

106TH CONGRESS  
1ST SESSION

# H. R. 3225

To revitalize the international competitiveness of the United States-flag maritime industry through tax relief.

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IN THE HOUSE OF REPRESENTATIVES

NOVEMBER 4, 1999

Mr. MCCRERY (for himself and Mr. JEFFERSON) introduced the following bill;  
which was referred to the Committee on Ways and Means

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## A BILL

To revitalize the international competitiveness of the United States-flag maritime industry through tax relief.

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

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “National Security Sea-  
5 lift Enhancement Act of 1999”.

6 **SEC. 2. TABLE OF CONTENTS.**

7 The table of contents for this Act is as follows:

- Sec. 1. Short title.
- Sec. 2. Table of contents.

### TITLE I—CAPITAL CONSTRUCTION FUND

- Sec. 101. Amendments of Internal Revenue Code of 1986.
- Sec. 102. Amendment to the Tariff Act of 1930.

Sec. 103. Effective date.

TITLE II—ELECTION TO EXPENSE UNITED STATES FLAG  
VESSELS

Sec. 201. Election to expense certain United States flag vessels.

TITLE III—INCOME EXCLUSION FOR MERCHANT SEAMEN

Sec. 301. Income of merchant seaman excludable from gross income as foreign earned income.

TITLE IV—EXEMPTION FROM ALTERNATIVE MINIMUM TAX

Sec. 401. Exemption from alternative minimum tax for corporations that operate United States flag vessels.

TITLE V—CONVENTIONS ON UNITED STATES-FLAG CRUISE SHIPS

Sec. 501. Conventions on United States-flag cruise ships.

**TITLE I—CAPITAL  
CONSTRUCTION FUND**

**SEC. 101. AMENDMENTS OF INTERNAL REVENUE CODE OF  
1986.**

(a) TREATMENT OF CERTAIN LEASE PAYMENTS.—

(1) Paragraph (1) of section 7518(e) of the Internal Revenue Code of 1986 is amended by striking “or” at the end of subparagraph (B), by striking the period at the end of subparagraph (C) and inserting “, or”, and by inserting after subparagraph (C) the following new subparagraph:

“(D) the payments of amounts which reduce the principal amount (as determined under regulations) of a qualified lease of a qualified vessel or container which is part of the complement of an eligible vessel.”.

1           (2) Paragraph (4) of section 7518(f) of such  
2 Code is amended by inserting “or to reduce the prin-  
3 cipal amount of any qualified lease” after “indebted-  
4 ness”.

5           (b) AUTHORITY TO MAKE DEPOSITS UNDER THE  
6 TARIFF ACT OF 1930.—

7           (1) Paragraph (1) of section 7518(a) of such  
8 Code is amended by striking “and” at the end of  
9 subparagraph (C), by striking the period at the end  
10 of subparagraph (D) and inserting “, and”, and by  
11 adding at the end the following new subparagraph:

12                   “(E) the amount elected for deposit under  
13 subsection (i) of section 466 of the Tariff Act  
14 of 1930 (19 U.S.C. 1466).”.

15           (2) Subparagraph (A) of section 7518(d)(2) of  
16 such Code is amended to read as follows:

17                   “(A) amounts referred to in subsections  
18 (a)(1)(B) and (E).”.

19           (c) AUTHORITY TO MAKE DEPOSITS FOR PRIOR  
20 YEARS BASED ON AUDIT ADJUSTMENTS.—Subsection (a)  
21 of section 7518 of such Code is amended by adding at  
22 the end thereof the following new paragraph:

23                   “(4) DEPOSITS FOR PRIOR YEARS.—To the ex-  
24 tent permitted by joint regulations, deposits may be  
25 made in excess of the limitation described in para-

1 graph (1) (and any limitation specified in the agree-  
2 ment) for the taxable year if, by reason of a change  
3 in taxable income for a prior taxable year that has  
4 become final pursuant to a closing agreement or  
5 other similar agreement entered into during the tax-  
6 able year, the amount of the deposit could have been  
7 made for such prior taxable year.”.

8 (d) TREATMENT OF CAPITAL GAINS AND LOSSES.—

9 (1) Paragraph (3) of section 7518(d) of such  
10 Code is amended to read as follows:

11 “(3) CAPITAL GAIN ACCOUNT.—The capital  
12 gain account shall consist of—

13 “(A) amounts representing long-term cap-  
14 ital gains (as defined in section 1222) on assets  
15 held in the fund, reduced by

16 “(B) amounts representing long-term cap-  
17 ital losses (as defined in such section) on assets  
18 held in the fund.”.

19 (2) Subparagraph (B) of section 7518(d)(4) of  
20 such Code is amended to read as follows:

21 “(B)(i) amounts representing short-term  
22 capital gains (as defined in section 1222) on as-  
23 sets held in the fund, reduced by

1           “(ii) amounts representing short-term cap-  
2           ital losses (as defined in such section) on assets  
3           held in the fund,”.

4           (3) Subparagraph (B) of section 7518(g)(3) of  
5           such Code is amended by striking “gain” and all  
6           that follows and inserting “long-term capital gain  
7           (as defined in section 1222), and”.

8           (4) The last sentence of subparagraph (A) of  
9           section 7518(g)(6) of such Code is amended by  
10          striking “20 percent (34 percent in the case of a  
11          corporation)” and inserting “the rate applicable to  
12          net capital gain under such section 1(h)(1)(C) or  
13          1201(a), as the case may be”.

14          (e) COMPUTATION OF INTEREST WITH RESPECT TO  
15          NONQUALIFIED WITHDRAWALS.—

16          (1) Subparagraph (C) of section 7518(g)(3) of  
17          such Code is amended—

18                  (A) by striking clause (i) and inserting the  
19                  following new clause:

20                          “(i) no addition to the tax shall be  
21                          payable under section 6651, and”, and

22                  (B) by striking “paid at the applicable rate  
23                  (as defined in paragraph (4))” in clause (ii) and  
24                  inserting “paid in accordance with section  
25                  6601”.

1           (2) Subsection (g) of section 7518 of such Code  
2 is amended by striking paragraph (4) and by redesi-  
3 gnating paragraphs (5) and (6) as paragraphs (4)  
4 and (5), respectively.

5           (3) Subparagraph (A) of section 7518(g)(5) of  
6 such Code, as redesignated by paragraph (2), is  
7 amended by striking “paragraph (5)” and inserting  
8 “paragraph (4)”.

9 (f) OTHER CHANGES.—

10           (1) Paragraph (2) of section 7518(b) of such  
11 Code is amended by striking “interest-bearing secu-  
12 rities approved by the Secretary” and inserting “in-  
13 terest-bearing securities and other income-producing  
14 assets (including accounts receivable) approved by  
15 the Secretary”.

16           (2) The last sentence of paragraph (1) of sec-  
17 tion 7518(e) of such Code is amended by striking  
18 “and containers” each place it appears.

19           (3) Subparagraph (B) of section 543(a)(1) of  
20 such Code is amended to read as follows:

21           “(B) interest on amounts set aside in a  
22 capital construction fund under section 607 of  
23 the Merchant Marine Act, 1936 (46 App.  
24 U.S.C. 1177), or in a construction reserve fund

1 under section 511 of such Act (46 App. U.S.C.  
2 1161),”.

3 (4) Subsection (c) of section 56 of such Code  
4 is amended by striking paragraph (2) and by redesi-  
5 gnating paragraph (3) as paragraph (2).

6 (5) Section 7518(e) is amended by adding at  
7 the end the following new paragraph:

8 “(3) QUALIFIED WITHDRAWAL.—In the case of  
9 amounts in any fund as of the date of the enactment  
10 of this paragraph, and any earnings thereon, for  
11 purposes of this subsection, the term ‘qualified with-  
12 drawal’ has the meaning given such term by apply-  
13 ing subsection (i)(2) as of such date.”

14 (g) DEFINITIONS.—Subsection (i) of section 7518 of  
15 such Code is amended to read as follows:

16 “(i) DEFINITIONS.—

17 “(1) IN GENERAL.—Except as provided in para-  
18 graph (2), terms used in this section shall have the  
19 same meaning as in section 607(k) of the Merchant  
20 Marine Act, 1936.

21 “(2) OTHER DEFINITIONS.—For the purposes  
22 of this section—

23 “(A) The term ‘eligible vessel’ means any  
24 vessel—

1                   “(i) documented under the laws of the  
2                   United States, and

3                   “(ii) operated in the foreign or domes-  
4                   tic commerce of the United States or in  
5                   the fisheries of the United States.

6                   “(B) QUALIFIED VESSEL.—The term  
7                   ‘qualified vessel’ means any vessel—

8                   “(i) constructed in the United States  
9                   and, if reconstructed, reconstructed in the  
10                  United States,

11                  “(ii) documented under the laws of  
12                  the United States, and

13                  “(iii) which the person maintaining  
14                  the fund agrees with the Secretary will be  
15                  operated in the fisheries of the United  
16                  States, or in the United States foreign,  
17                  Great Lakes, noncontiguous domestic  
18                  trade, or other oceangoing domestic trade  
19                  between two coastal points in the United  
20                  States or in support of operations con-  
21                  ducted on the Outer Continental Shelf.

22                  “(C) VESSEL.—The term ‘vessel’ includes  
23                  containers or trailers intended for use as part  
24                  of the complement of one or more eligible ves-  
25                  sels and cargo handling equipment which the

1 Secretary determines is intended for use pri-  
2 marily on the vessel. The term ‘vessel’ also in-  
3 cludes an ocean-going towing vessel or an  
4 ocean-going barge or comparable towing vessel  
5 or barge operated on the Great Lakes.

6 “(D) FOREIGN COMMERCE.—The terms  
7 ‘foreign commerce’ and ‘foreign trade’ have the  
8 meanings given such terms in section 905 of  
9 the Merchant Marine Act, 1936, except that  
10 these terms shall include commerce or trade be-  
11 tween foreign ports.

12 “(E) QUALIFIED LEASE.—The term ‘quali-  
13 fied lease’ means any lease with a term of at  
14 least 5 years.”

15 **SEC. 102. AMENDMENT TO THE TARIFF ACT OF 1930.**

16 Section 466 of the Tariff Act of 1930 (19 U.S.C.  
17 1466) is amended by adding at the end the following new  
18 subsection:

19 “(i) Election to Deposit Duty Into a Capital Con-  
20 struction Fund In Lieu of Payment to The Secretary of  
21 The Treasury.—At the election of the owner or master  
22 of any vessel referred to in subsection (a) of this section  
23 which is an eligible vessel (as defined in section 7518(i)(2)  
24 of the Internal Revenue Code of 1986), the portion of any  
25 duty imposed by subsection (a) which is deposited in a

1 fund established under section 607 of the Merchant Ma-  
2 rine Act, 1936 shall be treated as paid to the Secretary  
3 of the Treasury in satisfaction of the liability for such  
4 duty.”

5 **SEC. 103. EFFECTIVE DATE.**

6 (a) IN GENERAL.—Except as otherwise provided in  
7 this section, the amendments made by this title shall apply  
8 to taxable years ending after the date of the enactment  
9 of this Act.

10 (b) CHANGES IN COMPUTATION OF INTEREST.—The  
11 amendments made by section 101(e) shall apply to with-  
12 draws made after December 31, 1998, including for pur-  
13 poses of computing interest on such a withdrawal for peri-  
14 ods on or before such date.

15 (c) QUALIFIED LEASES.—The amendments made by  
16 section 101(a) shall apply to leases in effect on, or entered  
17 into after, December 31, 1998.

18 (d) AMENDMENT TO THE TARIFF ACT OF 1930.—  
19 The amendment made by section 102 shall apply with re-  
20 spect to entries not yet liquidated by December 31, 1998,  
21 and to entries made on or after such date.

1 **TITLE II—ELECTION TO EX-**  
2 **PENSE UNITED STATES FLAG**  
3 **VESSELS**

4 **SEC. 201. ELECTION TO EXPENSE CERTAIN UNITED STATES**  
5 **FLAG VESSELS.**

6 (a) IN GENERAL.—Part VI of subchapter B of chap-  
7 ter 1 of the Internal Revenue Code of 1986 is amended  
8 by inserting after section 179A the following new section:

9 **“SEC. 179B. DEDUCTION FOR UNITED STATES FLAG**  
10 **VESSELS.**

11 “(a) TREATMENT AS EXPENSES.—A taxpayer may  
12 elect to treat the cost of any vessel that is a qualified  
13 United States flag vessel as an expense which is not  
14 chargeable to its capital account.

15 “(b) YEAR IN WHICH DEDUCTION ALLOWED.—The  
16 deduction under subsection (a) shall be allowed for the  
17 taxable year in which the vessel first becomes a qualified  
18 United States flag vessel.

19 “(c) DEFINITIONS.—

20 “(1) QUALIFIED UNITED STATES FLAG VES-  
21 SEL.—For purposes of this section, the term ‘quali-  
22 fied United States flag vessel’ means a United  
23 States flag vessel that is operated exclusively in the  
24 foreign trade of the United States.

1           “(2) COST.—For purposes of this section, the  
2 term ‘cost’ means an amount equal to the lesser  
3 of—

4                   “(A) the purchase price of the vessel, or

5                   “(B) the adjusted basis of the vessel, de-  
6 termined under section 1011, at the time that  
7 the vessel becomes a qualified United States  
8 flag vessel.

9           “(d) BASIS REDUCTION.—

10           “(1) IN GENERAL.—For purposes of this title,  
11 the basis of any property shall be reduced by the  
12 portion of the cost of such property taken into ac-  
13 count under subsection (a).

14           “(2) ORDINARY INCOME RECAPTURE.—For  
15 purposes of section 1245, the amount of the deduc-  
16 tion allowable under subsection (a) with respect to  
17 any property which is of a character subject to the  
18 allowance for depreciation shall be treated as a de-  
19 duction allowed for depreciation under section 167.”

20           “(b) CONFORMING AMENDMENTS.—

21           “(1) Paragraph (1) of section 263(a) of such  
22 Code is amended by striking “or” at the end of sub-  
23 paragraph (G), by striking the period at the end of  
24 subparagraph (H) and inserting “; or”, and by add-  
25 ing at the end the following new subparagraph:

1           “(I) expenditures for which a deduction is  
2           allowed under section 179B.”.

3           (2) Subparagraph (B) of section 312(k)(3) of  
4           such Code is amended by striking “or 179A” each  
5           place it appears and inserting “, 179A, or 179B”.

6           (3) Subparagraph (C) of section 1245(a)(2) of  
7           such Code is amended by inserting “179B,” after  
8           “179A,”.

9           (4) The table of sections for part VI of sub-  
10          chapter B of chapter 1 of such Code is amended by  
11          inserting after the item relating to section 179A the  
12          following new item:

                  “Sec. 179B. Deduction for United States flag vessels.”

13          (c) EFFECTIVE DATE.—The amendments made by  
14          this section shall apply to taxable years ending after the  
15          date of the enactment of this Act.

16          **TITLE III—INCOME EXCLUSION**  
17          **FOR MERCHANT SEAMEN**

18          **SEC. 301. INCOME OF MERCHANT SEAMAN EXCLUDABLE**  
19                       **FROM GROSS INCOME AS FOREIGN EARNED**  
20                       **INCOME.**

21          (a) SECTION 911 EXCLUSION.—Section 911(d) of the  
22          Internal Revenue Code of 1986 (relating to citizens or  
23          residents of the United States living abroad) is amended  
24          by redesignating paragraph (9) as paragraph (10) and by  
25          inserting after paragraph (8) the following:

1           “(9) APPLICATION TO CERTAIN MERCHANT MA-  
2 RINE CREWS.—In applying this section to an indi-  
3 vidual who is a citizen or resident of the United  
4 States and who is employed for a minimum of 90  
5 days during a taxable year as a regular member of  
6 the crew of a vessel or vessels owned, operated, or  
7 chartered by a United States citizen—

8           “(A) the individual shall be treated as a  
9 qualified individual without regard to the re-  
10 quirements of paragraph (1); and

11           “(B) any earned income attributable to  
12 services performed by that individual so em-  
13 ployed on such a vessel while it is engaged in  
14 transportation between the United States and a  
15 foreign country or possession of the United  
16 States shall be treated (except as provided by  
17 subsection (b)(1)(B)) as foreign earned income  
18 regardless of where payments of such income  
19 are made.”

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

1       **TITLE IV—EXEMPTION FROM**  
2       **ALTERNATIVE MINIMUM TAX**

3       **SEC. 401. EXEMPTION FROM ALTERNATIVE MINIMUM TAX**  
4                       **FOR CORPORATIONS THAT OPERATE UNITED**  
5                       **STATES FLAG VESSELS.**

6       (a) IN GENERAL.—Section 55 of the Internal Rev-  
7       enue Code of 1986 is amended by adding at the end the  
8       following new subsection:

9               “(f) EXEMPTION FOR CORPORATIONS THAT OPER-  
10       ATE UNITED STATES FLAG VESSELS.—

11               “(1) IN GENERAL.—The tentative minimum tax  
12       of a corporation shall be zero for any taxable year  
13       in which the corporation is a qualified corporation.

14               “(2) DEFINITIONS.—For purposes of this  
15       subsection—

16               “(A) QUALIFIED CORPORATION.—The  
17       term ‘qualified corporation’ means any domestic  
18       corporation if—

19                       “(i) substantially all of the assets of  
20                       such corporation are related to the mari-  
21                       time transportation business, and

22                       “(ii) such corporation owns or demise  
23                       charters a fleet of 4 or more qualified  
24                       United States flag vessels.

1           “(B) QUALIFIED UNITED STATES FLAG  
 2           VESSEL.—The term ‘qualified United States  
 3           flag vessel’ means a United States flag vessel  
 4           having a deadweight tonnage of not less than  
 5           10,000 deadweight tons that is operated exclu-  
 6           sively in the foreign trade of the United States  
 7           during each of the 360 days immediately pre-  
 8           ceding the last day of the taxable year. Days  
 9           during which the vessel is drydocked, surveyed,  
 10          inspected, or repaired shall be considered days  
 11          of operation for purposes of this subsection.

12           “(C) FOREIGN TRADE.—The term ‘foreign  
 13          trade’ has the meaning given to such term by  
 14          section 7518(i)(2).”

15          (b) EFFECTIVE DATE.—The amendment made by  
 16          this section shall apply to taxable years ending after the  
 17          date of the enactment of this Act.

18       **TITLE       V—CONVENTIONS       ON**  
 19       **UNITED STATES-FLAG CRUISE**  
 20       **SHIPS**

21       **SEC. 501. CONVENTIONS ON UNITED STATES-FLAG CRUISE**  
 22       **SHIPS.**

23          (a) IN GENERAL.—Section 274(h)(2) of the Internal  
 24          Revenue Code of 1986 (relating to conventions on cruise  
 25          ships) is amended by striking “that—” and all that follows

1 through “possessions of the United States.” and inserting  
2 “that the cruise ship is a vessel registered in the United  
3 States.”

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

○