi) the nature of documentation required; and

(xii) approaches for sharing of currency or other risks.

(E) Statistics regarding the amount of time taken to complete new and renewal advance pricing agreements.

(3) CONFIDENTIALITY.—The reports required by this subsection shall be treated as authorized by the Internal Revenue Code of 1986 for purposes of section 6103 of such Code, but the reports shall not include information—

(A) which would not be permitted to be disclosed under section 6110(c) of such Code if such report were a written determination as defined in section 6110 of such Code, or

(B) which can be associated with, or otherwise identify, directly or indirectly, a particular taxpayer.

(4) FIRST REPORT.—The report for calendar year 1999 shall include prior calendar years after 1990.

(c) USER FEE.—Section 7527, as added by this Act, is amended by redesignating subsection (c) as subsection (d) and by inserting after subsection (b) the following new subsection:

"(c) ADVANCE PRICING AGREEMENTS.—

"(1) IN GENERAL.—In addition to any fee otherwise imposed under this section, the fee imposed for requests for advance pricing agreements shall be increased by $500.

"(2) REDUCED FEE FOR SMALL BUSINESSES.—The Secretary shall provide an appropriate reduction in the amount imposed by reason of paragraph (1) for requests for advance pricing agreements for small businesses.".

(d) REGULATIONS.—The Secretary of the Treasury or the Secretary's delegate shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of section 6103(b)(2)(C), and the last sentence of section 6110(b)(1), of the Internal Revenue Code of 1986, as added by this section.

SEC. 906. AIRLINE MILEAGE AWARDS TO CERTAIN FOREIGN PERSONS.

(a) IN GENERAL.—The last sentence of section 4261(e)(3)(C) (relating to regulations) is amended by inserting "and mileage awards which are issued to individuals whose mailing addresses on record with the person providing the right to air transportation are outside the United States" before the period at the end thereof.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to amounts paid after December 31, 2004.

SEC. 907. REPEAL OF FOREIGN TAX CREDIT LIMITATION UNDER ALTERNATIVE MINIMUM TAX.

(a) IN GENERAL.—Section 59(a) (relating to alternative minimum tax foreign tax credit) is amended by striking paragraph (2) and by redesignating paragraphs (3) and (4) as paragraphs (2) and (3), respectively.

(b) CONFORMING AMENDMENT.—Section 53(d)(1)(B)(i)(II) is amended by striking "and if section 59(a)(2) did not apply".

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

SEC. 908. TREATMENT OF MILITARY PROPERTY OF FOREIGN SALES CORPORATIONS.

(a) IN GENERAL.—Section 923(a) (defining exempt foreign trade income) is amended by striking paragraph (5) and by redesignating paragraph (6) as paragraph (5).

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

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.

(a) IN GENERAL.—Clauses (i) and (ii) of section 42(h)(3)(C) (relating to State housing credit ceiling) are amended to read as follows:

"(i) the unused State housing credit ceiling (if any) of such State for the preceding calendar year,

"(ii) the greater of—

"(I) the applicable amount under subparagraph (H) multiplied by the State population, or

"(II) $2,000,000,".

(b) APPLICABLE AMOUNT.—Paragraph (3) of section 42(h) (relating to housing credit dollar amount for agencies) is amended by adding at the end the following new subparagraph:

"(H) APPLICABLE AMOUNT OF STATE CEILING.—For purposes of subparagraph (C)(ii), the

applicable amount shall be determined 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.".*

(c) ADJUSTMENT OF STATE CEILING FOR INCREASES IN COST-OF-LIVING.—Paragraph (3) of section 42(h) (relating to housing credit dollar amount for agencies), as amended by subsection (b), is amended by adding at the end the following new subparagraph:

"(I) COST-OF-LIVING ADJUSTMENT.—

"(i) IN GENERAL.—In the case of a calendar year after 2005, the $1.75 amount in subparagraph (H) shall be increased by an amount equal to—

"(I) such dollar amount, multiplied by

"(II) the cost-of-living adjustment determined under section 1(f)(3) for such calendar year by substituting 'calendar year 2004' for 'calendar year 1992' in subparagraph (B) thereof.

"(ii) ROUNDING.—Any increase under clause (i) which is not a multiple of 5 cents

shall be rounded to the next lowest multiple of 5 cents.".

(d) CONFORMING AMENDMENTS.—

(1) Section 42(h)(3)(C), as amended by subsection (a), is amended—

(A) by striking "clause (ii)" in the matter following clause (iv) and inserting "clause (i)", and

(B) by striking "clauses (i)" in the matter following clause (iv) and inserting "clauses (ii)".

(2) Section 42(h)(3)(D)(ii) is amended—

(A) by striking "subparagraph (C)(ii)" and inserting "subparagraph (C)(i)", and

(B) by striking "clauses (i)" in subclause (II) and inserting "clauses (ii)".

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to calendar years after 2000.

Subtitle B—Historic Homes

SEC. 1011. TAX CREDIT FOR RENOVATING HISTORIC HOMES.

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

"SEC. 25B. HISTORIC HOMEOWNERSHIP REHABILITATION CREDIT.

"(a) GENERAL RULE.—In the case of an individual, there shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to 20 percent of the qualified rehabilitation expenditures made by the taxpayer with respect to a qualified historic home.

"(b) DOLLAR LIMITATION.—The credit allowed by subsection (a) with respect to any residence of a taxpayer shall not exceed $20,000 ($10,000 in the case of a married individual filing a separate return).

"(c) QUALIFIED REHABILITATION EXPENDITURE.—For purposes of this section—

"(1) IN GENERAL.—The term 'qualified rehabilitation expenditure' means any amount properly chargeable to capital account—

"(A) in connection with the certified rehabilitation of a qualified historic home, and

"(B) for property for which depreciation would be allowable under section 168 if the qualified historic home were used in a trade or business.

"(2) CERTAIN EXPENDITURES NOT INCLUDED.—

"(A) EXTERIOR.—Such term shall not include any expenditure in connection with the rehabilitation of a building unless at least 5 per-

cent of the total expenditures made in the rehabilitation process are allocable to the rehabilitation of the exterior of such building.

"(B) OTHER RULES TO APPLY.—Rules similar to the rules of clauses (ii) and (iii) of section 47(c)(2)(B) shall apply.

"(3) MIXED USE OR MULTIFAMILY BUILDING.—If only a portion of a building is used as the principal residence of the taxpayer, only qualified rehabilitation expenditures which are properly allocable to such portion shall be taken into account under this section.

"(d) CERTIFIED REHABILITATION.—For purposes of this section:

"(1) IN GENERAL.—Except as otherwise provided in this subsection, the term 'certified rehabilitation' has the meaning given such term by section 47(c)(2)(C).

"(2) FACTORS TO BE CONSIDERED IN THE CASE OF TARGETED AREA RESIDENCES, ETC.—

"(A) IN GENERAL.—For purposes of applying section 47(c)(2)(C) under this section with respect to the rehabilitation of a building to which this paragraph applies, consideration shall be given to—

"(i) the feasibility of preserving existing architectural and design elements of the interior of such building,

"(ii) the risk of further deterioration or demolition of such building in the event that certification is denied because of the failure to preserve such interior elements, and

"(iii) the effects of such deterioration or demolition on neighboring historic properties.

"(B) BUILDINGS TO WHICH THIS PARAGRAPH APPLIES.—This paragraph shall apply with respect to any building—

"(i) any part of which is a targeted area residence within the meaning of section 143(j)(1), or

"(ii) which is located within an enterprise community or empowerment zone as designated under section 1391,

but shall not apply with respect to any building which is listed in the National Register.

"(3) APPROVED STATE PROGRAM.—The term 'certified rehabilitation' includes a certification made by—

"(A) a State Historic Preservation Officer who administers a State Historic Preservation Program approved by the Secretary of the Interior pursuant to section 101(b)(1) of the National Historic Preservation Act, as in effect on July 21, 1999, or

"(B) a local government, certified pursuant to section 101(c)(1) of the National Historic Preservation Act, as in effect on July 21, 1999, and authorized by a State Historic Preservation Officer, or the Secretary of the Interior where there is no approved State program),

subject to such terms and conditions as may be specified by the Secretary of the Interior for the rehabilitation of buildings within the jurisdiction of such officer (or local government) for purposes of this section.

"(e) DEFINITIONS AND SPECIAL RULES.—For purposes of this section—

"(1) QUALIFIED HISTORIC HOME.—The term 'qualified historic home' means a certified historic structure—

"(A) which has been substantially rehabilitated, and

"(B) which (or any portion of which)—

"(i) is owned by the taxpayer, and

"(ii) is used (or will, within a reasonable period, be used) by such taxpayer as his principal residence.

"(2) SUBSTANTIALLY REHABILITATED.—The term 'substantially rehabilitated' has the meaning given such term by section 47(c)(1)(C); except that, in the case of any building described in subsection (d)(2), clause (i)(I) thereof shall not apply.

"(3) PRINCIPAL RESIDENCE.—The term 'principal residence' has the same meaning as when used in section 121.

"(4) CERTIFIED HISTORIC STRUCTURE.—

"(A) IN GENERAL.—The term 'certified historic structure' means any building (and its structural components) which—

"(i) is listed in the National Register, or

"(ii) is located in a registered historic district (as defined in section 47(c)(3)(B)) within which only qualified census tracts (or portions thereof) are located, and is certified by the Secretary of the Interior to the Secretary as being of historic significance to the district.

"(B) CERTAIN STRUCTURES INCLUDED.—Such term includes any building (and its structural components) which is designated as being of historic significance under a statute of a State or local government, if such statute is certified by the Secretary of the Interior to the Secretary as containing criteria which will substantially achieve the purpose of preserving and rehabilitating buildings of historic significance.

"(C) QUALIFIED CENSUS TRACTS.—For purposes of subparagraph (A)(ii)—

"(i) IN GENERAL.—The term 'qualified census tract' means a census tract in which the median family income is less than twice the statewide median family income.

"(ii) DATA USED.—The determination under clause (i) shall be made on the basis of the most recent decennial census for which data are available.

"(5) REHABILITATION NOT COMPLETE BEFORE CERTIFICATION.—A rehabilitation shall not be treated as complete before the date of the certification referred to in subsection (d).

"(6) LESSEES.—A taxpayer who leases his principal residence shall, for purposes of this section, be

treated as the owner thereof if the remaining term of the lease (as of the date determined under regulations prescribed by the Secretary) is not less than such minimum period as the regulations require.

"(7) TENANT-STOCKHOLDER IN COOPERATIVE HOUSING CORPORATION.—If the taxpayer holds stock as a tenant-stockholder (as defined in section 216) in a cooperative housing corporation (as defined in such section), such stockholder shall be treated as owning the house or apartment which the taxpayer is entitled to occupy as such stockholder.

"(8) ALLOCATION OF EXPENDITURES RELATING TO EXTERIOR OF BUILDING CONTAINING COOPERATIVE OR CONDOMINIUM UNITS.—The percentage of the total expenditures made in the rehabilitation of a building containing cooperative or condominium residential units allocated to the rehabilitation of the exterior of the building shall be attributed proportionately to each cooperative or condominium residential unit in such building for which a credit under this section is claimed.

"(f) WHEN EXPENDITURES TAKEN INTO ACCOUNT.—In the case of a building other than a building to which subsection (g) applies, qualified rehabilitation expenditures

shall be treated for purposes of this section as made on the date the rehabilitation is completed.

"(g) ALLOWANCE OF CREDIT FOR PURCHASE OF REHABILITATED HISTORIC HOME.—

"(1) IN GENERAL.—In the case of a qualified purchased historic home, the taxpayer shall be treated as having made (on the date of purchase) the qualified rehabilitation expenditures made by the seller of such home. For purposes of the preceding sentence, expenditures made by the seller shall be deemed to be qualified rehabilitation expenditures if such expenditures, if made by the purchaser, would be qualified rehabilitation expenditures.

"(2) QUALIFIED PURCHASED HISTORIC HOME.—For purposes of this subsection, the term 'qualified purchased historic home' means any substantially rehabilitated certified historic structure purchased by the taxpayer if—

"(A) the taxpayer is the first purchaser of such structure after the date rehabilitation is completed, and the purchase occurs within 5 years after such date,

"(B) the structure (or a portion thereof) will, within a reasonable period, be the principal residence of the taxpayer,

"(C) no credit was allowed to the seller under this section or section 47 with respect to such rehabilitation, and

"(D) the taxpayer is furnished with such information as the Secretary determines is necessary to determine the credit under this subsection.

"(h) HISTORIC REHABILITATION MORTGAGE CREDIT CERTIFICATE.—

"(1) IN GENERAL.—The taxpayer may elect, in lieu of the credit otherwise allowable under this section, to receive a historic rehabilitation mortgage credit certificate. An election under this paragraph shall be made—

"(A) in the case of a building to which subsection (g) applies, at the time of purchase, or

"(B) in any other case, at the time rehabilitation is completed.

"(2) HISTORIC REHABILITATION MORTGAGE CREDIT CERTIFICATE.—For purposes of this subsection, the term 'historic rehabilitation mortgage credit certificate' means a certificate—

"(A) issued to the taxpayer, in accordance with procedures prescribed by the Secretary, with respect to a certified rehabilitation,

"(B) the face amount of which shall be equal to the credit which would (but for this subsection) be allowable under subsection (a) to the taxpayer with respect to such rehabilitation,

"(C) which may only be transferred by the taxpayer to a lending institution (including a non-depository institution) in connection with a loan—

"(i) that is secured by the building with respect to which the credit relates, and

"(ii) the proceeds of which may not be used for any purpose other than the acquisition or rehabilitation of such building, and

"(D) in exchange for which such lending institution provides the taxpayer—

"(i) a reduction in the rate of interest on the loan which results in interest payment reductions which are substantially equivalent on a present value basis to the face amount of such certificate, or

"(ii) if the taxpayer so elects with respect to a specified amount of the face amount of such a certificate relating to a building—

"(I) which is a targeted area residence within the meaning of section 143(j)(1), or

"(II) which is located in an enterprise community or empowerment zone as designated under section 1391,

a payment which is substantially equivalent to such specified amount to be used to reduce the taxpayer's cost of purchasing the building (and only the remainder of such face amount shall be taken into account under clause (i)).

"(3) METHOD OF DISCOUNTING.—The present value under paragraph (2)(D)(i) shall be determined—

"(A) for a period equal to the term of the loan referred to in subparagraph (D)(i),

"(B) by using the convention that any payment on such loan in any taxable year within such period is deemed to have been made on the last day of such taxable year,

"(C) by using a discount rate equal to 65 percent of the average of the annual Federal mid-term rate and the annual Federal long-term rate applicable under section 1274(d)(1) to the

month in which the taxpayer makes an election under paragraph (1) and compounded annually, and

"(D) by assuming that the credit allowable under this section for any year is received on the last day of such year.

"(4) USE OF CERTIFICATE BY LENDER.—The amount of the credit specified in the certificate shall be allowed to the lender only to offset the regular tax (as defined in section 55(c)) of such lender. The lender may carry forward all unused amounts under this subsection until exhausted.

"(5) HISTORIC REHABILITATION MORTGAGE CREDIT CERTIFICATE NOT TREATED AS TAXABLE INCOME.—Notwithstanding any other provision of law, no benefit accruing to the taxpayer through the use of an historic rehabilitation mortgage credit certificate shall be treated as taxable income for purposes of this title.

"(i) RECAPTURE.—

"(1) IN GENERAL.—If, before the end of the 5-year period beginning on the date on which the rehabilitation of the building is completed (or, if subsection (g) applies, the date of purchase of such build-

ing by the taxpayer, or, if subsection (h) applies, the date of the loan)—

"(A) the taxpayer disposes of such taxpayer's interest in such building, or

"(B) such building ceases to be used as the principal residence of the taxpayer,

the taxpayer's tax imposed by this chapter for the taxable year in which such disposition or cessation occurs shall be increased by the recapture percentage of the credit allowed under this section for all prior taxable years with respect to such rehabilitation.

"(2) RECAPTURE PERCENTAGE.—For purposes of paragraph (1), the recapture percentage shall be determined in accordance with the following table:

"If the disposition or cessation occurs within—	***The recapture percentage is—***
(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.".*

"(j) BASIS ADJUSTMENTS.—For purposes of this subtitle, if a credit is allowed under this section for any expenditure with respect to any property (including any purchase under subsection (g) and any transfer under subsection (h)), the increase in the basis of such property which

would (but for this subsection) result from such expenditure shall be reduced by the amount of the credit so allowed.

"(k) DENIAL OF DOUBLE BENEFIT.—No credit shall be allowed under this section for any amount for which credit is allowed under section 47.

"(l) REGULATIONS.—The Secretary shall prescribe such regulations as may be appropriate to carry out the purposes of this section, including regulations where less than all of a building is used as a principal residence and where more than 1 taxpayer use the same dwelling unit as their principal residence.".

(b) CONFORMING AMENDMENT.—Subsection (a) of section 1016 is amended by striking "and" at the end of paragraph (26), by striking the period at the end of paragraph (27) and inserting ", and", and by adding at the end the following new item:

"(28) to the extent provided in section 25B(j).".

(c) CLERICAL AMENDMENT.—The table of sections for subpart A of part IV of subchapter A of chapter 1 is amended by inserting after the item relating to section 25A the following new item:

"Sec. 25B. Historic homeownership rehabilitation credit.".

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to expenses paid or incurred in taxable years beginning after December 31, 1999.

Subtitle C—Provisions Relating to Real Estate Investment Trusts

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

SEC. 1021. MODIFICATIONS TO ASSET DIVERSIFICATION TEST.

(a) IN GENERAL.—Subparagraph (B) of section 856(c)(4) is amended to read as follows:

"(B)(i) not more than 25 percent of the value of its total assets is represented by securities (other than those includible under subparagraph (A)), and

"(ii) except with respect to a taxable REIT subsidiary and securities includible under subparagraph (A)—

"(I) not more than 5 percent of the value of its total assets is represented by securities of any 1 issuer,

"(II) the trust does not hold securities possessing more than 10 percent of the total voting power of the outstanding securities of any 1 issuer, and

"(III) the trust does not hold securities having a value of more than 10 percent of

the total value of the outstanding securities of any 1 issuer.".

(b) EXCEPTION FOR STRAIGHT DEBT SECURITIES.—Subsection (c) of section 856 is amended by adding at the end the following new paragraph:

"(7) STRAIGHT DEBT SAFE HARBOR IN APPLYING PARAGRAPH (4).—Securities of an issuer which are straight debt (as defined in section 1361(c)(5) without regard to subparagraph (B)(iii) thereof) shall not be taken into account in applying paragraph (4)(B)(ii)(III) if—

"(A) the issuer is an individual, or

"(B) the only securities of such issuer which are held by the trust or a taxable REIT subsidiary of the trust are straight debt (as so defined), or

"(C) the issuer is a partnership and the trust holds at least a 20 percent profits interest in the partnership.".

SEC. 1022. TREATMENT OF INCOME AND SERVICES PROVIDED BY TAXABLE REIT SUBSIDIARIES.

(a) INCOME FROM TAXABLE REIT SUBSIDIARIES NOT TREATED AS IMPERMISSIBLE TENANT SERVICE INCOME.—Clause (i) of section 856(d)(7)(C) (relating to exceptions to impermissible tenant service income) is amended by insert-

ing "or through a taxable REIT subsidiary of such trust" after "income".

(b) CERTAIN INCOME FROM TAXABLE REIT SUBSIDIARIES NOT EXCLUDED FROM RENTS FROM REAL PROPERTY.—

(1) IN GENERAL.—Subsection (d) of section 856 (relating to rents from real property defined) is amended by adding at the end the following new paragraphs:

"(8) SPECIAL RULE FOR TAXABLE REIT SUBSIDIARIES.—For purposes of this subsection, amounts paid to a real estate investment trust by a taxable REIT subsidiary of such trust shall not be excluded from rents from real property by reason of paragraph (2)(B) if the requirements of subparagraph (A) or (B) are met.

"(A) LIMITED RENTAL EXCEPTION.—The requirements of this subparagraph are met with respect to any property if at least 90 percent of the leased space of the property is rented to persons other than taxable REIT subsidiaries of such trust and other than persons described in section 856(d)(2)(B). The preceding sentence shall apply only to the extent that the amounts paid to the trust as rents from real property (as

defined in paragraph (1) without regard to paragraph (2)(B)) from such property are substantially comparable to such rents made by the other tenants of the trust's property for comparable space.

"(B) EXCEPTION FOR CERTAIN LODGING FACILITIES.—The requirements of this subparagraph are met with respect to an interest in real property which is a qualified lodging facility leased by the trust to a taxable REIT subsidiary of the trust if the property is operated on behalf of such subsidiary by a person who is an eligible independent contractor.

"(9) ELIGIBLE INDEPENDENT CONTRACTOR.—For purposes of paragraph (8)(B)—

"(A) IN GENERAL.—The term 'eligible independent contractor' means, with respect to any qualified lodging facility, any independent contractor if, at the time such contractor enters into a management agreement or other similar service contract with the taxable REIT subsidiary to operate the facility, such contractor (or any related person) is actively engaged in the trade or business of operating qualified lodging facilities for any person who is not a related person with

respect to the real estate investment trust or the taxable REIT subsidiary.

"(B) SPECIAL RULES.—Solely for purposes of this paragraph and paragraph (8)(B), a person shall not fail to be treated as an independent contractor with respect to any qualified lodging facility by reason of any of the following:

"(i) The taxable REIT subsidiary bears the expenses for the operation of the facility pursuant to the management agreement or other similar service contract.

"(ii) The taxable REIT subsidiary receives the revenues from the operation of such facility, net of expenses for such operation and fees payable to the operator pursuant to such agreement or contract.

"(iii) The real estate investment trust receives income from such person with respect to another property that is attributable to a lease of such other property to such person that was in effect as on the later of—

"(I) January 1, 1999, or

"(II) the earliest date that any taxable REIT subsidiary of such trust

entered into a management agreement or other similar service contract with such person with respect to such qualified lodging facility.

"(C) RENEWALS, ETC., OF EXISTING LEASES.—For purposes of subparagraph (B)(iii)—

"(i) a lease shall be treated as in effect on January 1, 1999, without regard to its renewal after such date, so long as such renewal is pursuant to the terms of such lease as in effect on whichever of the dates under subparagraph (B)(iii) is the latest, and

"(ii) a lease of a property entered into after whichever of the dates under subparagraph (B)(iii) is the latest shall be treated as in effect on such date if—

"(I) on such date, a lease of such property from the trust was in effect, and

"(II) under the terms of the new lease, such trust receives a substantially similar or lesser benefit in comparison to the lease referred to in subclause (I).

"(D) QUALIFIED LODGING FACILITY.—For purposes of this paragraph—

"(i) IN GENERAL.—The term 'qualified lodging facility' means any lodging facility unless wagering activities are conducted at or in connection with such facility by any person who is engaged in the business of accepting wagers and who is legally authorized to engage in such business at or in connection with such facility.

"(ii) LODGING FACILITY.—The term 'lodging facility' means a hotel, motel, or other establishment more than one-half of the dwelling units in which are used on a transient basis.

"(iii) CUSTOMARY AMENITIES AND FACILITIES.—The term 'lodging facility' includes customary amenities and facilities operated as part of, or associated with, the lodging facility so long as such amenities and facilities are customary for other properties of a comparable size and class owned by other owners unrelated to such real estate investment trust.

"(E) OPERATE INCLUDES MANAGE.—References in this paragraph to operating a property shall be treated as including a reference to managing the property.

"(F) RELATED PERSON.—Persons shall be treated as related to each other if such persons are treated as a single employer under subsection (a) or (b) of section 52.".

(2) CONFORMING AMENDMENT.—Subparagraph (B) of section 856(d)(2) is amended by inserting "except as provided in paragraph (8)," after "(B)".

(3) DETERMINING RENTS FROM REAL PROPERTY.—

(A)(i) Paragraph (1) of section 856(d) is amended by striking "adjusted bases" in each place that it occurs and inserting "fair market values" in each such place.

(ii) The amendment made by this paragraph shall apply to taxable years beginning after December 31, 1999.

(B)(i) Clause (i) of section 856(d)(2)(B) is amended by striking "number" and inserting "value".

(ii) The amendment made by this paragraph shall apply to amounts received or accrued

in taxable years beginning after December 31, 1999, except for amounts paid pursuant to leases in effect on July 12, 1999 or pursuant to a binding contract in effect on such date and at all times thereafter.

SEC. 1023. TAXABLE REIT SUBSIDIARY.

(a) IN GENERAL.—Section 856 is amended by adding at the end the following new subsection:

"(l) TAXABLE REIT SUBSIDIARY.—For purposes of this part—

"(1) IN GENERAL.—The term 'taxable REIT subsidiary' means, with respect to a real estate investment trust, a corporation (other than a real estate investment trust) if—

"(A) such trust directly or indirectly owns stock in such corporation, and

"(B) such trust and such corporation jointly elect that such corporation shall be treated as a taxable REIT subsidiary of such trust for purposes of this part.

Such an election, once made, shall be irrevocable unless both such trust and corporation consent to its revocation. Such election, and any revocation thereof, may be made without the consent of the Secretary.

"(2) 35 PERCENT OWNERSHIP IN ANOTHER TAXABLE REIT SUBSIDIARY.—The term 'taxable REIT subsidiary' includes, with respect to any real estate investment trust, any corporation (other than a real estate investment trust) with respect to which a taxable REIT subsidiary of such trust owns directly or indirectly—

"(A) securities possessing more than 35 percent of the total voting power of the outstanding securities of such corporation, or

"(B) securities having a value of more than 35 percent of the total value of the outstanding securities of such corporation.

The preceding sentence shall not apply to a qualified REIT subsidiary (as defined in subsection (i)(2)). The rule of section 856(c)(7) shall apply for purposes of subparagraph (B).

"(3) EXCEPTIONS.—The term 'taxable REIT subsidiary' shall not include—

"(A) any corporation which directly or indirectly operates or manages a lodging facility or a health care facility, and

"(B) any corporation which directly or indirectly provides to any other person (under a franchise, license, or otherwise) rights to any

brand name under which any lodging facility or health care facility is operated.

Subparagraph (B) shall not apply to rights provided to an eligible independent contractor to operate or manage a lodging facility if such rights are held by such corporation as a franchisee, licensee, or in a similar capacity and such lodging facility is either owned by such corporation or is leased to such corporation from the real estate investment trust.

"(4) DEFINITIONS.—For purposes of paragraph (3)—

"(A) LODGING FACILITY.—The term 'lodging facility' has the meaning given to such term by paragraph (9)(D)(ii).

"(B) HEALTH CARE FACILITY.—The term 'health care facility' has the meaning given to such term by subsection (e)(6)(D)(ii).".

(b) CONFORMING AMENDMENT.—Paragraph (2) of section 856(i) is amended by adding at the end the following new sentence: "Such term shall not include a taxable REIT subsidiary.".

SEC. 1024. LIMITATION ON EARNINGS STRIPPING.

Paragraph (3) of section 163(j) (relating to limitation on deduction for interest on certain indebtedness) is amended by striking "and" at the end of subparagraph (A), by

striking the period at the end of subparagraph (B) and inserting ", and", and by adding at the end the following new subparagraph:

"(C) any interest paid or accrued (directly or indirectly) by a taxable REIT subsidiary (as defined in section 856(l)) of a real estate investment trust to such trust.".

SEC. 1025. 100 PERCENT TAX ON IMPROPERLY ALLOCATED AMOUNTS.

(a) IN GENERAL.—Subsection (b) of section 857 (relating to method of taxation of real estate investment trusts and holders of shares or certificates of beneficial interest) is amended by redesignating paragraphs (7) and (8) as paragraphs (8) and (9), respectively, and by inserting after paragraph (6) the following new paragraph:

"(7) INCOME FROM REDETERMINED RENTS, REDETERMINED DEDUCTIONS, AND EXCESS INTEREST.—

"(A) IMPOSITION OF TAX.—There is hereby imposed for each taxable year of the real estate investment trust a tax equal to 100 percent of redetermined rents, redetermined deductions, and excess interest.

"(B) REDETERMINED RENTS.—

"(i) IN GENERAL.—The term 'redetermined rents' means rents from real prop-

erty (as defined in subsection 856(d)) the amount of which would (but for subparagraph (E)) be reduced on distribution, apportionment, or allocation under section 482 to clearly reflect income as a result of services furnished or rendered by a taxable REIT subsidiary of the real estate investment trust to a tenant of such trust.

"(ii) EXCEPTION FOR CERTAIN SERVICES.—Clause (i) shall not apply to amounts received directly or indirectly by a real estate investment trust for services described in paragraph (1)(B) or (7)(C)(i) of section 856(d).

"(iii) EXCEPTION FOR DE MINIMIS AMOUNTS.—Clause (i) shall not apply to amounts described in section 856(d)(7)(A) with respect to a property to the extent such amounts do not exceed the one percent threshold described in section 856(d)(7)(B) with respect to such property.

"(iv) EXCEPTION FOR COMPARABLY PRICED SERVICES.—Clause (i) shall not apply to any service rendered by a taxable

REIT subsidiary of a real estate investment trust to a tenant of such trust if—

"(I) such subsidiary renders a significant amount of similar services to persons other than such trust and tenants of such trust who are unrelated (within the meaning of section 856(d)(8)(F)) to such subsidiary, trust, and tenants, but

"(II) only to the extent the charge for such service so rendered is substantially comparable to the charge for the similar services rendered to persons referred to in subclause (I).

"(v) EXCEPTION FOR CERTAIN SEPARATELY CHARGED SERVICES.—Clause (i) shall not apply to any service rendered by a taxable REIT subsidiary of a real estate investment trust to a tenant of such trust if—

"(I) the rents paid to the trust by tenants (leasing at least 25 percent of the net leasable space in the trust's property) who are not receiving such service from such subsidiary are sub-

stantially comparable to the rents paid by tenants leasing comparable space who are receiving such service from such subsidiary, and

"(II) the charge for such service from such subsidiary is separately stated.

"(vi) EXCEPTION FOR CERTAIN SERVICES BASED ON SUBSIDIARY'S INCOME FROM THE SERVICES.—Clause (i) shall not apply to any service rendered by a taxable REIT subsidiary of a real estate investment trust to a tenant of such trust if the gross income of such subsidiary from such service is not less than 150 percent of such subsidiary's direct cost in furnishing or rendering the service.

"(vii) EXCEPTIONS GRANTED BY SECRETARY.—The Secretary may waive the tax otherwise imposed by subparagraph (A) if the trust establishes to the satisfaction of the Secretary that rents charged to tenants were established on an arms' length basis even though a taxable REIT subsidiary of the trust provided services to such tenants.

"(C) REDETERMINED DEDUCTIONS.—The term 'redetermined deductions' means deductions (other than redetermined rents) of a taxable REIT subsidiary of a real estate investment trust if the amount of such deductions would (but for subparagraph (E)) be decreased on distribution, apportionment, or allocation under section 482 to clearly reflect income as between such subsidiary and such trust.

"(D) EXCESS INTEREST.—The term 'excess interest' means any deductions for interest payments by a taxable REIT subsidiary of a real estate investment trust to such trust to the extent that the interest payments are in excess of a rate that is commercially reasonable.

"(E) COORDINATION WITH SECTION 482.—The imposition of tax under subparagraph (A) shall be in lieu of any distribution, apportionment, or allocation under section 482.

"(F) REGULATORY AUTHORITY.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this paragraph. Until the Secretary prescribes such regulations, real estate investment trusts and their taxable REIT subsidiaries may

base their allocations on any reasonable method.".

(b) AMOUNT SUBJECT TO TAX NOT REQUIRED TO BE DISTRIBUTED.—Subparagraph (E) of section 857(b)(2) (relating to real estate investment trust taxable income) is amended by striking "paragraph (5)" and inserting "paragraphs (5) and (7)".

SEC. 1026. EFFECTIVE DATE.

(a) IN GENERAL.—The amendments made by this part shall apply to taxable years beginning after December 31, 2000.

(b) TRANSITIONAL RULES RELATED TO SECTION 1021.—

(1) EXISTING ARRANGEMENTS.—

(A) IN GENERAL.—Except as otherwise provided in this paragraph, the amendment made by section 1021 shall not apply to a real estate investment trust with respect to—

(i) securities of a corporation held directly or indirectly by such trust on July 12, 1999,

(ii) securities of a corporation held by an entity on July 12, 1999, if such trust acquires control of such entity pursuant to a written binding contract in effect on such

date and at all times thereafter before such acquisition,

(iii) securities received by such trust (or a successor) in exchange for, or with respect to, securities described in clause (i) or (ii) in a transaction in which gain or loss is not recognized, and

(iv) securities acquired directly or indirectly by such trust as part of a reorganization (as defined in section 368(a)(1) of the Internal Revenue Code of 1986) with respect to such trust if such securities are described in clause (i), (ii), or (iii) with respect to any other real estate investment trust.

Notwithstanding the preceding sentence, such securities shall be taken into account in determining whether such trust fails to meet the requirements of section 856(c)(4)(B) of such Code (as amended by such amendments) if such trust acquires or receives securities to which the preceding sentence does not apply.

(B) NEW TRADE OR BUSINESS OR SUBSTANTIAL NEW ASSETS.—Subparagraph (A) shall cease to apply to securities of a corporation as

of the first day after July 12, 1999, on which such corporation engages in a substantial new line of business, or acquires any substantial asset, other than—

(i) pursuant to a binding contract in effect on such date and at all times thereafter before the acquisition of such asset,

(ii) in a transaction in which gain or loss is not recognized by reason of section 1031 or 1033 of the Internal Revenue Code of 1986, or

(iii) in a reorganization (as so defined) with another corporation the securities of which are described in paragraph (1)(A) of this subsection.

(C) LIMITATION ON TRANSITION RULES.—Subparagraph (A) shall cease to apply to securities of a corporation held, acquired, or received, directly or indirectly, by a real estate investment trust as of the first day after July 12, 1999, on which such trust acquires any additional securities of such corporation other than—

(i) pursuant to a binding contract in effect on such date and at all times thereafter, or

(ii) in a reorganization (as so defined) with another corporation the securities of which are described in paragraph (1)(A) of this subsection.

(2) TAX-FREE CONVERSION.—If—

(A) at the time of an election for a corporation to become a taxable REIT subsidiary, the amendment made by section 1021 does not apply to such corporation by reason of paragraph (1), and

(B) such election first takes effect before January 1, 2004,

such election shall be treated as a reorganization qualifying under section 368(a)(1)(A) of such Code.

PART II—HEALTH CARE REITS

SEC. 1031. HEALTH CARE REITS.

(a) SPECIAL FORECLOSURE RULE FOR HEALTH CARE PROPERTIES.—Subsection (e) of section 856 (relating to special rules for foreclosure property) is amended by adding at the end the following new paragraph:

"(6) SPECIAL RULE FOR QUALIFIED HEALTH CARE PROPERTIES.—For purposes of this subsection—

"(A) ACQUISITION AT EXPIRATION OF LEASE.—The term 'foreclosure property' shall in-

clude any qualified health care property acquired by a real estate investment trust as the result of the termination of a lease of such property (other than a termination by reason of a default, or the imminence of a default, on the lease).

"(B) GRACE PERIOD.—In the case of a qualified health care property which is foreclosure property solely by reason of subparagraph (A), in lieu of applying paragraphs (2) and (3)—

"(i) the qualified health care property shall cease to be foreclosure property as of the close of the second taxable year after the taxable year in which such trust acquired such property, and

"(ii) if the real estate investment trust establishes to the satisfaction of the Secretary that an extension of the grace period in clause (i) is necessary to the orderly leasing or liquidation of the trust's interest in such qualified health care property, the Secretary may grant 1 or more extensions of the grace period for such qualified health care property.

Any such extension shall not extend the grace period beyond the close of the 6th year after the taxable year in which such trust acquired such qualified health care property.

"(C) INCOME FROM INDEPENDENT CONTRACTORS.—For purposes of applying paragraph (4)(C) with respect to qualified health care property which is foreclosure property by reason of subparagraph (A) or paragraph (1), income derived or received by the trust from an independent contractor shall be disregarded to the extent such income is attributable to—

"(i) any lease of property in effect on the date the real estate investment trust acquired the qualified health care property (without regard to its renewal after such date so long as such renewal is pursuant to the terms of such lease as in effect on such date), or

"(ii) any lease of property entered into after such date if—

"(I) on such date, a lease of such property from the trust was in effect, and

"(II) under the terms of the new lease, such trust receives a substantially similar or lesser benefit in comparison to the lease referred to in subclause (I).

"(D) QUALIFIED HEALTH CARE PROPERTY.—

"(i) IN GENERAL.—The term 'qualified health care property' means any real property (including interests therein), and any personal property incident to such real property, which—

"(I) is a health care facility, or

"(II) is necessary or incidental to the use of a health care facility.

"(ii) HEALTH CARE FACILITY.—For purposes of clause (i), the term 'health care facility' means a hospital, nursing facility, assisted living facility, congregate care facility, qualified continuing care facility (as defined in section 7872(g)(4)), or other licensed facility which extends medical or nursing or ancillary services to patients and which, immediately before the termination, expiration, default, or breach of the

lease of or mortgage secured by such facility, was operated by a provider of such services which was eligible for participation in the medicare program under title XVIII of the Social Security Act with respect to such facility.".

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

PART III—CONFORMITY WITH REGULATED INVESTMENT COMPANY RULES

SEC. 1041. CONFORMITY WITH REGULATED INVESTMENT COMPANY RULES.

(a) DISTRIBUTION REQUIREMENT.—Clauses (i) and (ii) of section 857(a)(1)(A) (relating to requirements applicable to real estate investment trusts) are each amended by striking "95 percent (90 percent for taxable years beginning before January 1, 1980)" and inserting "90 percent".

(b) IMPOSITION OF TAX.—Clause (i) of section 857(b)(5)(A) (relating to imposition of tax in case of failure to meet certain requirements) is amended by striking "95 percent (90 percent in the case of taxable years beginning before January 1, 1980)" and inserting "90 percent".

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

PART IV—CLARIFICATION OF EXCEPTION FROM IMPERMISSIBLE TENANT SERVICE INCOME

SEC. 1051. CLARIFICATION OF EXCEPTION FOR INDEPENDENT OPERATORS.

(a) IN GENERAL.—Paragraph (3) of section 856(d) (relating to independent contractor defined) is amended by adding at the end the following flush sentence:

"In the event that any class of stock of either the real estate investment trust or such person is regularly traded on an established securities market, only persons who own, directly or indirectly, more than 5 percent of such class of stock shall be taken into account as owning any of the stock of such class for purposes of applying the 35 percent limitation set forth in subparagraph (B) (but all of the outstanding stock of such class shall be considered outstanding in order to compute the denominator for purpose of determining the applicable percentage of ownership).".

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

PART V—MODIFICATION OF EARNINGS AND PROFITS RULES

SEC. 1061. MODIFICATION OF EARNINGS AND PROFITS RULES.

(a) RULES FOR DETERMINING WHETHER REGULATED INVESTMENT COMPANY HAS EARNINGS AND PROFITS FROM NON-RIC YEAR.—Subsection (c) of section 852 is amended by adding at the end the following new paragraph:

"(3) DISTRIBUTIONS TO MEET REQUIREMENTS OF SUBSECTION (a)(2)(B).—Any distribution which is made in order to comply with the requirements of subsection (a)(2)(B)—

"(A) shall be treated for purposes of this subsection and subsection (a)(2)(B) as made from the earliest earnings and profits accumulated in any taxable year to which the provisions of this part did not apply rather than the most recently accumulated earnings and profits, and

"(B) to the extent treated under subparagraph (A) as made from accumulated earnings and profits, shall not be treated as a distribution for purposes of subsection (b)(2)(D) and section 855.".

(b) CLARIFICATION OF APPLICATION OF REIT SPILLOVER DIVIDEND RULES TO DISTRIBUTIONS TO MEET QUALIFICATION REQUIREMENT.—Subparagraph (B) of sec-

tion 857(d)(3) is amended by inserting before the period "and section 858".

(c) APPLICATION OF DEFICIENCY DIVIDEND PROCEDURES.—Paragraph (1) of section 852(e) is amended by adding at the end the following new sentence: "If the determination under subparagraph (A) is solely as a result of the failure to meet the requirements of subsection (a)(2), the preceding sentence shall also apply for purposes of applying subsection (a)(2) to the non-RIC year.".

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

PART VI—STUDY RELATING TO TAXABLE REIT SUBSIDIARIES

SEC. 1071. STUDY RELATING TO TAXABLE REIT SUBSIDIARIES.

The Commissioner of the Internal Revenue shall conduct a study to determine how many taxable REIT subsidiaries are in existence and the aggregate amount of taxes paid by such subsidiaries. The Secretary shall submit a report to the Congress describing the results of such study.

Subtitle D—Private Activity Bond Volume Cap

SEC. 1081. INCREASE IN VOLUME CAP ON PRIVATE ACTIVITY BONDS.

(a) IN GENERAL.—The table contained in section 146(d)(2) (relating to per capita limit; aggregate limit) is amended by striking "2002", "2003", "2004", "2005", "2006", and "2007" and inserting "2000", "2001", "2002", "2003", "2004", and "2005", respectively.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to calendar years after 2000.

Subtitle E—Leasehold Improvements Depreciation

SEC. 1091. RECOVERY PERIOD FOR DEPRECIATION OF CERTAIN LEASEHOLD IMPROVEMENTS.

(a) 15-YEAR RECOVERY PERIOD.—Subparagraph (E) of section 168(e)(3) (relating to 15-year property) is amended by striking "and" at the end of clause (ii), by striking the period at the end of clause (iii) and inserting ", and", and by adding at the end the following new clause:

"(iv) any qualified leasehold improvement property.".

(b) QUALIFIED LEASEHOLD IMPROVEMENT PROPERTY.—Subsection (e) of section 168 is amended by adding at the end the following new paragraph:

"(6) QUALIFIED LEASEHOLD IMPROVEMENT PROPERTY.—

"(A) IN GENERAL.—The term 'qualified leasehold improvement property' means any improvement to an interior portion of a building which is nonresidential real property if—

"(i) such improvement is made under or pursuant to a lease (as defined in subsection (h)(7))—

"(I) by the lessee (or any sublessee) of such portion, or

"(II) by the lessor of such portion,

"(ii) the original use of such improvement begins with the lessee and after December 31, 2002,

"(iii) such portion is to be occupied exclusively by the lessee (or any sublessee) of such portion, and

"(iv) such improvement is placed in service more than 3 years after the date the building was first placed in service.

"(B) CERTAIN IMPROVEMENTS NOT INCLUDED.—Such term shall not include any improvement for which the expenditure is attributable to—

"(i) the enlargement of the building,

"(ii) any elevator or escalator,

"(iii) any structural component benefiting a common area, and

"(iv) the internal structural framework of the building.

"(C) DEFINITIONS AND SPECIAL RULES.—For purposes of this paragraph—

"(i) COMMITMENT TO LEASE TREATED AS LEASE.—A commitment to enter into a lease shall be treated as a lease, and the parties to such commitment shall be treated as lessor and lessee, respectively, if the lease is in effect at the time the property is placed in service.

"(ii) RELATED PERSONS.—A lease between related persons shall not be considered a lease. For purposes of the preceding sentence, the term 'related persons' means—

"(I) members of an affiliated group (as defined in section 1504), and

"(II) persons having a relationship described in subsection (b) of section 267(b) or 707(b)(1); except that, for purposes of this clause, the phrase

'80 percent or more' shall be substituted for the phrase 'more than 50 percent' each place it appears in such subsections.".

(c) REQUIREMENT TO USE STRAIGHT LINE METHOD.—Paragraph (3) of section 168(b) is amended by adding at the end the following new subparagraph:

"(G) Qualified leasehold improvement property described in subsection (e)(6).".

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to qualified leasehold improvement property placed in service after December 31, 2002.

TITLE XI—MISCELLANEOUS PROVISIONS

SEC. 1101. REPEAL OF CERTAIN MOTOR FUEL EXCISE TAXES ON FUEL USED BY RAILROADS AND ON INLAND WATERWAY TRANSPORTATION.

(a) REPEAL OF 4.3-CENT MOTOR FUEL EXCISE TAXES ON RAILROADS AND INLAND WATERWAY TRANSPORTATION WHICH REMAIN IN GENERAL FUND.—

(1) TAXES ON TRAINS.—

(A) IN GENERAL.—Subparagraph (A) of section 4041(a)(1) is amended by striking "or a diesel-powered train" each place it appears and by striking "or train".

(B) CONFORMING AMENDMENTS.—

(i) Subparagraph (C) of section 4041(a)(1) is amended by striking clause (ii) and by redesignating clause (iii) as clause (ii).

(ii) Subparagraph (C) of section 4041(b)(1) is amended by striking all that follows "section 6421(e)(2)" and inserting a period.

(iii) Paragraph (3) of section 4083(a) is amended by striking "or a diesel-powered train".

(iv) Section 6427(l) is amended by striking paragraph (3) and by redesignating paragraphs (4) and (5) as paragraphs (3) and (4), respectively.

(2) FUEL USED ON INLAND WATERWAYS.—

(A) IN GENERAL.—Paragraph (1) of section 4042(b) is amended by adding "and" at the end of subparagraph (A), by striking ", and" at the end of subparagraph (B) and inserting a period, and by striking subparagraph (C).

(B) CONFORMING AMENDMENT.—Paragraph (2) of section 4042(b) is amended by striking subparagraph (C).

(b) EFFECTIVE DATE.—The amendments made by this subsection shall take effect on October 1, 2000.

SEC. 1102. TAX TREATMENT OF ALASKA NATIVE SETTLEMENT TRUSTS.

(a) TAX EXEMPTION.—Section 501(c), as amended by section 801(a), is amended by adding at the end the following new paragraph:

"(29) A trust which—

"(A) constitutes a Settlement Trust under section 39 of the Alaska Native Claims Settlement Act (43 U.S.C. 1629e), and

"(B) with respect to which an election under subsection (p)(2) is in effect.".

(b) SPECIAL RULES RELATING TO TAXATION OF ALASKA NATIVE SETTLEMENT TRUSTS.—Section 501 is amended by redesignating subsection (p) as subsection (q) and by inserting after subsection (o) the following new subsection:

"(p) SPECIAL RULES FOR TAXATION OF ALASKA NATIVE SETTLEMENT TRUSTS.—

"(1) IN GENERAL.—For purposes of this title, the following rules shall apply in the case of a Settlement Trust:

"(A) ELECTING TRUST.—If an election under paragraph (2) is in effect for any taxable year—

"(i) no amount shall be includible in the gross income of a beneficiary of the Settlement Trust by reason of a contribution to the Settlement Trust made during such taxable year, and

"(ii) except as provided in this subsection, the provisions of subchapter J and section 1(e) shall not apply to the Settlement Trust and its beneficiaries for such taxable year.

"(B) NONELECTING TRUST.—If an election is not in effect under paragraph (2) for any taxable year, the provisions of subchapter J and section 1(e) shall apply to the Settlement Trust and its beneficiaries for such taxable year.

"(2) ONE-TIME ELECTION.—

"(A) IN GENERAL.—A Settlement Trust may elect to have the provisions of this subsection and subsection (c)(29) apply to the trust and its beneficiaries.

"(B) TIME AND METHOD OF ELECTION.—An election under subparagraph (A) shall be made—

"(i) on or before the due date (including extensions) for filing the Settlement

Trust's return of tax for the 1st taxable year of the Settlement Trust ending after December 31, 1999, and

"(ii) by attaching to such return of tax a statement specifically providing for such election.

"(C) PERIOD ELECTION IN EFFECT.—Except as provided in paragraph (3), an election under subparagraph (A)—

"(i) shall apply to the 1st taxable year described in subparagraph (B)(i) and all subsequent taxable years, and

"(ii) may not be revoked once it is made.

"(3) SPECIAL RULES WHERE TRANSFER RESTRICTIONS MODIFIED.—

"(A) TRANSFER OF BENEFICIAL INTERESTS.—If, at any time, a beneficial interest in a Settlement Trust may be disposed of in a manner which would not be permitted by section 7(h) of the Alaska Native Claims Settlement Act (43 U.S.C. 1606(h)) if the interest were Settlement Common Stock—

"(i) no election may be made under paragraph (2)(A) with respect to such trust, and

"(ii) if an election under paragraph (2)(A) is in effect as of such time—

"(I) such election is revoked as of the 1st day of the taxable year following the taxable year in which such disposition is first permitted, and

"(II) there is hereby imposed on such trust a tax equal to the product of the fair market value of the assets held by the trust as of the close of the taxable year in which such disposition is first permitted and the highest rate of tax under section 1(e) for such taxable year.

The tax imposed by clause (ii)(II) shall be in lieu of any other tax imposed by this chapter for the taxable year.

"(B) STOCK IN CORPORATION.—If—

"(i) the Settlement Common Stock in any Native Corporation which transferred assets to a Settlement Trust making an election under paragraph (2)(A) may be dis-

posed of in a manner not permitted by section 7(h) of the Alaska Native Claims Settlement Act (43 U.S.C. 1606(h)), and

"(ii) at any time after such disposition of stock is first permitted, such corporation transfers assets to such trust,

clause (ii) of subparagraph (A) shall be applied to such trust on and after the date of the transfer in the same manner as if the trust permitted dispositions of beneficial interests in the trust in a manner not permitted by such section 7(h).

"(C) ADMINISTRATIVE PROVISIONS.—For purposes of subtitle F, any tax imposed by subparagraph (A)(ii)(II) shall be treated as an excise tax with respect to which the deficiency procedures of such subtitle apply.

"(4) DISTRIBUTION REQUIREMENT ON ELECTING SETTLEMENT TRUST.—

"(A) IN GENERAL.—If an election is in effect under paragraph (2) for any taxable year, a Settlement Trust shall distribute at least 55 percent of its adjusted taxable income for such taxable year.

"(B) TAX IMPOSED IF INSUFFICIENT DISTRIBUTION.—If a Settlement Trust fails to meet

the distribution requirement of subparagraph (A) for any taxable year, then, notwithstanding subsection (c)(29), a tax shall be imposed on the trust under section 1(e) on an amount of taxable income equal to the amount of such failure.

"(C) DESIGNATION OF DISTRIBUTION.—Solely for purposes of meeting the requirements of this paragraph, a Settlement Trust may elect to treat any distribution (or portion) during the 65-day period following the close of any taxable year as made on the last day of such taxable year. Any such distribution (or portion) may not be taken into account under this paragraph for any other taxable year.

"(D) ADJUSTED TAXABLE INCOME.—For purposes of this paragraph, the term 'adjusted taxable income' means taxable income determined under section 641(b) without regard to any deduction under section 651 or 661.

"(5) TAX TREATMENT OF DISTRIBUTIONS TO BENEFICIARIES.—

"(A) ELECTING TRUST.—If an election is in effect under paragraph (2) for any taxable year, any distribution to a beneficiary shall be in-

cluded in gross income of the beneficiary as ordinary income.

"(B) NONELECTING TRUSTS.—Any distribution to a beneficiary from a Settlement Trust not described in subparagraph (A) shall be includible in income as provided under subchapter J.

"(C) EARNINGS AND PROFITS.—The earnings and profits of any Native Corporation making a contribution to a Settlement Trust shall not be reduced on account thereof at the time of such contribution, but such earnings and profits shall be reduced (up to the amount of such contribution) as distributions are thereafter made by the Settlement Trust which exceed the sum of—

"(i) such Trust's total undistributed net income for all prior years during which an election under paragraph (2) is in effect, and

"(ii) such Trust's distributable net income.

"(6) DEFINITIONS.—For purposes of this subsection—

"(A) NATIVE CORPORATION.—The term 'Native Corporation' has the meaning given such

term by section 3(m) of the Alaska Native Claims Settlement Act (43 U.S.C. 1602(m)).

"(B) SETTLEMENT TRUST.—The term 'Settlement Trust' means a trust which constitutes a Settlement Trust under section 39 of the Alaska Native Claims Settlement Act (43 U.S.C. 1629e).".

(c) WITHHOLDING ON DISTRIBUTIONS BY ELECTING ANCSA SETTLEMENT TRUSTS.—Section 3402 is amended by adding at the end the following new subsection:

"(t) TAX WITHHOLDING ON DISTRIBUTIONS BY ELECTING ANCSA SETTLEMENT TRUSTS.—

"(1) IN GENERAL.—Any Settlement Trust (as defined in section 501(p)(6)(B)) which is exempt from income tax under section 501(c)(29) (in this subsection referred to as an 'electing trust') and which makes a payment to any beneficiary shall deduct and withhold from such payment a tax in an amount equal to such payment's proportionate share of the annualized tax.

"(2) EXCEPTION.—The tax imposed by paragraph (1) shall not apply to any payment to the extent that such payment, when annualized, does not exceed an amount equal to the amount in effect under

section 6012(a)(1)(A)(i) for taxable years beginning in the calendar year in which the payment is made.

"(3) ANNUALIZED TAX.—For purposes of paragraph (1), the term 'annualized tax' means, with respect to any payment, the amount of tax which would be imposed by section 1(c) (determined without regard to any rate of tax in excess of 31 percent) on an amount of taxable income equal to the excess of—

"(A) the annualized amount of such payment, over

"(B) the amount determined under paragraph (2).

"(4) ANNUALIZATION.—For purposes of this subsection, amounts shall be annualized in the manner prescribed by the Secretary.

"(5) ALTERNATE WITHHOLDING PROCEDURES.—At the election of an electing trust, the tax imposed by this subsection on any payment made by such trust shall be determined in accordance with such tables or computational procedures as may be specified in regulations prescribed by the Secretary (in lieu of in accordance with paragraphs (2) and (3)).

"(6) COORDINATION WITH OTHER SECTIONS.—For purposes of this chapter and so much of subtitle F as relates to this chapter, payments which are sub-

ject to withholding under this subsection shall be treated as if they were wages paid by an employer to an employee.".

(d) REPORTING.—Section 6041 is amended by adding at the end the following new subsection:

"(f) APPLICATION TO ALASKA NATIVE SETTLEMENT TRUSTS.—In the case of any distribution from a Settlement Trust (as defined in section 501(p)(6)(B)) to a beneficiary, this section shall apply, except that—

"(1) this section shall apply to such distribution without regard to the amount thereof,

"(2) the Settlement Trust shall include on any return or statement required by this section information as to the character of such distribution (if applicable) and the amount of tax imposed by chapter 1 which has been deducted and withheld from such distribution, and

"(3) the filing of any return or statement required by this section shall satisfy any requirement to file any other form or schedule under this title with respect to distributive share information (including any form or schedule to be included with the trust's tax return).".

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years of Settlement Trusts

ending after December 31, 1999, and to contributions to such trusts after such date.

SEC. 1103. LONG-TERM UNUSED CREDITS ALLOWED AGAINST MINIMUM TAX.

(a) IN GENERAL.—Subsection (c) of section 53 (relating to limitation) is amended by adding at the end the following:

"(2) SPECIAL RULE FOR CORPORATIONS WITH LONG-TERM UNUSED CREDITS.—

"(A) IN GENERAL.—If—

"(i) a corporation to which section 56(g) applies has a long-term unused minimum tax credit for a taxable year, and

"(ii) no credit would be allowable under this section for the taxable year by reason of paragraph (1),

then there shall be allowed a credit under subsection (a) for the taxable year in the amount determined under subparagraph (B).

"(B) AMOUNT OF CREDIT.—For purposes of subparagraph (A), the amount of the credit shall be equal to the least of the following for the taxable year:

"(i) The long-term unused minimum tax credit.

"(ii) 50 percent of the taxpayer's tentative minimum tax.

"(iii) The excess (if any) of the amount under paragraph (1)(B) over the amount under paragraph (1)(A).

"(C) LONG-TERM UNUSED MINIMUM TAX CREDIT.—For purposes of this paragraph—

"(i) IN GENERAL.—The long-term unused minimum tax credit for any taxable year is the portion of the minimum tax credit determined under subsection (b) attributable to the adjusted net minimum tax for taxable years beginning after 1986 and ending before the 5th taxable year immediately preceding the taxable year for which the determination is being made.

"(ii) FIRST-IN, FIRST-OUT ORDERING RULE.—For purposes of clause (i), credits shall be treated as allowed under subsection (a) on a first-in, first-out basis.".

(b) CONFORMING AMENDMENTS.—Section 53(c) (as in effect before the amendment made by subsection (a)) is amended—

(1) by striking "The" and inserting the following:

"(1) IN GENERAL.—The"; and

(2) by redesignating paragraphs (1) and (2) as subparagraphs (A) and (B), respectively.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2003.

SEC. 1104. 5-YEAR NET OPERATING LOSS CARRYBACK FOR LOSSES ATTRIBUTABLE TO OPERATING MINERAL INTERESTS OF INDEPENDENT OIL AND GAS PRODUCERS.

(a) IN GENERAL.—Paragraph (1) of section 172(b) (relating to years to which loss may be carried) is amended by adding at the end the following new subparagraph:

"(H) LOSSES ON OPERATING MINERAL INTERESTS OF INDEPENDENT OIL AND GAS PRODUCERS.—In the case of a taxpayer—

"(i) which has an eligible oil and gas loss (as defined in subsection (j)) for a taxable year, and

"(ii) which is not an integrated oil company (as defined in section 291(b)(4)), such eligible oil and gas loss shall be a net operating loss carryback to each of the 5 taxable years preceding the taxable year of such loss.".

(b) ELIGIBLE OIL AND GAS LOSS.—Section 172 is amended by redesignating subsection (j) as subsection (k) and by inserting after subsection (i) the following new subsection:

"(j) ELIGIBLE OIL AND GAS LOSS.—For purposes of this section—

"(1) IN GENERAL.—The term 'eligible oil and gas loss' means the lesser of—

"(A) the amount which would be the net operating loss for the taxable year if only income and deductions attributable to operating mineral interests (as defined in section 614(d)) in oil and gas wells are taken into account, or

"(B) the amount of the net operating loss for such taxable year.

"(2) COORDINATION WITH SUBSECTION (b)(2).—For purposes of applying subsection (b)(2), an eligible oil and gas loss for any taxable year shall be treated in a manner similar to the manner in which a specified liability loss is treated.

"(3) ELECTION.—Any taxpayer entitled to a 5-year carryback under subsection (b)(1)(H) from any loss year may elect to have the carryback period with respect to such loss year determined without regard to subsection (b)(1)(H).".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to net operating losses for taxable years beginning after December 31, 1998.

SEC. 1105. ELECTION TO EXPENSE GEOLOGICAL AND GEOPHYSICAL EXPENDITURES.

(a) IN GENERAL.—Section 263 (relating to capital expenditures) is amended by adding at the end the following:

"(j) GEOLOGICAL AND GEOPHYSICAL EXPENDITURES FOR DOMESTIC OIL AND GAS WELLS.—Notwithstanding subsection (a), a taxpayer may elect to treat geological and geophysical expenses incurred in connection with the exploration for, or development of, oil or gas within the United States (as defined in section 638) as expenses which are not chargeable to capital account. Any expenses so treated shall be allowed as a deduction in the taxable year in which paid or incurred.".

(b) CONFORMING AMENDMENT.—Section 263A(c)(3) is amended by inserting "263(j)," after "263(i),".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to expenses paid or incurred in taxable years beginning after December 31, 1999.

SEC. 1106. ELECTION TO EXPENSE DELAY RENTAL PAYMENTS

(a) IN GENERAL.—Section 263 (relating to capital expenditures), as amended by section 1105(a), is amended by adding at the end the following:

"(k) DELAY RENTAL PAYMENTS FOR DOMESTIC OIL AND GAS WELLS.—

"(1) IN GENERAL.—Notwithstanding subsection (a), a taxpayer may elect to treat delay rental payments incurred in connection with the development of oil or gas within the United States (as defined in section 638) as payments which are not chargeable to capital account. Any payments so treated shall be allowed as a deduction in the taxable year in which paid or incurred.

"(2) DELAY RENTAL PAYMENTS.—For purposes of paragraph (1), the term 'delay rental payment' means an amount paid for the privilege of deferring development of an oil or gas well.".

(b) CONFORMING AMENDMENT.—Section 263A(c)(3), as amended by section 1105(b), is amended by inserting "263(k)," after "263(j),".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to payments made or incurred in taxable years beginning after December 31, 1999.

SEC. 1107. MODIFICATION OF ACTIVE BUSINESS DEFINITION UNDER SECTION 355.

(a) IN GENERAL.—Section 355(b) (defining active conduct of a trade or business) is amended by adding at the end the following new paragraph:

"(3) SPECIAL RULES RELATING TO ACTIVE BUSINESS REQUIREMENT.—

"(A) IN GENERAL.—For purposes of determining whether a corporation meets the requirement of paragraph (2)(A), all members of such corporation's separate affiliated group shall be treated as 1 corporation. For purposes of the preceding sentence, a corporation's separate affiliated group is the affiliated group which would be determined under section 1504(a) if such corporation were the common parent and section 1504(b) did not apply.

"(B) CONTROL.—For purposes of paragraph (2)(D), all distributee corporations which are members of the same affiliated group (as defined in section 1504(a) without regard to section 1504(b)) shall be treated as 1 distributee corporation.".

(b) CONFORMING AMENDMENTS.—

(1) Subparagraph (A) of section 355(b)(2) is amended to read as follows:

"(A) it is engaged in the active conduct of a trade or business,".

(2) Section 355(b)(2) is amended by striking the last sentence.

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to distributions after the date of the enactment of this Act.

(2) TRANSITION RULE.—The amendments made by this section shall not apply to any distribution pursuant to a transaction which is—

(A) made pursuant to an agreement which was binding on such date and at all times thereafter,

(B) described in a ruling request submitted to the Internal Revenue Service on or before such date, or

(C) described on or before such date in a public announcement or in a filing with the Securities and Exchange Commission.

(3) ELECTION TO HAVE AMENDMENTS APPLY.—Paragraph (2) shall not apply if the distributing corporation elects not to have such paragraph apply to distributions of such corporation. Any such election, once made, shall be irrevocable.

SEC. 1108. TEMPORARY SUSPENSION OF MAXIMUM AMOUNT OF AMORTIZABLE REFORESTATION EXPENDITURES.

(a) INCREASE IN DOLLAR LIMITATION.—Paragraph (1) of section 194(b) (relating to amortization of reforestation expenditures) is amended by striking "$10,000 ($5,000" and inserting "$25,000 ($12,500".

(b) TEMPORARY SUSPENSION OF INCREASED DOLLAR LIMITATION.—Subsection (b) of section 194(b) (relating to amortization of reforestation expenditures) is amended by adding at the end the following new paragraph:

"(5) SUSPENSION OF DOLLAR LIMITATION.—Paragraph (1) shall not apply to taxable years beginning after December 31, 1999, and before January 1, 2004.

(c) CONFORMING AMENDMENT.—Paragraph (1) of section 48(b) is amended by striking "section 194(b)(1)" and inserting "section 194(b)(1) and without regard to section 194(b)(5)".

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

SEC. 1109. MODIFICATION OF EXCISE TAX IMPOSED ON ARROW COMPONENTS.

(a) IN GENERAL.—Paragraph (2) of section 4161(b) (relating to bows and arrows, etc.) is amended to read as follows:

"(2) ARROWS.—

"(A) IN GENERAL.—There is hereby imposed on the sale by the manufacturer, producer, or importer of any shaft, point, article used to attach a point to a shaft, nock, or vane of a type used in the manufacture of any arrow which after its assembly—

"(i) measures 18 inches overall or more in length, or

"(ii) measures less than 18 inches overall in length but is suitable for use with a bow described in paragraph (1)(A),

a tax equal to 12.4 percent of the price for which so sold.

"(B) REDUCED RATE ON CERTAIN HUNTING POINTS.—Subparagraph (A) shall be applied by substituting '11 percent' for '12.4 percent' in the case of a point which is designed primarily for use in hunting fish or large animals.".

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to articles sold by the manufacturer,

producer, or importer after the close of the first calendar month ending more than 30 days after the date of the enactment of this Act.

SEC. 1110. INCREASE IN THRESHOLD FOR JOINT COMMITTEE REPORTS ON REFUNDS AND CREDITS.

(a) GENERAL RULE.—Subsections (a) and (b) of section 6405 are each amended by striking "$1,000,000" and inserting "$2,000,000".

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall take effect on the date of the enactment of this Act, except that such amendment shall not apply with respect to any refund or credit with respect to a report that has been made before such date of enactment under section 6405 of the Internal Revenue Code of 1986.

SEC. 1111. MODIFICATION OF RURAL AIRPORT DEFINITION.

(a) IN GENERAL.—Clause (ii) of section 4261(e)(1)(B) (defining rural airport) is amended by striking the period at the end of subclause (II) and inserting ", or", and by adding at the end the following new subclause:

"(III) is not connected by paved roads to another airport.".

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to calendar years beginning after 1999.

SEC. 1112. PAYMENT OF DIVIDENDS ON STOCK OF CO-OPERATIVES WITHOUT REDUCING PATRONAGE DIVIDENDS.

(a) IN GENERAL.—Subsection (a) of section 1388 (relating to patronage dividend defined) is amended by adding at the end the following: "For purposes of paragraph (3), net earnings shall not be reduced by amounts paid during the year as dividends on capital stock or other proprietary capital interests of the organization to the extent that the articles of incorporation or bylaws of such organization or other contract with patrons provide that such dividends are in addition to amounts otherwise payable to patrons which are derived from business done with or for patrons during the taxable year.".

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

SEC. 1113. CONSOLIDATION OF LIFE INSURANCE COMPANIES WITH OTHER CORPORATIONS.

(a) IN GENERAL.—Section 1504(b) (defining includible corporation) is amended by striking paragraph (2).

(b) CONFORMING AMENDMENTS.—

(1) Section 1504 is amended by striking subsection (c) and by redesignating subsections (d), (e), and (f) as subsections (c), (d), and (e), respectively.

(2) Section 1503(c)(1) (relating to special rule for application of certain losses against income of insurance companies taxed under section 801) is amended by striking "an election under section 1504(c)(2) is in effect for the taxable year and".

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

(d) NO CARRYBACK BEFORE JANUARY 1, 2001.—To the extent that a consolidated net operating loss is allowed or increased by reason of the amendments made by this section, such loss may not be carried back to a taxable year beginning before January 1, 2001.

(e) NONTERMINATION OF GROUP.—No affiliated group shall terminate solely as a result of the amendments made by this section.

(f) WAIVER OF 5-YEAR WAITING PERIOD.—Under regulations prescribed by the Secretary of the Treasury or his delegate, an automatic waiver from the 5-year waiting period for reconsolidation provided in section 1504(a)(3) of the Internal Revenue Code of 1986 shall be granted to any corporation which was previously an includible corporation but was subsequently deemed a nonincludible corporation as a result of becoming a subsidiary of a corporation which was not an includible corporation solely by operation of sec-

tion 1504(c)(2) of such Code (as in effect on the day before the date of the enactment of this Act).

SEC. 1114. EXPANSION OF EXEMPTION FROM PERSONAL HOLDING COMPANY TAX FOR LENDING OR FINANCE COMPANIES.

(a) IN GENERAL.—Paragraph (6) of section 542(c) (defining personal holding company) is amended—

(1) by striking "rents," in subparagraph (B), and

(2) by adding "and" at the end of subparagraph (B),

(3) by striking subparagraph (C), and

(4) by redesignating subparagraph (D) as subparagraph (C).

(b) EXCEPTION FOR LENDING OR FINANCE COMPANIES DETERMINED ON AFFILIATED GROUP BASIS.—Subsection (d) of section 542 is amended by striking paragraphs (1) and (2) and inserting the following new paragraphs:

"(1) LENDING OR FINANCE BUSINESS DEFINED.— For purposes of subsection (c)(6), the term 'lending or finance business' means a business of—

"(A) making loans,

"(B) purchasing or discounting accounts receivable, notes, or installment obligations,

"(C) engaging in leasing (including entering into leases and purchasing, servicing, and disposing of leases and leased assets),

"(D) rendering services or making facilities available in the ordinary course of a lending or finance business.

"(E) rendering services or making facilities available in connection with activities described in subparagraphs (A), (B), and (C) carried on by the corporation rendering services or making facilities available, or

"(F) rendering services or making facilities available to another corporation which is engaged in the lending or finance business (within the meaning of this paragraph), if such services or facilities are related to the lending or finance business (within such meaning) of such other corporation and such other corporation and the corporation rendering services or making facilities available are members of the same affiliated group (as defined in section 1504).

"(2) EXCEPTION DETERMINED ON AN AFFILIATED GROUP BASIS.—In the case of a lending or finance company which is a member of an affiliated group (as defined in section 1504), such company

shall be treated as meeting the requirements of subsection (c)(6) if such group (determined by taking into account only members of such group which are engaged in a lending or finance business) meets such requirements.".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years ending after December 31, 1999.

SEC. 1115. CREDIT FOR MODIFICATIONS TO INTER-CITY BUSES REQUIRED UNDER THE AMERICANS WITH DISABILITIES ACT OF 1990.

(a) IN GENERAL.—Subsection (a) of section 44 (relating to expenditures to provide access to disabled individuals) is amended to read as follows:

"(a) GENERAL RULE.—For purposes of section 38, the amount of the disabled access credit determined under this section for any taxable year shall be an amount equal to the sum of—

"(1) in the case of an eligible small business, 50 percent of so much of the eligible access expenditures for the taxable year as exceed $250 but do not exceed $10,250, and

"(2) 50 percent of so much of the eligible bus access expenditures for the taxable year with respect to

each eligible bus as exceed $250 but do not exceed $30,250.".

(b) ELIGIBLE BUS ACCESS EXPENDITURES.—Section 44 is amended by redesignating subsections (d) and (e) as subsections (e) and (f), respectively, and by inserting after subsection (c) the following new subsection:

"(d) ELIGIBLE BUS ACCESS EXPENDITURES.—For purposes of this section—

"(1) IN GENERAL.—The term 'eligible bus access expenditures' means amounts paid or incurred by the taxpayer for the purpose of enabling the taxpayer's eligible bus to comply with applicable requirements under the Americans With Disabilities Act of 1990 (as in effect on the date of the enactment of this subsection).

"(2) CERTAIN EXPENDITURES NOT INCLUDED.—The amount of eligible bus access expenditures otherwise taken into account under subsection (a)(2) shall be reduced to the extent that funds for such expenditures are received under any Federal, State, or local program.

"(3) ELIGIBLE BUS.—The term 'eligible bus' means any automobile bus eligible for a refund under section 6427(b) by reason of transportation described in section 6427(b)(1)(A).".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 1999, and before January 1, 2012.

SEC. 1116. INCREASED DEDUCTIBILITY OF BUSINESS MEAL EXPENSES FOR INDIVIDUALS SUBJECT TO FEDERAL LIMITATIONS ON HOURS OF SERVICE.

The table in section 274(n)(3)(B) (relating to special rule for individuals subject to Federal hours of service) is amended—

(1) by striking "or 2007", and

(2) by striking "2008" and inserting "2007".

SEC. 1117. TAX-EXEMPT FINANCING OF QUALIFIED HIGHWAY INFRASTRUCTURE CONSTRUCTION.

(a) TREATMENT AS EXEMPT FACILITY BOND.—A bond described in subsection (b) shall be treated as described in section 141(e)(1)(A) of the Internal Revenue Code of 1986, except that—

(1) section 146 of such Code shall not apply to such bond, and

(2) section 147(c)(1) of such Code shall be applied by substituting "any portion of" for "25 percent or more".

(b) BOND DESCRIBED.—

(1) IN GENERAL.—A bond is described in this subsection if such bond is issued after December 31, 1999, as part of an issue—

(A) 95 percent or more of the net proceeds of which are to be used to provide a qualified highway infrastructure project, and

(B) to which there has been allocated a portion of the allocation to the project under paragraph (2)(C)(ii) which is equal to the aggregate face amount of bonds to be issued as part of such issue.

(2) QUALIFIED HIGHWAY INFRASTRUCTURE PROJECTS.—

(A) IN GENERAL.—For purposes of paragraph (1), the term "qualified highway infrastructure project" means a project—

(i) for the construction or reconstruction of a highway, and

(ii) designated under subparagraph (B) as an eligible pilot project.

(B) ELIGIBLE PILOT PROJECT.—

(i) IN GENERAL.—The Secretary of Transportation, in consultation with the Secretary of the Treasury, shall select not more than 15 highway infrastructure

projects to be pilot projects eligible for tax-exempt financing.

(ii) ELIGIBILITY CRITERIA.—In determining the criteria necessary for the eligibility of pilot projects, the Secretary of Transportation shall include the following:

(I) The project must serve the general public.

(II) The project is necessary to evaluate the potential of the private sector's participation in the provision of the highway infrastructure of the United States.

(III) The project must be located on publicly-owned rights-of-way.

(IV) The project must be publicly owned or the ownership of the highway constructed or reconstructed under the project must revert to the public.

(V) The project must be consistent with a transportation plan developed pursuant to section 134(g) or 135(e) of title 23, United States Code.

(C) AGGREGATE FACE AMOUNT OF TAX-EXEMPT FINANCING.—

(i) IN GENERAL.—The aggregate face amount of bonds issued pursuant to this section shall not exceed $15,000,000,000, determined without regard to any bond the proceeds of which are used exclusively to refund (other than to advance refund) a bond issued pursuant to this section (or a bond which is a part of a series of refundings of a bond so issued) if the amount of the refunding bond does not exceed the outstanding amount of the refunded bond.

(ii) ALLOCATION.—The Secretary of Transportation, in consultation with the Secretary of the Treasury, shall allocate the amount described in clause (i) among the eligible pilot projects designated under subparagraph (B).

(iii) REALLOCATION.—If any portion of an allocation under clause (ii) is unused on the date which is 3 years after such allocation, the Secretary of Transportation, in consultation with the Secretary of the Treasury, may reallocate such portion among the remaining eligible pilot projects.

(c) REPORT.—

(1) IN GENERAL.—Not later than the earlier of—

(A) 1 year after either ½ of the projects authorized under this section have been identified or ½ of the total bonds allowable for the projects under this section have been issued, or

(B) 7 years after the date of the enactment of this Act,

the Secretary of Transportation, in consultation with the Secretary of the Treasury, shall submit the report described in paragraph (2) to the Committees on Finance and on Environment and Public Works of the Senate and the Committees on Ways and Means and on Transportation and Infrastructure of the House of Representatives.

(2) CONTENTS.—The report under paragraph (1) shall evaluate the overall success of the program conducted pursuant to this section, including—

(A) a description of each project under the program,

(B) the extent to which the projects used new technologies, construction techniques, or innovative cost controls that resulted in savings in building the project, and

(C) the use and efficiency of the Federal tax subsidy provided by the bond financing.

SEC. 1118. EXPANSION OF DC HOMEBUYER TAX CREDIT.

(a) EXTENSION.—Section 1400C(i) (relating to application of section) is amended by striking "2001" and inserting "2002".

(b) EXPANSION OF INCOME LIMITATION.—Section 1400C(b)(1) (relating to limitation based on modified adjusted gross income) is amended—

(1) by striking "$110,000" in subparagraph (A)(i) and inserting "$140,000", and

(2) by inserting "($40,000 in the case of a joint return)" after "$20,000" in subparagraph (B).

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

SEC. 1119. EXTENSION OF DC ZERO PERCENT CAPITAL GAINS RATE.

(a) IN GENERAL.—Section 1400B (relating to zero percent capital gains rate) is amended by adding at the end the following new subsection:

"(h) EXTENSION TO ENTIRE DISTRICT OF COLUMBIA.—In determining whether any stock or partnership interest which is originally issued after December 31, 1999, or any tangible property acquired by the taxpayer by purchase after December 31, 1999, is a DC Zone asset, subsection (d) shall be applied without regard to paragraph (2) thereof.".

(b) EFFECTIVE DATE.—The amendment made by this section shall take effect on January 1, 2000.

SEC. 1120. NATURAL GAS GATHERING LINES TREATED AS 7-YEAR PROPERTY.

(a) IN GENERAL.—Subparagraph (C) of section 168(e)(3) (relating to classification of certain property) is amended by redesignating clause (ii) as clause (iii) and by inserting after clause (i) the following new clause:

"(ii) any natural gas gathering line, and".

(b) NATURAL GAS GATHERING LINE.—Subsection (i) of section 168 is amended by adding at the end the following new paragraph:

"(15) NATURAL GAS GATHERING LINE.—The term 'natural gas gathering line' means—

"(A) the pipe, equipment, and appurtenances determined to be a gathering line by the Federal Energy Regulatory Commission, or

"(B) the pipe, equipment, and appurtenances used to deliver natural gas from the wellhead or a common point to the point at which such gas first reaches—

"(i) a gas processing plant,

"(ii) an interconnection with a transmission pipeline certificated by the Federal

Energy Regulatory Commission as an interstate transmission pipeline,

"(iii) an interconnection with an intrastate transmission pipeline, or

"(iv) a direct interconnection with a local distribution company, a gas storage facility, or an industrial consumer.".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to property placed in service on or after the date of the enactment of this Act.

SEC. 1121. EXEMPTION FROM TICKET TAXES FOR CERTAIN TRANSPORTATION PROVIDED BY SMALL SEAPLANES.

(a) IN GENERAL.—Section 4281 (relating to small aircraft on nonestablished lines) is amended to read as follows:

"SEC. 4281. SMALL AIRCRAFT.

"The taxes imposed by sections 4261 and 4271 shall not apply to—

"(1) transportation by an aircraft having a maximum certificated takeoff weight of 6,000 pounds or less, except when such aircraft is operated on an established line, and

"(2) transportation by a seaplane having a maximum certificated takeoff weight of 6,000 pounds or

less with respect to any segment consisting of a takeoff from, and a landing on, water.

For purposes of the preceding sentence, the term 'maximum certificated takeoff weight' means the maximum such weight contained in the type certificate or airworthiness certificate.".

(b) CLERICAL AMENDMENT.—The table of sections for part III of subchapter C of chapter 33 is amended by striking "on nonestablished lines" in the item relating to section 4281.

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect on the date of the enactment of this Act but shall not apply to any amount paid on or before such date with respect to taxes imposed by sections 4261 and 4271 of the Internal Revenue Code of 1986.

SEC. 1122. NO FEDERAL INCOME TAX ON AMOUNTS AND LANDS RECEIVED BY HOLOCAUST VICTIMS OR THEIR HEIRS.

(a) IN GENERAL.—For purposes of the Internal Revenue Code of 1986, gross income shall not include—

(1) any amount received by an individual (or any heir of the individual)—

(A) from the Swiss Humanitarian Fund established by the Government of Switzerland or

from any similar fund established by any foreign country, or

(B) as a result of the settlement of the action entitled "In re Holocaust Victims' Asset Litigation", (E.D. NY), C.A. No. 96–4849, or as a result of any similar action; and

(2) the value of any land (including structures thereon) recovered by an individual (or any heir of the individual) from a government of a foreign country as a result of a settlement of a claim arising out of the confiscation of such land in connection with the Holocaust.

(b) EFFECTIVE DATE.—This section shall apply to any amount received before, on, or after the date of the enactment of this Act.

SEC. 1123. 2-PERCENT FLOOR ON MISCELLANEOUS ITEMIZED DEDUCTIONS NOT TO APPLY TO QUALIFIED PROFESSIONAL DEVELOPMENT EXPENSES AND QUALIFIED INCIDENTAL EXPENSES OF ELEMENTARY AND SECONDARY SCHOOL TEACHERS.

(a) QUALIFIED PROFESSIONAL DEVELOPMENT EXPENSES DEDUCTION.—

(1) IN GENERAL.—Section 67(b) (defining miscellaneous itemized deductions) is amended by strik-

ing "and" at the end of paragraph (11), by striking the period at the end of paragraph (12) and inserting ", and", and by adding at the end the following new paragraph:

"(13) any deduction allowable for the qualified professional development expenses of an eligible teacher.".

(2) DEFINITIONS.—Section 67 (relating to 2-percent floor on miscellaneous itemized deductions) is amended by adding at the end the following new subsection:

"(g) QUALIFIED PROFESSIONAL DEVELOPMENT EXPENSES OF ELIGIBLE TEACHERS.—For purposes of subsection (b)(13)—

"(1) QUALIFIED PROFESSIONAL DEVELOPMENT EXPENSES.—

"(A) IN GENERAL.—The term 'qualified professional development expenses' means expenses—

"(i) for tuition, fees, books, supplies, equipment, and transportation required for the enrollment or attendance of an individual in a qualified course of instruction, and

"(ii) with respect to which a deduction is allowable under section 162 (determined without regard to this section).

"(B) QUALIFIED COURSE OF INSTRUCTION.—The term 'qualified course of instruction' means a course of instruction which—

"(i) is—

"(I) at an institution of higher education (as defined in section 481 of the Higher Education Act of 1965 (20 U.S.C. 1088), as in effect on the date of the enactment of this subsection), or

"(II) a professional conference, and

"(ii) is part of a program of professional development which is approved and certified by the appropriate local educational agency as furthering the individual's teaching skills.

"(C) LOCAL EDUCATIONAL AGENCY.—The term 'local educational agency' has the meaning given such term by section 14101 of the Elementary and Secondary Education Act of 1965, as so in effect.

"(2) ELIGIBLE TEACHER.—

"(A) IN GENERAL.—The term 'eligible teacher' means an individual who is a kindergarten through grade 12 classroom teacher, instructor, counselor, aide, or principal in an elementary or secondary school.

"(B) ELEMENTARY OR SECONDARY SCHOOL.—The terms 'elementary school' and 'secondary school' have the meanings given such terms by section 14101 of the Elementary and Secondary Education Act of 1965 (20 U.S.C. 8801), as so in effect.".

(3) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2000, and ending before December 31, 2004.

(b) QUALIFIED INCIDENTAL EXPENSES.—

(1) IN GENERAL.—Section 67(g)(1)(A), as added by subsection (a)(2), is amended by striking "and" at the end of clause (i), by redesignating clause (ii) as clause (iii), and by inserting after clause (i) the following new clause:

"(ii) for qualified incidental expenses, and".

(2) DEFINITION.—Section 67(g), as added by subsection (a)(2), is amended by adding at the end the following new paragraph:

"(3) QUALIFIED INCIDENTAL EXPENSES.—

"(A) IN GENERAL.—The term 'qualified incidental expenses' means expenses paid or incurred by an eligible teacher in an amount not to exceed $125 for any taxable year for books, supplies, and equipment related to instruction, teaching, or other educational job-related activities of such eligible teacher.

"(B) SPECIAL RULE FOR HOMESCHOOLING.—Such term shall include expenses described in subparagraph (A) in connection with education provided by homeschooling if the requirements of any applicable State or local law are met with respect to such education.".

(3) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2000, and ending before December 31, 2004.

SEC. 1124. EXPANSION OF DEDUCTION FOR COMPUTER DONATIONS TO SCHOOLS.

(a) EXTENSION OF AGE OF ELIGIBLE COMPUTERS.—Section 170(e)(6)(B)(ii) (defining qualified elementary or secondary educational contribution) is amended—

(1) by striking "2 years" and inserting "3 years", and

(2) by inserting "for the taxpayer's own use" after "constructed by the taxpayer".

(b) REACQUIRED COMPUTERS ELIGIBLE FOR DONATION.—

(1) IN GENERAL.—Section 170(e)(6)(B)(iii) (defining qualified elementary or secondary educational contribution) is amended by inserting ", the person from whom the donor reacquires the property," after "the donor".

(2) CONFORMING AMENDMENT.—Section 170(e)(6)(B)(ii) is amended by inserting "or reacquired" after "acquired".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to contributions made in taxable years ending after the date of the enactment of this Act.

SEC. 1125. CREDIT FOR COMPUTER DONATIONS TO SCHOOLS AND SENIOR CENTERS.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 (relating to business related credits), as

amended by this Act, is amended by adding at the end the following:

"SEC. 45E. CREDIT FOR COMPUTER DONATIONS TO SCHOOLS AND SENIOR CENTERS.

"(a) GENERAL RULE.—For purposes of section 38, the computer donation credit determined under this section is an amount equal to 30 percent of the qualified computer contributions made by the taxpayer during the taxable year.

"(b) QUALIFIED COMPUTER CONTRIBUTION.—For purposes of this section, the term 'qualified computer contribution' has the meaning given the term 'qualified elementary or secondary educational contribution' by section 170(e)(6)(B), except that—

"(1) such term shall include the contribution of a computer (as defined in section 168(i)(2)(B)(ii)) only if computer software (as defined in section 197(e)(3)(B)) that serves as a computer operating system has been lawfully installed in such computer, and

"(2) for purposes of clauses (i) and (iv) of section 170(e)(6)(B), such term shall include the contribution of computer technology or equipment to multipurpose senior centers (as defined in section 102(35) of the Older Americans Act of 1965 (42 U.S.C. 3002(35)) to be used by individuals who have

attained 60 years of age to improve job skills in computers.

"(c) INCREASED PERCENTAGE FOR CONTRIBUTIONS TO ENTITIES IN EMPOWERMENT ZONES, ENTERPRISE COMMUNITIES, AND INDIAN RESERVATIONS.—In the case of a qualified computer contribution to an entity located in an empowerment zone or enterprise community designated under section 1391 or an Indian reservation (as defined in section 168(j)(6)), subsection (a) shall be applied by substituting '50 percent' for '30 percent'.

"(d) CERTAIN RULES MADE APPLICABLE.—For purposes of this section, rules similar to the rules of paragraphs (1) and (2) of section 41(f) and of section 170(e)(6)(A) shall apply.

"(e) TERMINATION.—This section shall not apply to taxable years beginning on or after the date which is 3 years after the date of the enactment of the Taxpayer Refund Act of 1999.".

(b) CURRENT YEAR BUSINESS CREDIT CALCULATION.—Section 38(b) (relating to current year business credit), as amended by this Act, is amended by striking "plus" at the end of paragraph (12), by striking the period at the end of paragraph (13) and inserting ", plus", and by adding at the end the following:

"(14) the computer donation credit determined under section 45E(a).".

(c) DISALLOWANCE OF DEDUCTION BY AMOUNT OF CREDIT.—Section 280C (relating to certain expenses for which credits are allowable) is amended by adding at the end the following:

"(d) CREDIT FOR COMPUTER DONATIONS.—No deduction shall be allowed for that portion of the qualified computer contributions (as defined in section 45E(b)) made during the taxable year that is equal to the amount of credit determined for the taxable year under section 45E(a). In the case of a corporation which is a member of a controlled group of corporations (within the meaning of section 52(a)) or a trade or business which is treated as being under common control with other trades or businesses (within the meaning of section 52(b)), this subsection shall be applied under rules prescribed by the Secretary similar to the rules applicable under subsections (a) and (b) of section 52.".

(d) LIMITATION ON CARRYBACK.—Subsection (d) of section 39 (relating to carryback and carryforward of unused credits) is amended by adding at the end the following:

"(9) NO CARRYBACK OF COMPUTER DONATION CREDIT BEFORE EFFECTIVE DATE.—No amount of unused business credit available under section 45E may be carried back to a taxable year beginning on

or before the date of the enactment of this paragraph.".

(e) CLERICAL AMENDMENT.—The table of sections for subpart D of part IV of subchapter A of chapter 1, as amended by this Act, is amended by inserting after the item relating to section 45D the following:

"Sec. 45E. Credit for computer donations to schools and senior centers.".

(f) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to contributions made in taxable years beginning after the date of the enactment of this Act.

(2) CERTAIN CONTRIBUTIONS.—The amendments made by this section shall apply to contributions made to an organization or entity not described in section 45E(c) of the Internal Revenue Code of 1986, as added by subsection (a), in taxable years beginning after the date that is one year after the date of the enactment of this Act.

SEC. 1126. INCREASE IN MANDATORY SPENDING FOR CHILD CARE AND DEVELOPMENT BLOCK GRANT.

Section 418(a)(3) of the Social Security Act (42 U.S.C. 618(a)(3)) is amended—

(1) in subparagraph (E), by striking "and" at the end;

(2) in subparagraph (F), by striking the period at the end and inserting "; and"; and

(3) by adding at the end the following:

"(E) $3,918,000,000 for fiscal year 2002;

"(F) $3,979,000,000 for fiscal year 2003;

"(G) $4,010,000,000 for fiscal year 2004;

"(H) $3,860,000,000 for fiscal year 2005;

"(I) $3,954,000,000 for fiscal year 2006;

"(J) $4,004,000,000 for fiscal year 2007;

"(K) $4,073,000,000 for fiscal year 2008; and

"(L) $4,075,000,000 for fiscal year 2009.".

SEC. 1127. SENSE OF THE SENATE REGARDING SAVINGS INCENTIVES.

It is the sense of the Senate that before December 31, 1999, Congress should pass legislation that creates savings incentives by providing a partial Federal income tax exclusion for income derived from interest and dividends of no less than $400 for married taxpayers and $200 for single taxpayers.

SEC. 1128. SENSE OF CONGRESS REGARDING THE NEED FOR ADDITIONAL FEDERAL FUNDING AND TAX INCENTIVES FOR EMPOWERMENT ZONES AND ENTERPRISE COMMUNITIES AUTHORIZED AND DESIGNATED PURSUANT TO 1997 AND 1998 LAWS.

(a) FINDINGS.—The Senate finds that—

(1) providing Federal tax incentives and other incentives to distressed communities across the Nation to help them rebuild and grow was one of the important goals of the Taxpayer Relief Act of 1997 and the Omnibus Consolidated and Emergency Supplemental Appropriations Act, 1999;

(2) to help reach that goal, the Taxpayer Relief Act of 1997 authorized 20 additional empowerment zones, 15 urban and 5 rural, followed by 20 new rural enterprise communities authorized in 1998;

(3) the 1997 law authorizing this second round of empowerment zones (EZs) was also significant and important because it broadened empowerment zone eligibility, for the first time, to Indian tribes and rural regions suffering from massive out-migration;

(4) many of our urban and rural communities are not sharing in the benefits of the prolonged economic expansion now enjoyed by many other parts of our country;

(5) a total of more than 250 economically distressed urban and rural communities competed for the 20 new empowerment zones and 20 new rural enterprise communities, and those areas designated as zones and communities should be provided with the Federal incentives and encouragement they need to attract new businesses, and the jobs they provide, in order to stimulate economic growth and improvement;

(6) unfortunately, those areas that are designated EZs or ECs under the 1997 and 1998 laws or rural economic area partnerships (REAPs) by the Department of Agriculture, are not given the full advantage of Social Services Block Grant funds, tax credits, and some other Federal incentives that Congress provided to the first round of empowerment zones and enterprise communities authorized pursuant to 1993 budget legislation;

(7) Congress should act swiftly to provide such designated areas an equal share of tax incentives, grant benefits, and other Federal support at aggregate levels of at least that provided by Congress to distressed urban and rural empowerment zones and enterprise communities pursuant to the 1993 omnibus budget reconciliation bill; and

(8) a fully funded second round of EZs and ECs is estimated to create and retain about 90,000 jobs and stimulate $10,000,000,000 in private and public investments over the next decade.

(b) SENSE OF CONGRESS.—It is the sense of Congress that—

(1) if Congress and the President agree to a substantial tax relief measure, it should ensure that such measure includes full funding for the second round of empowerment zones and enterprise communities authorized in 1997 and 1998 as well as those areas currently designated rural economic area partnerships (REAPs) by the Department of Agriculture; and

(2) all such designated distressed areas, rural and urban, should equally share at least the same aggregate level of funding, tax incentives, and other Federal support that Congress provided to urban and rural empowerment zones and enterprise communities authorized by the 1993 omnibus budget reconciliation bill.

SEC. 1129. SENSE OF CONGRESS REGARDING THE NEED TO ENCOURAGE IMPROVEMENTS IN MAIN STREET BUSINESSES BY EXPANDING EXISTING SMALL BUSINESS TAX EXPENSING RULES TO INCLUDE INVESTMENTS IN BUILDINGS AND OTHER DEPRECIABLE REAL PROPERTY.

(a) FINDINGS.—Congress finds that—

(1) under current tax law, small businesses can immediately deduct, that is, "expense", up to $19,000 in purchases of equipment and similar assets;

(2) there is bipartisan support for increasing the amount of this expensing provision because it helps many small businesses make the investments in equipment and machinery they need by allowing them to immediately write off the costs of such investments and bolstering their cash flow;

(3) this expensing provision, however, is not as helpful as it could be for some small businesses because it does not cover their investments in improving the storefront or the buildings in which they conduct their business;

(4) in many small towns, the local drug store, shoe store, or grocery store doesn't have much need for new equipment, but it does need to improve the storefront or the interior;

(5) although such investments are good for Main Streets across this Nation, our current tax law creates a disincentive to make them by requiring a small business owner to depreciate the costs of the building improvements over 39 years for tax purposes;

(6) legislation to expand the current expensing provision to cover investments in depreciable real property was recently introduced in the Senate with broad bipartisan cosponsorship, including the leaders of the Republican and Democratic parties;

(7) this proposal is also strongly supported by small business-oriented trade groups, including the National Federation of Independent Business, the Small Business Legislative Council, and the National Association of Realtors;

(8) the Department of the Treasury is currently conducting a comprehensive study of all depreciation provisions in our tax laws; and

(9) Congress should consider expanding the existing expensing provision to cover investments in storefront improvements and other depreciable real property in any reform legislation that results from this study or, if possible, in any earlier legislation.

(b) SENSE OF CONGRESS.—It is the sense of Congress that—

(1) many small businesses trying to improve their storefronts on Main Street or investing to upgrade their property would benefit if Congress expanded the existing expensing provision to cover investments in depreciable real property; and

(2) Congress should consider including this proposal in any future tax legislation.

SEC. 1130. CERTAIN NATIVE AMERICAN HOUSING ASSISTANCE DISREGARDED IN DETERMINING WHETHER BUILDING IS FEDERALLY SUBSIDIZED FOR PURPOSES OF THE LOW-INCOME HOUSING CREDIT.

(a) IN GENERAL.—Subparagraph (E) of section 42(i)(2) of the Internal Revenue Code of 1986 (relating to determination of whether building is federally subsidized) is amended—

(1) in clause (i), by inserting "or the Native American Housing Assistance and Self-Determination Act of 1996 (25 U.S.C. 4101 et seq.) (as in effect on October 1, 1997)" after "this subparagraph)", and

(2) in the subparagraph heading, by inserting "OR NATIVE AMERICAN HOUSING ASSISTANCE" after "HOME ASSISTANCE".

(b) EFFECTIVE DATE.—The amendments made by subsection (a) shall apply to periods after the date of the enactment of this Act.

SEC. 1131. DISCLOSURE OF TAX INFORMATION TO FACILITATE COMBINED EMPLOYMENT TAX REPORTING.

Section 6103(d)(5) of the Internal Revenue Code of 1986 is amended to read as follows:

"(5) DISCLOSURE FOR COMBINED EMPLOYMENT TAX REPORTING.—The Secretary may disclose taxpayer identity information and signatures to any agency, body, or commission of any State for the purpose of carrying out with such agency, body, or commission a combined Federal and State employment tax reporting program approved by the Secretary. Subsections (a)(2) and (p)(4) and sections 7213 and 7213A shall not apply with respect to disclosures or inspections made pursuant to this paragraph.".

SEC. 1132. TREATMENT OF MAPLE SYRUP PRODUCTION.

Line 3 of subsection (k) of section 3306 of the Internal Revenue Code of 1986 is amended by inserting after "chapter" the following: "agricultural labor includes labor connected to the harvesting or production of maple sap into maple syrup or sugar, and".

SEC. 1133. TREATMENT OF BONDS ISSUED TO ACQUIRE RENEWABLE RESOURCES ON LAND SUBJECT TO CONSERVATION EASEMENT.

(a) IN GENERAL.—Section 145 (defining qualified 501(c)(3) bond) is amended by redesignating subsection (e) as subsection (f) and by inserting after subsection (d) the following new subsection:

"(e) BONDS ISSUED TO ACQUIRE RENEWABLE RESOURCES ON LAND SUBJECT TO CONSERVATION EASEMENT.—

"(1) IN GENERAL.—If—

"(A) the proceeds of any bond are used to acquire land (or a long-term lease thereof) together with any renewable resource associated with the land (including standing timber, agricultural crops, or water rights) from an unaffiliated person,

"(B) the land is subject to a conservation restriction—

"(i) which is granted in perpetuity to an unaffiliated person that is—

"(I) a 501(c)(3) organization, or

"(II) a Federal, State, or local government conservation organization,

"(ii) which meets the requirements of clauses (ii) and (iii)(II) of section 170(h)(4)(A),

"(iii) which exceeds the requirements of relevant environmental and land use statutes and regulations, and

"(iv) which obligates the owner of the land to pay the costs incurred by the holder of the conservation restriction in monitoring compliance with such restriction,

"(C) a management plan which meets the requirements of the statutes and regulations referred to in subparagraph (B)(iii) is developed for the conservation of the renewable resources, and

"(D) such bond would be a qualified 501(c)(3) bond (after the application of paragraph (2)) but for the failure to use revenues derived by the 501(c)(3) organization from the sale, lease, or other use of such resource as otherwise required by this part,

such bond shall not fail to be a qualified 501(c)(3) bond by reason of the failure to so use such revenues if the revenues which are not used as otherwise required by this part are used in a manner consistent

with the stated charitable purposes of the 501(c)(3) organization.

"(2) TREATMENT OF TIMBER, ETC.—

"(A) IN GENERAL.—For purposes of subsection (a), the cost of any renewable resource acquired with proceeds of any bond described in paragraph (1) shall be treated as a cost of acquiring the land associated with the renewable resource and such land shall not be treated as used for a private business use because of the sale or leasing of the renewable resource to, or other use of the renewable resource by, an unaffiliated person to the extent that such sale, leasing, or other use does not constitute an unrelated trade or business, determined by applying section 513(a).

"(B) APPLICATION OF BOND MATURITY LIMITATION.—For purposes of section 147(b), the cost of any land or renewable resource acquired with proceeds of any bond described in paragraph (1) shall have an economic life commensurate with the economic and ecological feasibility of the financing of such land or renewable resource.

"(C) UNAFFILIATED PERSON.—For purposes of this subsection, the term 'unaffiliated person' means any person who controls not more than 20 percent of the governing body of another person.".

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to obligations issued after the date of the enactment of this Act.

SEC. 1134. MODIFICATION OF ALTERNATIVE MINIMUM TAX FOR INDIVIDUALS.

Section 56(b)(1)(E), as amended by section 206, is amended by striking "$250" and inserting "$300".

SEC. 1135. EXCLUSION FROM INCOME OF SEVERANCE PAYMENT AMOUNTS.

(a) IN GENERAL.—Part III of subchapter B of chapter 1 (relating to items specifically excluded from gross income) is amended by redesignating section 139 as section 140 and by inserting after section 138 the following new section:

"SEC. 139. SEVERANCE PAYMENTS.

"(a) IN GENERAL.—In the case of an individual, gross income shall not include any qualified severance payment.

"(b) LIMITATION.—The amount to which the exclusion under subsection (a) applies shall not exceed $2,000 with respect to any separation from employment.

"(c) QUALIFIED SEVERANCE PAYMENT.—For purposes of this section—

"(1) IN GENERAL.—The term 'qualified severance payment' means any payment received by an individual if—

"(A) such payment was paid by such individual's employer on account of such individual's separation from employment,

"(B) such separation was in connection with a reduction in the work force of the employer, and

"(C) such individual does not attain employment within 6 months of the date of such separation in which the amount of compensation is equal to or greater than 95 percent of the amount of compensation for the employment that is related to such payment.

"(2) LIMITATION.—Such term shall not include any payment received by an individual if the aggregate payments received with respect to the separation from employment exceed $75,000.".

(b) CLERICAL AMENDMENT.—The table of sections for part III of subchapter B of chapter 1 is amended by striking the item relating to section 139 and inserting the following new items:

"Sec. 139. Severance payments.
"Sec. 140. Cross references to other Acts.".

(c) EFFECTIVE DATE.—The amendments made by subsections (a) and (b) shall apply to taxable years beginning after December 31, 2000, and before January 1, 2002.

SEC. 1136. CAPITAL GAIN TREATMENT UNDER SECTION 631(b) TO APPLY TO OUTRIGHT SALES BY LAND OWNER.

(a) IN GENERAL.—Subsection (b) of section 631 (relating to disposal of timber with a retained economic interest) is amended—

(1) by inserting "AND OUTRIGHT SALES OF TIMBER" after "ECONOMIC INTEREST" in the subsection heading, and

(2) by adding before the last sentence the following new sentence: "The requirement in the first sentence of this subsection to retain an economic interest in timber shall not apply to an outright sale of such timber by the owner thereof if such owner owned the land (at the time of such sale) from which the timber is cut.".

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to sales after the date of the enactment of this Act.

SEC. 1137. CREDIT FOR CLINICAL TESTING RESEARCH EXPENSES ATTRIBUTABLE TO CERTAIN QUALIFIED ACADEMIC INSTITUTIONS INCLUDING TEACHING HOSPITALS.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 (relating to business related credits) is amended by inserting after section 41 the following:

"SEC. 41A. CREDIT FOR MEDICAL INNOVATION EXPENSES.

"(a) GENERAL RULE.—For purposes of section 38, the medical innovation credit determined under this section for the taxable year shall be an amount equal to 40 percent of the excess (if any) of—

"(1) the qualified medical innovation expenses for the taxable year, over

"(2) the medical innovation base period amount.

"(b) QUALIFIED MEDICAL INNOVATION EXPENSES.—For purposes of this section—

"(1) IN GENERAL.—The term 'qualified medical innovation expenses' means the amounts which are paid or incurred by the taxpayer during the taxable year directly or indirectly to any qualified academic institution for clinical testing research activities.

"(2) CLINICAL TESTING RESEARCH ACTIVITIES.—

"(A) IN GENERAL.—The term 'clinical testing research activities' means human clinical

testing conducted at any qualified academic institution in the development of any product, which occurs before—

"(i) the date on which an application with respect to such product is approved under section 505(b), 506, or 507 of the Federal Food, Drug, and Cosmetic Act (as in effect on the date of the enactment of this section),

"(ii) the date on which a license for such product is issued under section 351 of the Public Health Service Act (as so in effect), or

"(iii) the date classification or approval of such product which is a device intended for human use is given under section 513, 514, or 515 of the Federal Food, Drug, and Cosmetic Act (as so in effect).

"(B) PRODUCT.—The term 'product' means any drug, biologic, or medical device.

"(3) QUALIFIED ACADEMIC INSTITUTION.—The term 'qualified academic institution' means any of the following institutions:

"(A) EDUCATIONAL INSTITUTION.—A qualified organization described in section

170(b)(1)(A)(iii) which is owned by, or affiliated with, an institution of higher education (as defined in section 3304(f)).

"(B) TEACHING HOSPITAL.—A teaching hospital which—

"(i) is publicly supported or owned by an organization described in section 501(c)(3), and

"(ii) is affiliated with an organization meeting the requirements of subparagraph (A).

"(C) FOUNDATION.—A medical research organization described in section 501(c)(3) (other than a private foundation) which is affiliated with, or owned by—

"(i) an organization meeting the requirements of subparagraph (A), or

"(ii) a teaching hospital meeting the requirements of subparagraph (B).

"(D) CHARITABLE RESEARCH HOSPITAL.—A hospital that is designated as a cancer center by the National Cancer Institute.

"(4) EXCLUSION FOR AMOUNTS FUNDED BY GRANTS, ETC.—The term 'qualified medical innovation expenses' shall not include any amount to the ex-

tent such amount is funded by any grant, contract, or otherwise by another person (or any governmental entity).

"(c) MEDICAL INNOVATION BASE PERIOD AMOUNT.—For purposes of this section, the term 'medical innovation base period amount' means the average annual qualified medical innovation expenses paid by the taxpayer during the 3-taxable year period ending with the taxable year immediately preceding the first taxable year of the taxpayer beginning after December 31, 1998.

"(d) SPECIAL RULES.—

"(1) LIMITATION ON FOREIGN TESTING.—No credit shall be allowed under this section with respect to any clinical testing research activities conducted outside the United States.

"(2) CERTAIN RULES MADE APPLICABLE.—Rules similar to the rules of subsections (f) and (g) of section 41 shall apply for purposes of this section.

"(3) ELECTION.—This section shall apply to any taxpayer for any taxable year only if such taxpayer elects to have this section apply for such taxable year.

"(4) COORDINATION WITH CREDIT FOR INCREASING RESEARCH EXPENDITURES AND WITH CREDIT FOR CLINICAL TESTING EXPENSES FOR CERTAIN DRUGS FOR RARE DISEASES.—Any qualified medical

innovation expense for a taxable year to which an election under this section applies shall not be taken into account for purposes of determining the credit allowable under section 41 or 45C for such taxable year.".

(b) CREDIT TO BE PART OF GENERAL BUSINESS CREDIT.—

(1) IN GENERAL.—Section 38(b) (relating to current year business credits), as amended by this Act, is amended by striking "plus" at the end of paragraph (14), by striking the period at the end of paragraph (15) and inserting ", plus", and by adding at the end the following:

"(16) the medical innovation expenses credit determined under section 41A(a).".

(2) TRANSITION RULE.—Section 39(d), as amended by this Act, is amended by adding at the end the following new paragraph:

"(11) NO CARRYBACK OF SECTION 41A CREDIT BEFORE ENACTMENT.—No portion of the unused business credit for any taxable year which is attributable to the medical innovation credit determined under section 41A may be carried back to a taxable year beginning before January 1, 1999.".

(c) DENIAL OF DOUBLE BENEFIT.—Section 280C, as amended by this Act, is amended by adding at the end the following new subsection:

"(e) CREDIT FOR INCREASING MEDICAL INNOVATION EXPENSES.—

"(1) IN GENERAL.—No deduction shall be allowed for that portion of the qualified medical innovation expenses (as defined in section 41A(b)) otherwise allowable as a deduction for the taxable year which is equal to the amount of the credit determined for such taxable year under section 41A(a).

"(2) CERTAIN RULES TO APPLY.—Rules similar to the rules of paragraphs (2), (3), and (4) of subsection (c) shall apply for purposes of this subsection.".

(d) DEDUCTION FOR UNUSED PORTION OF CREDIT.—Section 196(c) (defining qualified business credits) is amended by redesignating paragraphs (5) through (8) as paragraphs (6) through (9), respectively, and by inserting after paragraph (4) the following new paragraph:

"(5) the medical innovation expenses credit determined under section 41A(a) (other than such credit determined under the rules of section 280C(d)(2)),".

(e) CLERICAL AMENDMENT.—The table of sections for subpart D of part IV of subchapter A of chapter 1 is amend-

ed by adding after the item relating to section 41 the following:

"Sec. 41A. Credit for medical innovation expenses.".

(f) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 1998.

TITLE XII—EXTENSION OF EXPIRED AND EXPIRING PROVISIONS

SEC. 1201. PERMANENT EXTENSION AND MODIFICATION OF RESEARCH CREDIT.

(a) PERMANENT EXTENSION.—

(1) IN GENERAL.—Section 41 (relating to credit for increasing research activities) is amended by striking subsection (h).

(2) CONFORMING AMENDMENT.—Paragraph (1) of section 45C(b) is amended by striking subparagraph (D).

(3) EFFECTIVE DATE.—The amendments made by this subsection shall apply to amounts paid or incurred after June 30, 1999.

(b) INCREASE IN PERCENTAGES UNDER ALTERNATIVE INCREMENTAL CREDIT.—

(1) IN GENERAL.—Subparagraph (A) of section 41(c)(4) is amended—

(A) by striking "1.65 percent" and inserting "2.65 percent",

(B) by striking "2.2 percent" and inserting "3.2 percent", and

(C) by striking "2.75 percent" and inserting "3.75 percent".

(2) EFFECTIVE DATE.—The amendments made by this subsection shall apply to taxable years beginning after June 30, 1999.

SEC. 1202. SUBPART F EXEMPTION FOR ACTIVE FINANCING INCOME.

(a) IN GENERAL.—Sections 953(e)(10) and 954(h)(9) are each amended—

(1) by striking "the first taxable year" and inserting "taxable years", and

(2) by striking "January 1, 2000" and inserting "January 1, 2005".

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

SEC. 1203. TAXABLE INCOME LIMIT ON PERCENTAGE DEPLETION FOR MARGINAL PRODUCTION.

(a) IN GENERAL.—Subparagraph (H) of section 613A(c)(6) is amended by striking "January 1, 2000" and inserting "January 1, 2005".

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

SEC. 1204. WORK OPPORTUNITY CREDIT AND WELFARE-TO-WORK CREDIT.

(a) TEMPORARY EXTENSION.—Sections 51(c)(4)(B) and 51A(f) (relating to termination) are each amended by striking "June 30, 1999" and inserting "June 30, 2004".

(b) CLARIFICATION OF FIRST YEAR OF EMPLOYMENT.—Paragraph (2) of section 51(i) is amended by striking "during which he was not a member of a targeted group".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to individuals who begin work for the employer after June 30, 1999.

SEC. 1205. EXTENSION AND MODIFICATION OF CREDIT FOR PRODUCING ELECTRICITY FROM CERTAIN RENEWABLE RESOURCES.

(a) EXTENSION AND MODIFICATION OF PLACED-IN-SERVICE RULES.—Paragraph (3) of section 45(c) is amended to read as follows:

"(3) QUALIFIED FACILITY.—

"(A) WIND FACILITY.—In the case of a facility using wind to produce electricity, the term 'qualified facility' means any facility owned by

the taxpayer which is originally placed in service after December 31, 1993, and before July 1, 2004.

"(B) CLOSED-LOOP BIOMASS FACILITY.—In the case of a facility using closed-loop biomass to produce electricity, the term 'qualified facility' means any facility owned by the taxpayer which is originally placed in service after December 31, 1992, and before July 1, 2004.

"(C) BIOMASS FACILITY.—In the case of a facility using biomass (other than closed-loop biomass) to produce electricity, the term 'qualified facility' means any facility owned by the taxpayer which is originally placed in service before January 1, 2003.

"(D) LANDFILL GAS OR POULTRY WASTE FACILITY.—

"(i) IN GENERAL.—In the case of a facility using landfill gas or poultry waste to produce electricity, the term 'qualified facility' means any facility of the taxpayer which is originally placed in service after December 31, 1999, and before July 1, 2004.

"(ii) LANDFILL GAS.—In the case of a facility using landfill gas, such term shall

include equipment and housing (not including wells and related systems required to collect and transmit gas to the production facility) required to generate electricity which are owned by the taxpayer and so placed in service.

"(E) SPECIAL RULE.—In the case of a qualified facility described in subparagraph (C), the 10-year period referred to in subsection (a) shall be treated as beginning no earlier than January 1, 2000.".

(b) EXPANSION OF QUALIFIED ENERGY RESOURCES.—

(1) IN GENERAL.—Section 45(c)(1) (defining qualified energy resources) is amended by striking "and" at the end of subparagraph (A), by striking the period at the end of subparagraph (B) and inserting a comma, and by adding at the end the following new subparagraphs:

"(C) biomass (other than closed-loop biomass),

"(B) landfill gas, and

"(C) poultry waste.".

(2) DEFINITIONS.—Section 45(c) is amended by redesignating paragraph (3) as paragraph (6) and

inserting after paragraph (2) the following new paragraphs:

"(3) BIOMASS.—The term 'biomass' means any solid, nonhazardous, cellulosic waste material which is segregated from other waste materials and which is derived from—

"(A) any of the following forest-related resources: mill residues, precommercial thinnings, slash, and brush, but not including old-growth timber,

"(B) urban sources, including waste pallets, crates, and dunnage, manufacturing and construction wood wastes, and landscape or right-of-way tree trimmings, but not including unsegregated municipal solid waste (garbage) or paper that is commonly recycled, or

"(C) agriculture sources, including orchard tree crops, vineyard, grain, legumes, sugar, and other crop by-products or residues.

"(4) LANDFILL GAS.—The term 'landfill gas' means gas from the decomposition of any household solid waste, commercial solid waste, and industrial solid waste disposed of in a municipal solid waste landfill unit (as such terms are defined in regulations

promulgated under subtitle D of the Solid Waste Disposal Act (42 U.S.C. 6941 et seq.)).

"(5) POULTRY WASTE.—The term 'poultry waste' means poultry manure and litter, including wood shavings, straw, rice hulls, and other bedding material for the disposition of manure.".

(c) SPECIAL RULES.—Section 45(d) (relating to definitions and special rules) is amended by adding at the end the following new paragraphs:

"(6) CREDIT ELIGIBILITY IN THE CASE OF GOVERNMENT-OWNED FACILITIES USING POULTRY WASTE.—In the case of a facility using poultry waste to produce electricity and owned by a governmental unit, the person eligible for the credit under subsection (a) is the lessor or the operator of such facility.

"(7) PROPORTIONAL CREDIT FOR FACILITY USING COAL TO CO-FIRE WITH CERTAIN BIOMASS.—In the case of a qualified facility as defined in subsection (c)(3)(C) using coal to co-fire with biomass (other than closed-loop biomass), the amount of the credit determined under subsection (a) for the taxable year shall be reduced by the percentage coal comprises (on a Btu basis) of the average fuel input of the facility for the taxable year.".

(d) EFFECTIVE DATE.—The amendments made by this section shall take effect on the date of the enactment of this Act.

SEC. 1206. ALASKA EXEMPTION FROM DYEING REQUIREMENTS.

(a) EXCEPTION TO DYEING REQUIREMENTS FOR EXEMPT DIESEL FUEL AND KEROSENE.—Paragraph (1) of section 4082(c) (relating to exception to dyeing requirements) is amended to read as follows:

"(1) removed, entered, or sold in the State of Alaska for ultimate sale or use in such State, and".

(b) EFFECTIVE DATE.—The amendment made by this section applies with respect to fuel removed, entered, or sold on or after the date of the enactment of this Act.

SEC. 1207. EXTENSION OF EXPENSING OF ENVIRONMENTAL REMEDIATION COSTS.

(a) EXTENSION OF TERMINATION DATE.—Subsection (h) of section 198 is amended by striking "December 31, 2000" and inserting "June 30, 2004".

(b) EXPANSION OF QUALIFIED CONTAMINATED SITE.—Section 198(c) is amended to read as follows:

"(c) QUALIFIED CONTAMINATED SITE.—For purposes of this section—

"(1) IN GENERAL.—The term 'qualified contaminated site' means any area—

"(A) which is held by the taxpayer for use in a trade or business or for the production of income, or which is property described in section 1221(1) in the hands of the taxpayer, and

"(B) at or on which there has been a release (or threat of release) or disposal of any hazardous substance.

"(2) NATIONAL PRIORITIES LISTED SITES NOT INCLUDED.—Such term shall not include any site which is on, or proposed for, the national priorities list under section 105(a)(8)(B) of the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (as in effect on the date of the enactment of this section).

"(3) TAXPAYER MUST RECEIVE STATEMENT FROM STATE ENVIRONMENTAL AGENCY.—An area shall be treated as a qualified contaminated site with respect to expenditures paid or incurred during any taxable year only if the taxpayer receives a statement from the appropriate agency of the State in which such area is located that such area meets the requirement of paragraph (1)(B).

"(4) APPROPRIATE STATE AGENCY.—For purposes of paragraph (2), the chief executive officer of each State may, in consultation with the Adminis-

trator of the Environmental Protection Agency, designate the appropriate State environmental agency within 60 days of the date of the enactment of this section. If the chief executive officer of a State has not designated an appropriate State environmental agency within such 60-day period, the appropriate environmental agency for such State shall be designated by the Administrator of the Environmental Protection Agency.".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to expenditures paid or incurred after December 31, 1999.

TITLE XIII—REVENUE OFFSETS

Subtitle A—General Provisions

SEC. 1301. MODIFICATION TO FOREIGN TAX CREDIT CARRYBACK AND CARRYOVER PERIODS.

(a) IN GENERAL.—Section 904(c) (relating to limitation on credit) is amended—

(1) by striking "in the second preceding taxable year,", and

(2) by striking "or fifth" and inserting "fifth, sixth, or seventh".

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to credits arising in taxable years beginning after December 31, 1999.

SEC. 1302. RETURNS RELATING TO CANCELLATIONS OF INDEBTEDNESS BY ORGANIZATIONS LENDING MONEY.

(a) IN GENERAL.—Paragraph (2) of section 6050P(c) (relating to definitions and special rules) is amended by striking "and" at the end of subparagraph (B), by striking the period at the end of subparagraph (C) and inserting ", and", and by inserting after subparagraph (C) the following new subparagraph:

"(D) any organization a significant trade or business of which is the lending of money.".

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to discharges of indebtedness after December 31, 1999.

SEC. 1303. INCREASE IN ELECTIVE WITHHOLDING RATE FOR NONPERIODIC DISTRIBUTIONS FROM DEFERRED COMPENSATION PLANS.

(a) IN GENERAL.—Section 3405(b)(1) (relating to withholding) is amended by striking "10 percent" and inserting "15 percent".

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to distributions after December 31, 2000.

SEC. 1304. EXTENSION OF INTERNAL REVENUE SERVICE USER FEES.

(a) IN GENERAL.—Chapter 77 (relating to miscellaneous provisions) is amended by adding at the end the following new section:

"SEC. 7527. INTERNAL REVENUE SERVICE USER FEES.

"(a) GENERAL RULE.—The Secretary shall establish a program requiring the payment of user fees for—

"(1) requests to the Internal Revenue Service for ruling letters, opinion letters, and determination letters, and

"(2) other similar requests.

"(b) PROGRAM CRITERIA.—

"(1) IN GENERAL.—The fees charged under the program required by subsection (a)—

"(A) shall vary according to categories (or subcategories) established by the Secretary,

"(B) shall be determined after taking into account the average time for (and difficulty of) complying with requests in each category (and subcategory), and

"(C) shall be payable in advance.

"(2) EXEMPTIONS, ETC.—The Secretary shall provide for such exemptions (and reduced fees) under such program as the Secretary determines to be appropriate.

"(3) AVERAGE FEE REQUIREMENT.—The average fee charged under the program required by subsection (a) shall not be less than the amount determined 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.*

"(c) TERMINATION.—No fee shall be imposed under this section with respect to requests made after September 30, 2009.".

(b) CONFORMING AMENDMENTS.—

(1) The table of sections for chapter 77 is amended by adding at the end the following new item:

"Sec. 7527. Internal Revenue Service user fees.".

(2) Section 10511 of the Revenue Act of 1987 is repealed.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to requests made after the date of the enactment of this Act.

SEC. 1305. TRANSFER OF EXCESS DEFINED BENEFIT PLAN ASSETS FOR RETIREE HEALTH BENEFITS.

(a) EXTENSION.—

(1) IN GENERAL.—Paragraph (5) of section 420(b) (relating to expiration) is amended by striking "in any taxable year beginning after December 31,

2000" and inserting "made after September 30, 2009".

(2) CONFORMING AMENDMENTS.—

(A) Section 101(e)(3) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1021(e)(3)) is amended by striking "1995" and inserting "2001".

(B) Section 403(c)(1) of such Act (29 U.S.C. 1103(c)(1)) is amended by striking "1995" and inserting "2001".

(C) Paragraph (13) of section 408(b) of such Act (29 U.S.C. 1108(b)(13)) is amended—

(i) by striking "in a taxable year beginning before January 1, 2001" and inserting "made before October 1, 2009", and

(ii) by striking "1995" and inserting "2001".

(b) APPLICATION OF MINIMUM COST REQUIREMENTS.—

(1) IN GENERAL.—Paragraph (3) of section 420(c) is amended to read as follows:

"(3) MINIMUM COST REQUIREMENTS.—

"(A) IN GENERAL.—The requirements of this paragraph are met if each group health plan or arrangement under which applicable health

benefits are provided provides that the applicable employer cost for each taxable year during the cost maintenance period shall not be less than the higher of the applicable employer costs for each of the 2 taxable years immediately preceding the taxable year of the qualified transfer.

"(B) APPLICABLE EMPLOYER COST.—For purposes of this paragraph, the term 'applicable employer cost' means, with respect to any taxable year, the amount determined by dividing—

"(i) the qualified current retiree health liabilities of the employer for such taxable year determined—

"(I) without regard to any reduction under subsection (e)(1)(B), and

"(II) in the case of a taxable year in which there was no qualified transfer, in the same manner as if there had been such a transfer at the end of the taxable year, by

"(ii) the number of individuals to whom coverage for applicable health benefits was provided during such taxable year.

"(C) ELECTION TO COMPUTE COST SEPARATELY.—An employer may elect to have this

paragraph applied separately with respect to individuals eligible for benefits under title XVIII of the Social Security Act at any time during the taxable year and with respect to individuals not so eligible.

"(D) COST MAINTENANCE PERIOD.—For purposes of this paragraph, the term 'cost maintenance period' means the period of 5 taxable years beginning with the taxable year in which the qualified transfer occurs. If a taxable year is in 2 or more overlapping cost maintenance periods, this paragraph shall be applied by taking into account the highest applicable employer cost required to be provided under subparagraph (A) for such taxable year.".

(2) CONFORMING AMENDMENTS.—

(A) Clause (iii) of section 420(b)(1)(C) is amended by striking "benefits" and inserting "cost".

(B) Subparagraph (D) of section 420(e)(1) is amended by striking "and shall not be subject to the minimum benefit requirements of subsection (c)(3)" and inserting "or in calculating applicable employer cost under subsection (c)(3)(B)".

(c) EFFECTIVE DATES.—

(1) IN GENERAL.—The amendments made by this section shall apply to qualified transfers occurring after the date of the enactment of this Act.

(2) TRANSITION RULE.—If the cost maintenance period for any qualified transfer after the date of the enactment of this Act includes any portion of a benefit maintenance period for any qualified transfer on or before such date, the amendments made by subsection (b) shall not apply to such portion of the cost maintenance period (and such portion shall be treated as a benefit maintenance period).

SEC. 1306. TAX TREATMENT OF INCOME AND LOSS ON DERIVATIVES.

(a) IN GENERAL.—Section 1221 (defining capital assets) is amended—

(1) by striking "For purposes" and inserting the following:

"(a) IN GENERAL.—For purposes",

(2) by striking the period at the end of paragraph (5) and inserting a semicolon, and

(3) by adding at the end the following:

"(6) any commodities derivative financial instrument held by a commodities derivatives dealer, unless—

"(A) it is established to the satisfaction of the Secretary that such instrument has no connection to the activities of such dealer as a dealer, and

"(B) such instrument is clearly identified in such dealer's records as being described in subparagraph (A) before the close of the day on which it was acquired, originated, or entered into (or such other time as the Secretary may by regulations prescribe);

"(7) any hedging transaction which is clearly identified as such before the close of the day on which it was acquired, originated, or entered into (or such other time as the Secretary may by regulations prescribe); or

"(8) supplies of a type regularly used or consumed by the taxpayer in the ordinary course of a trade or business of the taxpayer.

"(b) DEFINITIONS AND SPECIAL RULES.—

"(1) COMMODITIES DERIVATIVE FINANCIAL INSTRUMENTS.—For purposes of subsection (a)(6)—

"(A) COMMODITIES DERIVATIVES DEALER.—The term 'commodities derivatives dealer' means a person which regularly offers to enter into, assume, offset, assign, or terminate posi-

tions in commodities derivative financial instruments with customers in the ordinary course of a trade or business.

"(B) COMMODITIES DERIVATIVE FINANCIAL INSTRUMENT.—

"(i) IN GENERAL.—The term 'commodities derivative financial instrument' means any contract or financial instrument with respect to commodities (other than a share of stock in a corporation, a beneficial interest in a partnership or trust, a note, bond, debenture, or other evidence of indebtedness, or a section 1256 contract (as defined in section 1256(b)), the value or settlement price of which is calculated by or determined by reference to a specified index.

"(ii) SPECIFIED INDEX.—The term 'specified index' means any one or more or any combination of—

"(I) a fixed rate, price, or amount, or

"(II) a variable rate, price, or amount,

which is based on any current, objectively determinable financial or economic infor-

mation with respect to commodities which is not within the control of any of the parties to the contract or instrument and is not unique to any of the parties' circumstances.

"(2) HEDGING TRANSACTION.—

"(A) IN GENERAL.—For purposes of this section, the term 'hedging transaction' means any transaction entered into by the taxpayer in the normal course of the taxpayer's trade or business primarily—

"(i) to manage risk of price changes or currency fluctuations with respect to ordinary property which is held or to be held by the taxpayer,

"(ii) to manage risk of interest rate or price changes or currency fluctuations with respect to borrowings made or to be made, or ordinary obligations incurred or to be incurred, by the taxpayer, or

"(iii) to manage such other risks as the Secretary may prescribe in regulations.

"(B) TREATMENT OF NONIDENTIFICATION OR IMPROPER IDENTIFICATION OF HEDGING TRANSACTIONS.—Notwithstanding subsection (a)(7), the Secretary shall prescribe regulations

to properly characterize any income, gain, expense, or loss arising from a transaction—

"(i) which is a hedging transaction but which was not identified as such in accordance with subsection (a)(7), or

"(ii) which was so identified but is not a hedging transaction.

"(3) REGULATIONS.—The Secretary shall prescribe such regulations as are appropriate to carry out the purposes of paragraph (6) and (7) of subsection (a) in the case of transactions involving related parties.".

(b) MANAGEMENT OF RISK.—

(1) Section 475(c)(3) is amended by striking "reduces" and inserting "manages".

(2) Section 871(h)(4)(C)(iv) is amended by striking "to reduce" and inserting "to manage".

(3) Clauses (i) and (ii) of section 988(d)(2)(A) are each amended by striking "to reduce" and inserting "to manage".

(4) Paragraph (2) of section 1256(e) is amended to read as follows:

"(2) DEFINITION OF HEDGING TRANSACTION.—For purposes of this subsection, the term 'hedging transaction' means any hedging transaction (as de-

fined in section 1221(b)(2)(A)) if, before the close of the day on which such transaction was entered into (or such earlier time as the Secretary may prescribe by regulations), the taxpayer clearly identifies such transaction as being a hedging transaction.".

(c) CONFORMING AMENDMENTS.—

(1) Each of the following sections are amended by striking "section 1221" and inserting "section 1221(a)":

(A) Section 170(e)(3)(A).

(B) Section 170(e)(4)(B).

(C) Section 367(a)(3)(B)(i).

(D) Section 818(c)(3).

(E) Section 865(i)(1).

(F) Section 1092(a)(3)(B)(ii)(II).

(G) Subparagraphs (C) and (D) of section 1231(b)(1).

(H) Section 1234(a)(3)(A).

(2) Each of the following sections are amended by striking "section 1221(1)" and inserting "section 1221(a)(1)":

(A) Section 198(c)(1)(A)(i).

(B) Section 263A(b)(2)(A).

(C) Clauses (i) and (iii) of section 267(f)(3)(B).

(D) Section 341(d)(3).

(E) Section 543(a)(1)(D)(i).

(F) Section 751(d)(1).

(G) Section 775(c).

(H) Section 856(c)(2)(D).

(I) Section 856(c)(3)(C).

(J) Section 856(e)(1).

(K) Section 856(j)(2)(B).

(L) Section 857(b)(4)(B)(i).

(M) Section 857(b)(6)(B)(iii).

(N) Section 864(c)(4)(B)(iii).

(O) Section 864(d)(3)(A).

(P) Section 864(d)(6)(A).

(Q) Section 954(c)(1)(B)(iii).

(R) Section 995(b)(1)(C).

(S) Section 1017(b)(3)(E)(i).

(T) Section 1362(d)(3)(C)(ii).

(U) Section 4662(c)(2)(C).

(V) Section 7704(c)(3).

(W) Section 7704(d)(1)(D).

(X) Section 7704(d)(1)(G).

(Y) Section 7704(d)(5).

(3) Section 818(b)(2) is amended by striking "section 1221(2)" and inserting "section 1221(a)(2)".

(4) Section 1397B(e)(2) is amended by striking "section 1221(4)" and inserting "section 1221(a)(4)".

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to any instrument held, acquired, or entered into, any transaction entered into, and supplies held or acquired on or after the date of enactment of this Act.

Subtitle B—Loophole Closers

SEC. 1311. LIMITATION ON USE OF NON-ACCRUAL EXPERIENCE METHOD OF ACCOUNTING.

(a) IN GENERAL.—Section 448(d)(5) (relating to special rule for services) is amended—

(1) by inserting "in fields described in paragraph (2)(A)" after "services by such person", and

(2) by inserting "CERTAIN PERSONAL" before "SERVICES" in the heading.

(b) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to taxable years ending after the date of the enactment of this Act.

(2) CHANGE IN METHOD OF ACCOUNTING.—In the case of any taxpayer required by the amendments made by this section to change its method of accounting for its first taxable year ending after the date of the enactment of this Act—

(A) such change shall be treated as initiated by the taxpayer,

(B) such change shall be treated as made with the consent of the Secretary of the Treasury, and

(C) the net amount of the adjustments required to be taken into account by the taxpayer under section 481 of the Internal Revenue Code of 1986 shall be taken into account over a period (not greater than 4 taxable years) beginning with such first taxable year.

SEC. 1312. LIMITATIONS ON WELFARE BENEFIT FUNDS OF 10 OR MORE EMPLOYER PLANS.

(a) BENEFITS TO WHICH EXCEPTION APPLIES.—Section 419A(f)(6)(A) (relating to exception for 10 or more employer plans) is amended to read as follows:

"(A) IN GENERAL.—This subpart shall not apply to a welfare benefit fund which is part of a 10 or more employer plan if the only benefits provided through the fund are 1 or more of the following:

"(i) Medical benefits.

"(ii) Disability benefits.

"(iii) Group term life insurance benefits which do not provide directly or indi-

rectly for any cash surrender value or other money that can be paid, assigned, borrowed, or pledged for collateral for a loan.

The preceding sentence shall not apply to any plan which maintains experience-rating arrangements with respect to individual employers.".

(b) LIMITATION ON USE OF AMOUNTS FOR OTHER PURPOSES.—Section 4976(b) (defining disqualified benefit) is amended by adding at the end the following new paragraph:

"(5) SPECIAL RULE FOR 10 OR MORE EMPLOYER PLANS EXEMPTED FROM PREFUNDING LIMITS.—For purposes of paragraph (1)(C), if—

"(A) subpart D of part I of subchapter D of chapter 1 does not apply by reason of section 419A(f)(6) to contributions to provide 1 or more welfare benefits through a welfare benefit fund under a 10 or more employer plan, and

"(B) any portion of the welfare benefit fund attributable to such contributions is used for a purpose other than that for which the contributions were made,

then such portion shall be treated as reverting to the benefit of the employers maintaining the fund.".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to contributions paid or accrued after June 9, 1999, in taxable years ending after such date.

SEC. 1313. MODIFICATION OF INSTALLMENT METHOD AND REPEAL OF INSTALLMENT METHOD FOR ACCRUAL METHOD TAXPAYERS.

(a) REPEAL OF INSTALLMENT METHOD FOR ACCRUAL BASIS TAXPAYERS.—

(1) IN GENERAL.—Subsection (a) of section 453 (relating to installment method) is amended to read as follows:

"(a) USE OF INSTALLMENT METHOD.—

"(1) IN GENERAL.—Except as otherwise provided in this section, income from an installment sale shall be taken into account for purposes of this title under the installment method.

"(2) ACCRUAL METHOD TAXPAYER.—The installment method shall not apply to income from an installment sale if such income would be reported under an accrual method of accounting without regard to this section. The preceding sentence shall not apply to a disposition described in subparagraph (A) or (B) of subsection (l)(2).".

(2) CONFORMING AMENDMENTS.—Sections 453(d)(1), 453(i)(1), and 453(k) are each amended by

striking "(a)" each place it appears and inserting "(a)(1)".

(b) MODIFICATION OF PLEDGE RULES.—Paragraph (4) of section 453A(d) (relating to pledges, etc., of installment obligations) is amended by adding at the end the following: "A payment shall be treated as directly secured by an interest in an installment obligation to the extent an arrangement allows the taxpayer to satisfy all or a portion of the indebtedness with the installment obligation.".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to sales or other dispositions occurring on or after the date of the enactment of this Act.

SEC. 1314. TREATMENT OF GAIN FROM CONSTRUCTIVE OWNERSHIP TRANSACTIONS.

(a) IN GENERAL.—Part IV of subchapter P of chapter 1 (relating to special rules for determining capital gains and losses) is amended by inserting after section 1259 the following new section:

"SEC. 1260. GAINS FROM CONSTRUCTIVE OWNERSHIP TRANSACTIONS.

"(a) IN GENERAL.—If the taxpayer has gain from a constructive ownership transaction with respect to any financial asset and such gain would (without regard to this section) be treated as a long-term capital gain—

"(1) such gain shall be treated as ordinary income to the extent that such gain exceeds the net underlying long-term capital gain, and

"(2) to the extent such gain is treated as a long-term capital gain after the application of paragraph (1), the determination of the capital gain rate (or rates) applicable to such gain under section 1(h) shall be determined on the basis of the respective rate (or rates) that would have been applicable to the net underlying long-term capital gain.

"(b) INTEREST CHARGE ON DEFERRAL OF GAIN RECOGNITION.—

"(1) IN GENERAL.—If any gain is treated as ordinary income for any taxable year by reason of subsection (a)(1), the tax imposed by this chapter for such taxable year shall be increased by the amount of interest determined under paragraph (2) with respect to each prior taxable year during any portion of which the constructive ownership transaction was open. Any amount payable under this paragraph shall be taken into account in computing the amount of any deduction allowable to the taxpayer for interest paid or accrued during such taxable year.

"(2) AMOUNT OF INTEREST.—The amount of interest determined under this paragraph with respect

to a prior taxable year is the amount of interest which would have been imposed under section 6601 on the underpayment of tax for such year which would have resulted if the gain (which is treated as ordinary income by reason of subsection (a)(1)) had been included in gross income in the taxable years in which it accrued (determined by treating the income as accruing at a constant rate equal to the applicable Federal rate as in effect on the day the transaction closed). The period during which such interest shall accrue shall end on the due date (without extensions) for the return of tax imposed by this chapter for the taxable year in which such transaction closed.

"(3) APPLICABLE FEDERAL RATE.—For purposes of paragraph (2), the applicable Federal rate is the applicable Federal rate determined under 1274(d) (compounded semiannually) which would apply to a debt instrument with a term equal to the period the transaction was open.

"(4) NO CREDITS AGAINST INCREASE IN TAX.—Any increase in tax under paragraph (1) shall not be treated as tax imposed by this chapter for purposes of determining—

"(A) the amount of any credit allowable under this chapter, or

"(B) the amount of the tax imposed by section 55.

"(c) FINANCIAL ASSET.—For purposes of this section—

"(1) IN GENERAL.—The term 'financial asset' means—

"(A) any equity interest in any pass-thru entity, and

"(B) to the extent provided in regulations—

"(i) any debt instrument, and

"(ii) any stock in a corporation which is not a pass-thru entity.

"(2) PASS-THRU ENTITY.—For purposes of paragraph (1), the term 'pass-thru entity' means—

"(A) a regulated investment company,

"(B) a real estate investment trust,

"(C) an S corporation,

"(D) a partnership,

"(E) a trust,

"(F) a common trust fund,

"(G) a passive foreign investment company (as defined in section 1297 without regard to subsection (e) thereof),

"(H) a foreign personal holding company,

"(I) a foreign investment company (as defined in section 1246(b)), and

"(J) a REMIC.

"(d) CONSTRUCTIVE OWNERSHIP TRANSACTION.—For purposes of this section—

"(1) IN GENERAL.—The taxpayer shall be treated as having entered into a constructive ownership transaction with respect to any financial asset if the taxpayer—

"(A) holds a long position under a notional principal contract with respect to the financial asset,

"(B) enters into a forward or futures contract to acquire the financial asset,

"(C) is the holder of a call option, and is the grantor of a put option, with respect to the financial asset and such options have substantially equal strike prices and substantially contemporaneous maturity dates, or

"(D) to the extent provided in regulations prescribed by the Secretary, enters into 1 or more other transactions (or acquires 1 or more positions) that have substantially the same effect as a transaction described in any of the preceding subparagraphs.

"(2) EXCEPTION FOR POSITIONS WHICH ARE MARKED TO MARKET.—This section shall not apply to any constructive ownership transaction if all of the positions which are part of such transaction are marked to market under any provision of this title or the regulations thereunder.

"(3) LONG POSITION UNDER NOTIONAL PRINCIPAL CONTRACT.—A person shall be treated as holding a long position under a notional principal contract with respect to any financial asset if such person—

"(A) has the right to be paid (or receive credit for) all or substantially all of the investment yield (including appreciation) on such financial asset for a specified period, and

"(B) is obligated to reimburse (or provide credit for) all or substantially all of any decline in the value of such financial asset.

"(4) FORWARD CONTRACT.—The term 'forward contract' means any contract to acquire in the future (or provide or receive credit for the future value of) any financial asset.

"(e) NET UNDERLYING LONG-TERM CAPITAL GAIN.—For purposes of this section, in the case of any constructive ownership transaction with respect to any financial asset,

the term 'net underlying long-term capital gain' means the aggregate net capital gain that the taxpayer would have had if—

"(1) the financial asset had been acquired for fair market value on the date such transaction was opened and sold for fair market value on the date such transaction was closed, and

"(2) only gains and losses that would have resulted from the deemed ownership under paragraph (1) were taken into account.

The amount of the net underlying long-term capital gain with respect to any financial asset shall be treated as zero unless the amount thereof is established by clear and convincing evidence.

"(f) SPECIAL RULE WHERE TAXPAYER TAKES DELIVERY.—Except as provided in regulations prescribed by the Secretary, if a constructive ownership transaction is closed by reason of taking delivery, this section shall be applied as if the taxpayer had sold all the contracts, options, or other positions which are part of such transaction for fair market value on the closing date. The amount of gain recognized under the preceding sentence shall not exceed the amount of gain treated as ordinary income under subsection (a). Proper adjustments shall be made in the amount of any gain or loss subsequently realized for gain

recognized and treated as ordinary income under this subsection.

"(g) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this section, including regulations—

"(1) to permit taxpayers to mark to market constructive ownership transactions in lieu of applying this section, and

"(2) to exclude certain forward contracts which do not convey substantially all of the economic return with respect to a financial asset.".

(b) CLERICAL AMENDMENT.—The table of sections for part IV of subchapter P of chapter 1 is amended by adding at the end the following new item:

"Sec. 1260. Gains from constructive ownership transactions.".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to transactions entered into after July 11, 1999.

SEC. 1315. CHARITABLE SPLIT-DOLLAR LIFE INSURANCE, ANNUITY, AND ENDOWMENT CONTRACTS.

(a) IN GENERAL.—Subsection (f) of section 170 (relating to disallowance of deduction in certain cases and special rules), as amended by section 807, is amended by adding at the end the following new paragraph:

"(11) SPLIT-DOLLAR LIFE INSURANCE, ANNUITY, AND ENDOWMENT CONTRACTS.—

"(A) IN GENERAL.—Nothing in this section or in section 545(b)(2), 556(b)(2), 642(c), 2055, 2106(a)(2), or 2522 shall be construed to allow a deduction, and no deduction shall be allowed, for any transfer to or for the use of an organization described in subsection (c) if in connection with such transfer—

"(i) the organization directly or indirectly pays, or has previously paid, any premium on any personal benefit contract with respect to the transferor, or

"(ii) there is an understanding or expectation that any person will directly or indirectly pay any premium on any personal benefit contract with respect to the transferor.

"(B) PERSONAL BENEFIT CONTRACT.—For purposes of subparagraph (A), the term 'personal benefit contract' means, with respect to the transferor, any life insurance, annuity, or endowment contract if any direct or indirect beneficiary under such contract is the transferor, any member of the transferor's family, or any other

person (other than an organization described in subsection (c)) designated by the transferor.

"(C) APPLICATION TO CHARITABLE REMAINDER TRUSTS.—In the case of a transfer to a trust referred to in subparagraph (E), references in subparagraphs (A) and (F) to an organization described in subsection (c) shall be treated as a reference to such trust.

"(D) EXCEPTION FOR CERTAIN ANNUITY CONTRACTS.—If, in connection with a transfer to or for the use of an organization described in subsection (c), such organization incurs an obligation to pay a charitable gift annuity (as defined in section 501(m)) and such organization purchases any annuity contract to fund such obligation, persons receiving payments under the charitable gift annuity shall not be treated for purposes of subparagraph (B) as indirect beneficiaries under such contract if—

"(i) such organization possesses all of the incidents of ownership under such contract,

"(ii) such organization is entitled to all the payments under such contract, and

"(iii) the timing and amount of payments under such contract are substantially the same as the timing and amount of payments to each such person under such obligation (as such obligation is in effect at the time of such transfer).

"(E) EXCEPTION FOR CERTAIN CONTRACTS HELD BY CHARITABLE REMAINDER TRUSTS.—A person shall not be treated for purposes of subparagraph (B) as an indirect beneficiary under any life insurance, annuity, or endowment contract held by a charitable remainder annuity trust or a charitable remainder unitrust (as defined in section 664(d)) solely by reason of being entitled to any payment referred to in paragraph (1)(A) or (2)(A) of section 664(d) if—

"(i) such trust possesses all of the incidents of ownership under such contract, and

"(ii) such trust is entitled to all the payments under such contract.

"(F) EXCISE TAX ON PREMIUMS PAID.—

"(i) IN GENERAL.—There is hereby imposed on any organization described in subsection (c) an excise tax equal to the premiums paid by such organization on any

life insurance, annuity, or endowment contract if the payment of premiums on such contract is in connection with a transfer for which a deduction is not allowable under subparagraph (A), determined without regard to when such transfer is made.

"(ii) PAYMENTS BY OTHER PERSONS.—For purposes of clause (i), payments made by any other person pursuant to an understanding or expectation referred to in subparagraph (A) shall be treated as made by the organization.

"(iii) REPORTING.—Any organization on which tax is imposed by clause (i) with respect to any premium shall file an annual return which includes—

"(I) the amount of such premium paid during the year and the name and TIN of each beneficiary under the contract to which the premium relates, and

"(II) such other information as the Secretary may require.

The penalties applicable to returns required under section 6033 shall apply to returns

required under this clause. Returns required under this clause shall be furnished at such time and in such manner as the Secretary shall by forms or regulations require.

"(iv) CERTAIN RULES TO APPLY.—The tax imposed by this subparagraph shall be treated as imposed by chapter 42 for purposes of this title other than subchapter B of chapter 42.

"(G) SPECIAL RULE WHERE STATE REQUIRES SPECIFICATION OF CHARITABLE GIFT ANNUITANT IN CONTRACT.—In the case of an obligation to pay a charitable gift annuity referred to in subparagraph (D) which is entered into under the laws of a State which requires, in order for the charitable gift annuity to be exempt from insurance regulation by such State, that each beneficiary under the charitable gift annuity be named as a beneficiary under an annuity contract issued by an insurance company authorized to transact business in such State, the requirements of clauses (i) and (ii) of subparagraph (D) shall be treated as met if—

"(i) such State law requirement was in effect on February 8, 1999,

"(ii) each such beneficiary under the charitable gift annuity is a bona fide resident of such State at the time the obligation to pay a charitable gift annuity is entered into, and

"(iii) the only persons entitled to payments under such contract are persons entitled to payments as beneficiaries under such obligation on the date such obligation is entered into.

"(H) MEMBER OF FAMILY.—For purposes of this paragraph, an individual's family consists of the individual's grandparents, the grandparents of such individual's spouse, the lineal descendants of such grandparents, and any spouse of such a lineal descendant.

"(I) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this paragraph, including regulations to prevent the avoidance of such purposes.".

(b) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as otherwise provided in this section, the amendment made by this section shall apply to transfers made after February 8, 1999.

(2) EXCISE TAX.—Except as provided in paragraph (3) of this subsection, section 170(f)(11)(F) of the Internal Revenue Code of 1986 (as added by this section) shall apply to premiums paid after the date of the enactment of this Act.

(3) REPORTING.—Clause (iii) of such section 170(f)(11)(F) shall apply to premiums paid after February 8, 1999 (determined as if the tax imposed by such section applies to premiums paid after such date).

SEC. 1316. RESTRICTION ON USE OF REAL ESTATE INVESTMENT TRUSTS TO AVOID ESTIMATED TAX PAYMENT REQUIREMENTS.

(a) IN GENERAL.—Subsection (e) of section 6655 (relating to estimated tax by corporations) is amended by adding at the end the following new paragraph:

"(5) TREATMENT OF CERTAIN REIT DIVIDENDS.—

"(A) IN GENERAL.—Any dividend received from a closely held real estate investment trust by any person which owns (after application of subsections (d)(5) and (l)(3)(B) of section 856) 10 percent or more (by vote or value) of the stock or beneficial interests in the trust shall be taken into account in computing annualized income

installments under paragraph (2) in a manner similar to the manner under which partnership income inclusions are taken into account.

"(B) CLOSELY HELD REIT.—For purposes of subparagraph (A), the term 'closely held real estate investment trust' means a real estate investment trust with respect to which 5 or fewer persons own (after application of subsections (d)(5) and (l)(3)(B) of section 856) 50 percent or more (by vote or value) of the stock or beneficial interests in the trust.".

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to estimated tax payments due on or after September 15, 1999.

SEC. 1317. PROHIBITED ALLOCATIONS OF S CORPORATION STOCK HELD BY AN ESOP.

(a) IN GENERAL.—Section 409 (relating to qualifications for tax credit employee stock ownership plans) is amended by redesignating subsection (p) as subsection (q) and by inserting after subsection (o) the following new subsection:

"(p) PROHIBITED ALLOCATION OF SECURITIES IN AN S CORPORATION.—

"(1) IN GENERAL.—An employee stock ownership plan holding employer securities consisting of stock in

an S corporation shall provide that no portion of the assets of the plan attributable to (or allocable in lieu of) such employer securities may, during a nonallocation year, accrue (or be allocated directly or indirectly under any plan of the employer meeting the requirements of section 401(a)) for the benefit of any disqualified individual.

"(2) FAILURE TO MEET REQUIREMENTS.—If a plan fails to meet the requirements of paragraph (1)—

"(A) the plan shall be treated as having distributed to any disqualified individual the amount allocated to the account of such individual in violation of paragraph (1) at the time of such allocation,

"(B) the provisions of section 4979A shall apply, and

"(C) the statutory period for the assessment of any tax imposed by section 4979A shall not expire before the date which is 3 years from the later of—

"(i) the allocation of employer securities resulting in the failure under paragraph (1) giving rise to such tax, or

"(ii) the date on which the Secretary is notified of such failure.

"(3) NONALLOCATION YEAR.—For purposes of this subsection—

"(A) IN GENERAL.—The term 'nonallocation year' means any plan year of an employee stock ownership plan if, at any time during such plan year—

"(i) such plan holds employer securities consisting of stock in an S corporation, and

"(ii) disqualified individuals own at least 50 percent of the number of outstanding shares of stock in such S corporation.

"(B) ATTRIBUTION RULES.—For purposes of subparagraph (A)—

"(i) IN GENERAL.—The rules of section 318(a) shall apply for purposes of determining ownership, except that—

"(I) in applying paragraph (1) thereof, the members of an individual's family shall include members of the family described in paragraph (4)(D), and

"(II) paragraph (4) thereof shall not apply.

"(ii) DEEMED-OWNED SHARES.—Notwithstanding the employee trust exception in section 318(a)(2)(B)(i), disqualified individuals shall be treated as owning deemed-owned shares.

"(4) DISQUALIFIED INDIVIDUAL.—For purposes of this subsection—

"(A) IN GENERAL.—The term 'disqualified individual' means any individual who is a participant or beneficiary under the employee stock ownership plan if—

"(i) the aggregate number of deemed-owned shares of such individual and the members of the individual's family is at least 20 percent of the number of outstanding shares of stock in the S corporation constituting employer securities of such plan, or

"(ii) if such individual is not described in clause (i), the number of deemed-owned shares of such individual is at least 10 percent of the number of outstanding shares of stock in such corporation.

"(B) TREATMENT OF FAMILY MEMBERS.—In the case of a disqualified individual described in subparagraph (A)(i), any member of the individual's family with deemed-owned shares shall be treated as a disqualified individual if not otherwise a disqualified individual under subparagraph (A).

"(C) DEEMED-OWNED SHARES.—For purposes of this paragraph—

"(i) IN GENERAL.—The term 'deemed-owned shares' means, with respect to any participant or beneficiary under the employee stock ownership plan—

"(I) the stock in the S corporation constituting employer securities of such plan which is allocated to such participant or beneficiary under the plan, and

"(II) such participant's or beneficiary's share of the stock in such corporation which is held by such trust but which is not allocated under the plan to employees.

"(ii) INDIVIDUAL'S SHARE OF UNALLOCATED STOCK.—For purposes of

clause (i)(II), an individual's share of unallocated S corporation stock held by the trust is the amount of the unallocated stock which would be allocated to such individual if the unallocated stock were allocated to individuals in the same proportions as the most recent stock allocation under the plan.

"(D) MEMBER OF FAMILY.—For purposes of this paragraph, the term 'member of the family' means, with respect to any individual—

"(i) the spouse of the individual,

"(ii) an ancestor or lineal descendant of the individual or the individual's spouse,

"(iii) a brother or sister of the individual or the individual's spouse and any lineal descendant of the brother or sister, and

"(iv) the spouse of any person described in clause (ii) or (iii).

"(5) DEFINITIONS.—For purposes of this subsection—

"(A) EMPLOYEE STOCK OWNERSHIP PLAN.—The term 'employee stock ownership plan' has the meaning given such term by section 4975(e)(7).

"(B) EMPLOYER SECURITIES.—The term 'employer security' has the meaning given such term by section 409(l).

"(6) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary to carry out the purposes of this subsection, including regulations providing for the treatment of any stock option, restricted stock, stock appreciation right, phantom stock unit, performance unit, or similar instrument granted by an S corporation as stock or not stock.".

(b) EXCISE TAX.—

(1) IN GENERAL.—Section 4979A(b) (defining prohibited allocation) is amended by striking "and" at the end of paragraph (1), by striking the period at the end of paragraph (2) and inserting ", and", and by adding at the end the following new paragraph:

"(3) any allocation of employer securities which violates the provisions of section 409(p).".

(2) LIABILITY.—Section 4979A(c) (defining liability for tax) is amended by adding at the end the following new sentence: "In the case of a prohibited allocation described in subsection (b)(3), such tax shall be paid by the S corporation the stock in which was allocated in violation of section 409(p).".

(c) EFFECTIVE DATES.—

(1) IN GENERAL.—The amendments made by this section shall apply to plan years beginning after December 31, 2000.

(2) EXCEPTION FOR CERTAIN PLANS.—In the case of any—

(A) employee stock ownership plan established after July 14, 1999, or

(B) employee stock ownership plan established on or before such date if employer securities held by the plan consist of stock in a corporation with respect to which an election under section 1362(a) of the Internal Revenue Code of 1986 is not in effect on such date,

the amendments made by this section shall apply to plan years ending after July 14, 1999.

SEC. 1318. MODIFICATION OF ANTI-ABUSE RULES RELATED TO ASSUMPTION OF LIABILITY.

(a) IN GENERAL.—Section 357(b)(1) (relating to tax avoidance purpose) is amended—

(1) by striking "the principal purpose" and inserting "a principal purpose", and

(2) by striking "on the exchange" in subparagraph (A).

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to assumptions of liability after July 14, 1999.

SEC. 1319. ALLOCATION OF BASIS ON TRANSFERS OF INTANGIBLES IN CERTAIN NONRECOGNITION TRANSACTIONS.

(a) TRANSFERS TO CORPORATIONS.—Section 351 (relating to transfer to corporation controlled by transferor) is amended by redesignating subsection (h) as subsection (i) and by inserting after subsection (g) the following new subsection:

"(h) TREATMENT OF TRANSFERS OF INTANGIBLE PROPERTY.—

"(1) TRANSFERS OF LESS THAN ALL SUBSTANTIAL RIGHTS.

"(A) IN GENERAL.—A transfer of an interest in intangible property (as defined in section 936(h)(3)(B)) shall be treated under this section as a transfer of property even if the transfer is of less than all of the substantial rights of the transferor in the property.

"(B) ALLOCATION OF BASIS.—In the case of a transfer of less than all of the substantial rights of the transferor in the intangible property, the transferor's basis immediately before the

transfer shall be allocated among the rights retained by the transferor and the rights transferred on the basis of their respective fair market values.

"(2) NONRECOGNITION NOT TO APPLY TO INTANGIBLE PROPERTY DEVELOPED FOR TRANSFEREE.—This section shall not apply to a transfer of intangible property developed by the transferor or any related person if such development was pursuant to an arrangement with the transferee.".

(b) TRANSFERS TO PARTNERSHIPS.—Subsection (d) of section 721 is amended to read as follows:

"(d) TRANSFERS OF INTANGIBLE PROPERTY.—

"(1) IN GENERAL.—Rules similar to the rules of section 351(h) shall apply for purposes of this section.

"(2) TRANSFERS TO FOREIGN PARTNERSHIPS.—For regulatory authority to treat intangibles transferred to a partnership as sold, see section 367(d)(3).".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to transfers on or after the date of the enactment of this Act.

SEC. 1320. CONTROLLED ENTITIES INELIGIBLE FOR REIT STATUS.

(a) IN GENERAL.—Subsection (a) of section 856 (relating to definition of real estate investment trust) is amended by striking "and" at the end of paragraph (6), by redesignating paragraph (7) as paragraph (8), and by inserting after paragraph (6) the following new paragraph:

"(7) which is not a controlled entity (as defined in subsection (l)); and".

(b) CONTROLLED ENTITY.—Section 856 is amended by adding at the end the following new subsection:

"(l) CONTROLLED ENTITY.—

"(1) IN GENERAL.—For purposes of subsection (a)(7), an entity is a controlled entity if, at any time during the taxable year, one person (other than a qualified entity)—

"(A) in the case of a corporation, owns stock—

"(i) possessing at least 50 percent of the total voting power of the stock of such corporation, or

"(ii) having a value equal to at least 50 percent of the total value of the stock of such corporation, or

"(B) in the case of a trust, owns beneficial interests in the trust which would meet the re-

quirements of subparagraph (A) if such interests were stock.

"(2) QUALIFIED ENTITY.—For purposes of paragraph (1), the term 'qualified entity' means—

"(A) any real estate investment trust, and

"(B) any partnership in which one real estate investment trust owns at least 50 percent of the capital and profits interests in the partnership.

"(3) ATTRIBUTION RULES.—For purposes of this paragraphs (1) and (2)—

"(A) IN GENERAL.—Rules similar to the rules of subsections (d)(5) and (h)(3) shall apply.

"(B) STAPLED ENTITIES.—A group of entities which are stapled entities (as defined in section 269B(c)(2)) shall be treated as 1 person.

"(4) EXCEPTION FOR CERTAIN NEW REITS.—

"(A) IN GENERAL.—The term 'controlled entity' shall not include an incubator REIT.

"(B) INCUBATOR REIT.—A corporation shall be treated as an incubator REIT for any taxable year during the eligibility period if it meets all the following requirements for such year:

"(i) The corporation elects to be treated as an incubator REIT.

"(ii) The corporation has only voting common stock outstanding.

"(iii) Not more than 50 percent of the corporation's real estate assets consist of mortgages.

"(iv) From not later than the beginning of the last half of the second taxable year, at least 10 percent of the corporation's capital is provided by lenders or equity investors who are unrelated to the corporation's largest shareholder.

"(v) The corporation annually increases the value of its real estate assets by at least 10 percent.

"(vi) The directors of the corporation adopt a resolution setting forth an intent to engage in a going public transaction.

No election may be made with respect to any REIT if an election under this subsection was in effect for any predecessor of such REIT.

"(C) ELIGIBILITY PERIOD.—

"(i) IN GENERAL.—The eligibility period (for which an incubator REIT election

can be made) begins with the REIT's second taxable year and ends at the close of the REIT's third taxable year, except that the REIT may, subject to clauses (ii), (iii), and (iv), elect to extend such period for an additional 2 taxable years.

"(ii) GOING PUBLIC TRANSACTION.—A REIT may not elect to extend the eligibility period under clause (i) unless it enters into an agreement with the Secretary that if it does not engage in a going public transaction by the end of the extended eligibility period, it shall pay Federal income taxes for the 2 years of the extended eligibility period as if it had not made an incubator REIT election and had ceased to qualify as a REIT for those 2 taxable years.

"(iii) RETURNS, INTEREST, AND NOTICE.—

"(I) RETURNS.—In the event the corporation ceases to be treated as a REIT by operation of clause (ii), the corporation shall file any appropriate amended returns reflecting the change

in status within 3 months of the close of the extended eligibility period.

"(II) INTEREST.—Interest shall be payable on any tax imposed by reason of clause (ii) for any taxable year but, unless there was a finding under subparagraph (D), no substantial underpayment penalties shall be imposed.

"(III) NOTICE.—The corporation shall, at the same time it files its returns under subclause (I), notify its shareholders and any other persons whose tax position is, or may reasonably be expected to be, affected by the change in status so they also may file any appropriate amended returns to conform their tax treatment consistent with the corporation's loss of REIT status.

"(IV) REGULATIONS.—The Secretary shall provide appropriate regulations setting forth transferee liability and other provisions to ensure collection of tax and the proper administration of this provision.

"(iv) Clauses (ii) and (iii) shall not apply if the corporation allows its incubator REIT status to lapse at the end of the initial 2-year eligibility period without engaging in a going public transaction if the corporation is not a controlled entity as of the beginning of its fourth taxable year. In such a case, the corporation's directors may still be liable for the penalties described in subparagraph (D) during the eligibility period.

"(D) SPECIAL PENALTIES.—If the Secretary determines that an incubator REIT election was filed for a principal purpose other than as part of a reasonable plan to undertake a going public transaction, an excise tax of $20,000 shall be imposed on each of the corporation's directors for each taxable year for which an election was in effect.

"(E) GOING PUBLIC TRANSACTION.—For purposes of this paragraph, a going public transaction means—

"(i) a public offering of shares of the stock of the incubator REIT;

"(ii) a transaction, or series of transactions, that results in the stock of the incubator REIT being regularly traded on an established securities market and that results in at least 50 percent of such stock being held by shareholders who are unrelated to persons who held such stock before it began to be so regularly traded; or

"(iii) any transaction resulting in ownership of the REIT by 200 or more persons (excluding the largest single shareholder) who in the aggregate own at least 50 percent of the stock of the REIT.

For the purposes of this subparagraph, the rules of paragraph (3) shall apply in determining the ownership of stock.

"(F) DEFINITIONS.—The term 'established securities market' shall have the meaning set forth in the regulations under section 897.".

(c) CONFORMING AMENDMENT.—Paragraph (2) of section 856(h) is amended by striking "and (6)" each place it appears and inserting ", (6), and (7)".

(d) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to taxable years ending after July 14, 1999.

(2) EXCEPTION FOR EXISTING CONTROLLED ENTITIES.—The amendments made by this section shall not apply to any entity which is a controlled entity (as defined in section 856(l) of the Internal Revenue Code of 1986, as added by this section) as of July 14, 1999, which is a real estate investment trust for the taxable year which includes such date, and which has significant business assets or activities as of such date. For purposes of the preceding sentence, an entity shall be treated as such a controlled entity on July 14, 1999, if it becomes such an entity after such date in a transaction—

(A) made pursuant to a written agreement which was binding on such date and at all times thereafter, or

(B) described on or before such date in a filing with the Securities and Exchange Commission required solely by reason of the transaction.

SEC. 1321. DISTRIBUTIONS TO A CORPORATE PARTNER OF STOCK IN ANOTHER CORPORATION.

(a) IN GENERAL.—Section 732 (relating to basis of distributed property other than money) is amended by adding at the end the following new subsection:

"(f) CORRESPONDING ADJUSTMENT TO BASIS OF ASSETS OF A DISTRIBUTED CORPORATION CONTROLLED BY A CORPORATE PARTNER.—

"(1) IN GENERAL.—If—

"(A) a corporation (hereafter in this subsection referred to as the 'corporate partner') receives a distribution from a partnership of stock in another corporation (hereafter in this subsection referred to as the 'distributed corporation'),

"(B) the corporate partner has control of the distributed corporation immediately after the distribution or at any time thereafter, and

"(C) the partnership's adjusted basis in such stock immediately before the distribution exceeded the corporate partner's adjusted basis in such stock immediately after the distribution,

then an amount equal to such excess shall be applied to reduce (in accordance with subsection (c)) the basis of property held by the distributed corporation at such time (or, if the corporate partner does not con-

trol the distributed corporation at such time, at the time the corporate partner first has such control).

"(2) EXCEPTION FOR CERTAIN DISTRIBUTIONS BEFORE CONTROL ACQUIRED.—Paragraph (1) shall not apply to any distribution of stock in the distributed corporation if—

"(A) the corporate partner does not have control of such corporation immediately after such distribution, and

"(B) the corporate partner establishes to the satisfaction of the Secretary that such distribution was not part of a plan or arrangement to acquire control of the distributed corporation.

"(3) LIMITATIONS ON BASIS REDUCTION.—

"(A) IN GENERAL.—The amount of the reduction under paragraph (1) shall not exceed the amount by which the sum of the aggregate adjusted bases of the property and the amount of money of the distributed corporation exceeds the corporate partner's adjusted basis in the stock of the distributed corporation.

"(B) REDUCTION NOT TO EXCEED ADJUSTED BASIS OF PROPERTY.—No reduction under paragraph (1) in the basis of any property shall exceed the adjusted basis of such prop-

erty (determined without regard to such reduction).

"(4) GAIN RECOGNITION WHERE REDUCTION LIMITED.—If the amount of any reduction under paragraph (1) (determined after the application of paragraph (3)(A)) exceeds the aggregate adjusted bases of the property of the distributed corporation—

"(A) such excess shall be recognized by the corporate partner as long-term capital gain, and

"(B) the corporate partner's adjusted basis in the stock of the distributed corporation shall be increased by such excess.

"(5) CONTROL.—For purposes of this subsection, the term 'control' means ownership of stock meeting the requirements of section 1504(a)(2).

"(6) INDIRECT DISTRIBUTIONS.—For purposes of paragraph (1), if a corporation acquires (other than in a distribution from a partnership) stock the basis of which is determined in whole or in part by reference to subsection (a)(2) or (b), the corporation shall be treated as receiving a distribution of such stock from a partnership.

"(7) SPECIAL RULE FOR STOCK IN CONTROLLED CORPORATION.—If the property held by a distributed corporation is stock in a corporation which the dis-

tributed corporation controls, this subsection shall be applied to reduce the basis of the property of such controlled corporation. This subsection shall be reapplied to any property of any controlled corporation which is stock in a corporation which it controls.

"(8) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary to carry out the purposes of this subsection, including regulations to avoid double counting and to prevent the abuse of such purposes.".

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to distributions made after July 14, 1999.

TITLE XIV—TECHNICAL CORRECTIONS

SEC. 1401. AMENDMENTS RELATED TO TAX AND TRADE RELIEF EXTENSION ACT OF 1998.

(a) AMENDMENT RELATED TO SECTION 1004(b) OF THE ACT.—Subsection (d) of section 6104 is amended by adding at the end the following new paragraph:

"(6) APPLICATION TO NONEXEMPT CHARITABLE TRUSTS AND NONEXEMPT PRIVATE FOUNDATIONS.—The organizations referred to in paragraphs (1) and (2) of section 6033(d) shall comply with the requirements of this subsection relating to annual returns

filed under section 6033 in the same manner as the organizations referred to in paragraph (1).".

(b) AMENDMENT RELATED TO SECTION 4003 OF THE ACT.—Subsection (b) of section 4003 of the Tax and Trade Relief Extension Act of 1998 is amended by inserting "(7)(A)(i)(II)," after "(5)(A)(ii)(I),".

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect as if included in the provisions of the Tax and Trade Relief Extension Act of 1998 to which they relate.

SEC. 1402. AMENDMENTS RELATED TO INTERNAL REVENUE SERVICE RESTRUCTURING AND REFORM ACT OF 1998.

(a) AMENDMENT RELATED TO 1103 OF THE ACT.—Paragraph (6) of section 6103(k) is amended—

(1) by inserting "and an officer or employee of the Office of Treasury Inspector General for Tax Administration" after "internal revenue officer or employee", and

(2) by striking "INTERNAL REVENUE" in the heading and inserting "CERTAIN".

(b) AMENDMENT RELATED TO SECTION 3509 OF THE ACT.—Subparagraph (A) of section 6110(g)(5) is amended by inserting ", any Chief Counsel advice," after "technical advice memorandum".

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect as if included in the provisions of the Internal Revenue Service Restructuring and Reform Act of 1998 to which they relate.

SEC. 1403. AMENDMENTS RELATED TO TAXPAYER RELIEF ACT OF 1997.

(a) AMENDMENT RELATED TO SECTION 302 OF THE ACT.—The last sentence of section 3405(e)(1)(B) is amended by inserting "(other than a Roth IRA)" after "individual retirement plan".

(b) AMENDMENTS RELATED TO SECTION 1072 OF THE ACT.—

(1) Clause (ii) of section 415(c)(3)(D) and subparagraph (B) of section 403(b)(3) are each amended by striking "section 125 or" and inserting "section 125, 132(f)(4), or".

(2) Paragraph (2) of section 414(s) is amended by striking "section 125, 402(e)(3)" and inserting "section 125, 132(f)(4), 402(e)(3)".

(c) AMENDMENT RELATED TO SECTION 1454 OF THE ACT.—Subsection (a) of section 7436 is amended by inserting before the period at the end of the first sentence "and the proper amount of employment tax under such determination".

(d) EFFECTIVE DATE.—The amendments made by this section shall take effect as if included in the provisions of the Taxpayer Relief of 1997 to which they relate.

SEC. 1404. OTHER TECHNICAL CORRECTIONS.

(a) AFFILIATED CORPORATIONS IN CONTEXT OF WORTHLESS SECURITIES.—

(1) Subparagraph (A) of section 165(g)(3) is amended to read as follows:

"(A) the taxpayer owns directly stock in such corporation meeting the requirements of section 1504(a)(2), and".

(2) Paragraph (3) of section 165(g) is amended by striking the last sentence.

(3) The amendments made by this subsection shall apply to taxable years beginning after December 31, 1984.

(b) REFERENCE TO CERTAIN STATE PLANS.—

(1) Subparagraph (B) of section 51(d)(2) is amended—

(A) by striking "plan approved" and inserting "program funded", and

(B) by striking "(relating to assistance for needy families with minor children)".

(2) The amendment made by paragraph (1) shall take effect as if included in the amendments made by

section 1201 of the Small Business Job Protection Act of 1996.

(c) AMOUNT OF IRA CONTRIBUTION OF LESSER EARNING SPOUSE.—

(1) Clause (ii) of section 219(c)(1)(B) is amended by striking "and" at the end of subclause (I), by redesignating subclause (II) as subclause (III), and by inserting after subclause (I) the following new subclause:

"(II) the amount of any designated nondeductible contribution (as defined in section 408(o)) on behalf of such spouse for such taxable year, and".

(2) The amendment made by paragraph (1) shall take effect as if included in section 1427 of the Small Business Job Protection Act of 1996.

(d) MODIFIED ENDOWMENT CONTRACTS.—

(1) Paragraph (2) of section 7702A(a) is amended by inserting "or this paragraph" before the period.

(2) Clause (ii) of section 7702A(c)(3)(A) is amended by striking "under the contract" and inserting "under the old contract".

(3) The amendments made by this subsection shall take effect as if included in the amendments

made by section 5012 of the Technical and Miscellaneous Revenue Act of 1988.

(e) LUMP-SUM DISTRIBUTIONS.—

(1) Clause (ii) of section 401(k)(10)(B) is amended by adding at the end the following new sentence: "Such term includes a distribution of an annuity contract from—

"(I) a trust which forms a part of a plan described in section 401(a) and which is exempt from tax under section 501(a), or

"(II) an annuity plan described in section 403(a).".

(2) The amendment made by paragraph (1) shall take effect as if included in section 1401 of the Small Business Job Protection Act of 1996.

(f) TENTATIVE CARRYBACK ADJUSTMENTS OF LOSSES FROM SECTION 1256 CONTRACTS.—

(1) Subsection (a) of section 6411 is amended by striking "section 1212(a)(1)" and inserting "subsection (a)(1) or (c) of section 1212".

(2) The amendment made by paragraph (1) shall take effect as if included in the amendments made by section 504 of the Economic Recovery Tax Act of 1981.

SEC. 1405. CLERICAL CHANGES.

(1) Subsection (f) of section 67 is amended by striking "the last sentence" and inserting "the second sentence".

(2) The heading for paragraph (5) of section 408(d) is amended to read as follows:

"(5) DISTRIBUTIONS OF EXCESS CONTRIBUTIONS AFTER DUE DATE FOR TAXABLE YEAR AND CERTAIN EXCESS ROLLOVER CONTRIBUTIONS.—".

(3) The heading for subparagraph (B) of section 529(e)(3) is amended by striking "UNDER GUARANTEED PLANS".

(4)(A) Subsection (e) of section 678 is amended by striking "an electing small business corporation" and inserting "an S corporation".

(B) Clause (v) of section 6103(e)(1)(D) is amended to read as follows:

> *"(v) if the corporation was an S corporation, any person who was a shareholder during any part of the period covered by such return during which an election under section 1362(a) was in effect, or".*

(5) Subparagraph (B) of section 995(b)(3) is amended by striking "the Military Security Act of 1954 (22 U.S.C. 1934)" and inserting "section 38 of

the International Security Assistance and Arms Export Control Act of 1976 (22 U.S.C. 2778)".

(6) Subparagraph (B) of section 4946(c)(3) is amended by striking "the lowest rate of compensation prescribed for GS–16 of the General Schedule under section 5332" and inserting "the lowest rate of basic pay for the Senior Executive Service under section 5382".

SEC. 1406. TECHNICAL CORRECTIONS TO SAVER ACT.

Section 517 of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1147) is amended—

(1) in subsection (a), by striking "2001 and 2005 on or after September 1 of each year involved" and inserting "2001, 2005, and 2009 in the month of September of each year involved";

(2) in subsection (b), by adding at the end the following new sentence: "To effectuate the purposes of this paragraph, the Secretary may enter into a cooperative agreement, pursuant to the Federal Grant and Cooperative Agreement Act of 1977 (31 U.S.C. 6301 et seq.), with the American Savings Education Council.";

(3) in subsection (e)(2)—

(A) by striking "Committee on Labor and Human Resources" in subparagraph (B) and in-

serting "Committee on Health, Education, Labor, and Pensions";

(B) by striking subparagraph (D) and inserting the following:

"(D) the Chairman and Ranking Member of the Subcommittee on Labor, Health and Human Services, and Education of the Committee on Appropriations of the House of Representatives and the Chairman and Ranking Member of the Subcommittee on Labor, Health and Human Services, and Education of the Committee on Appropriations of the Senate;";

(C) by redesignating subparagraph (G) as subparagraph (J); and

(D) by inserting after subparagraph (F) the following new subparagraphs:

"(G) the Chairman and Ranking Member of the Committee on Finance of the Senate;

"(H) the Chairman and Ranking Member of the Committee on Ways and Means of the House of Representatives;

"(I) the Chairman and Ranking Member of the Subcommittee on Employer-Employee Relations of the Committee on Education and the Workforce of the House of Representatives; and";

(4) in subsection (e)(3)(A)—

(A) by striking "There shall be no more than 200 additional participants." and inserting "The participants in the National Summit shall also include additional participants appointed under this subparagraph.";

(B) by striking "one-half shall be appointed by the President," in clause (i) and inserting "not more than 100 participants shall be appointed under this clause by the President,", and by striking "and" at the end of clause (i);

(C) by striking "one-half shall be appointed by the elected leaders of Congress" in clause (ii) and inserting "not more than 100 participants shall be appointed under this clause by the elected leaders of Congress", and by striking the period at the end of clause (ii) and inserting "; and"; and

(D) by adding at the end the following new clause:

"(iii) The President, in consultation with the elected leaders of Congress referred to in subsection (a), may appoint under this clause additional participants to the National Summit. The number of such ad-

ditional participants appointed under this clause may not exceed the lesser of 3 percent of the total number of all additional participants appointed under this paragraph, or 10. Such additional participants shall be appointed from persons nominated by the organization referred to in subsection (b)(2) which is made up of private sector businesses and associations partnered with Government entities to promote long term financial security in retirement through savings and with which the Secretary is required thereunder to consult and cooperate and shall not be Federal, State, or local government employees.";

(5) in subsection (e)(3)(B), by striking "January 31, 1998" in subparagraph (B) and inserting "May 1, 2001, May 1, 2005, and May 1, 2009, for each of the subsequent summits, respectively";

(6) in subsection (f)(1)(C), by inserting ", no later than 90 days prior to the date of the commencement of the National Summit," after "comment" in paragraph (1)(C);

(7) in subsection (g), by inserting ", in consultation with the congressional leaders specified in subsection (e)(2)," after "report";

(8) in subsection (i)—

(A) by striking "beginning on or after October 1, 1997" in paragraph (1) and inserting "2001, 2005, and 2009"; and

(B) by adding at the end the following new paragraph:

"(3) RECEPTION AND REPRESENTATION AUTHORITY.—The Secretary is hereby granted reception and representation authority limited specifically to the events at the National Summit. The Secretary shall use any private contributions received in connection with the National Summit prior to using funds appropriated for purposes of the National Summit pursuant to this paragraph."; and

(9) in subsection (k)—

(A) by striking "shall enter into a contract on a sole-source basis" and inserting "may enter into a contract on a sole-source basis"; and

(B) by striking "fiscal year 1998" and inserting "fiscal years 2001, 2005, and 2009".

TITLE XV—COMPLIANCE WITH CONGRESSIONAL BUDGET ACT

SEC. 1501. SUNSET OF PROVISIONS OF ACT.

All provisions of, and amendments made by, this Act which are in effect on September 30, 2009, shall cease to apply as of the close of September 30, 2009.

Attest:

Secretary.

106th CONGRESS
1st Session

H. R. 2488

AMENDMENT

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