

106TH CONGRESS
2D SESSION

S. 2642

To amend the Internal Revenue Code of 1986 to provide major tax simplification.

IN THE SENATE OF THE UNITED STATES

MAY 25, 2000

Mr. HATCH introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To amend the Internal Revenue Code of 1986 to provide major tax simplification.

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

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

4 (a) **SHORT TITLE.**—This Act may be cited as the
5 “Tax Ease and Modernization Act—Part I”.

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

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

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

Sec. 1. Short title; etc.

TITLE I—ALTERNATIVE MINIMUM TAX

Sec. 101. Repeal of alternative minimum tax on individuals.

TITLE II—SIMPLIFICATION OF CAPITAL GAINS TAX

Sec. 201. Capital gains deduction.

Sec. 202. Indexing of exclusion for capital gains on sale of principal residence.

TITLE III—SIMPLIFICATION AND EXPANSION OF THE EARNED INCOME TAX CREDIT

Sec. 301. Modification of definition of earned income.

Sec. 302. Simplification of definition of child dependent.

Sec. 303. Credit allowed for taxpayers who reside with other eligible individuals.

Sec. 304. Expansion of credit.

TITLE IV—LIMITATIONS ON ITEMIZED DEDUCTIONS AND PERSONAL EXEMPTIONS

Sec. 401. Repeal of overall limitation on itemized deductions.

Sec. 402. Repeal of phaseout of personal exemptions.

TITLE V—BUSINESS TAX SIMPLIFICATION PROVISIONS

Sec. 501. Single rate of interest on corporate and individual overpayments and
underpayments.

Sec. 502. Clarification of interest netting.

Sec. 503. Expensing allowed for certain computer software.

TITLE VI—MISCELLANEOUS SIMPLIFICATION PROVISIONS

Subtitle A—Penalty and Interest Provisions

Sec. 601. Failure by individual to pay estimated tax penalty converted to inter-
est charge on accumulated unpaid balance.

Sec. 602. Exclusion from gross income for interest on overpayments of income
tax by individuals.

Sec. 603. Reductions of penalty for failure to pay tax.

Sec. 604. Abatement of interest.

Sec. 605. Annual report on abatement of penalties.

Subtitle B—Procedural Provisions

Sec. 611. Authority to correct errors by the IRS with respect to taxpayer.

Sec. 612. Modification of filing date.

Sec. 613. Waiver of addition to tax for early withdrawal from IRA.

Sec. 614. Fixed rate of interest for installment agreement.

Sec. 615. Exception to tax on early withdrawal from IRA.

Subtitle C—Small Investors Tax Simplification Act

Sec. 621. Election to use simplified method for qualified investment clubs.

Subtitle D—Other Provisions

Sec. 631. Above-the-line deduction for unreimbursed business expenses.

Sec. 632. Expensing of certain personal property used in connection with residential rental property.

Sec. 633. Inclusion of certain older foster children in definition of dependent.

Sec. 634. Exclusion for foster care payments to apply to payments by qualified placement agencies.

Sec. 635. Simplification and increase in standard deduction for dependents.

Sec. 636. 2-percent floor on miscellaneous itemized deductions not to apply to qualified professional development expenses of elementary and secondary school teachers.

1 **TITLE I—ALTERNATIVE**
 2 **MINIMUM TAX**

3 **SEC. 101. REPEAL OF ALTERNATIVE MINIMUM TAX ON INDI-**
 4 **VIDUALS.**

5 (a) IN GENERAL.—Subsection (a) of section 55 (re-
 6 relating to alternative minimum tax imposed) is amended
 7 by adding at the end the following new flush sentence:
 8 “Except in the case of a corporation, no tax shall be im-
 9 posed by this section for any taxable year beginning after
 10 December 31, 2000, and the tentative minimum tax of any
 11 taxpayer other than a corporation shall be zero for pur-
 12 poses of this title.”.

13 (b) CONFORMING AMENDMENTS.—

14 (1) Subparagraph (B) of section 1(g)(7) is
 15 amended by adding “and” at the end of clause (i),
 16 by striking “, and” at the end of clause (ii) and in-
 17 serting a period, and by striking clause (iii).

1 (2) Section 2(d) is amended by striking “sec-
2 tions 1 and 55” and inserting “section 1”.

3 (3) Section 5(a) is amended by striking para-
4 graph (4).

5 (4) Subsection (c) of section 26 is amended by
6 inserting before the period “; except that such
7 amount shall be treated as being zero in the case of
8 a taxpayer other than a corporation.”

9 (5) Paragraph (6) of section 29(b) is amended
10 to read as follows:

11 “(6) APPLICATION WITH OTHER CREDITS.—
12 The credit allowed by subsection (a) for any taxable
13 year shall not exceed the regular tax for the taxable
14 year reduced by the sum of the credits allowable
15 under subpart A and section 27. In the case of a
16 corporation, the limitation under the preceding sen-
17 tence shall be reduced (but not below zero) by the
18 tentative minimum tax for the taxable year.”.

19 (6) Paragraph (3) of section 30(b) is amended
20 to read as follows:

21 “(3) APPLICATION WITH OTHER CREDITS.—
22 The credit allowed by subsection (a) for any taxable
23 year shall not exceed the regular tax for the taxable
24 year reduced by the sum of the credits allowable
25 under subpart A and sections 27 and 29. In the case

1 of a corporation, the limitation under the preceding
2 sentence shall be reduced (but not below zero) by the
3 tentative minimum tax for the taxable year.”.

4 (7) Section 32 is amended by striking sub-
5 section (h).

6 (8) Subsection (d) of section 53 is amended to
7 read as follows:

8 “(d) DEFINITIONS.—For purposes of this section—

9 (1) NET MINIMUM TAX.—The term ‘net min-
10 imum tax’ means the tax imposed by section 55 in-
11 creased by the amount of the credit not allowed
12 under section 29 (relating to credit for producing
13 fuel from a nonconventional source) solely by reason
14 of the application of the last sentence of section
15 29(b)(6), or not allowed under section 30 solely by
16 reason of the application of the last sentence of sec-
17 tion 30(b)(3).

18 (2) TENTATIVE MINIMUM TAX.—The term
19 ‘tentative minimum tax’ has the meaning given to
20 such term by section 55(b); except that such tax
21 shall be treated as being zero in the case of a tax-
22 payer other than a corporation.”.

23 (9)(A) Subsection (b) of section 55 (relating to
24 alternative minimum tax imposed) is amended to
25 read as follows:

1 “(b) TENTATIVE MINIMUM TAX.—For purposes of
2 this part—

3 “(1) AMOUNT OF TENTATIVE TAX.—The ten-
4 tative minimum tax for the taxable year is—

5 “(A) 20 percent of so much of the alter-
6 native minimum taxable income for the taxable
7 year as exceeds the exemption amount, reduced
8 by

9 “(B) the alternative minimum tax foreign
10 tax credit for the taxable year.

11 “(2) ALTERNATIVE MINIMUM TAXABLE IN-
12 COME.—The term ‘alternative minimum taxable in-
13 come’ means the taxable income of the taxpayer for
14 the taxable year—

15 “(A) determined with the adjustments pro-
16 vided in section 56, and

17 “(B) increased by the amount of the items
18 of tax preference described in section 57.

19 If a taxpayer is subject to the regular tax, such tax-
20 payer shall be subject to the tax imposed by this sec-
21 tion (and, if the regular tax is determined by ref-
22 erence to an amount other than taxable income, such
23 amount shall be treated as the taxable income of
24 such taxpayer for purposes of the preceding sen-
25 tence).”.

1 (B) Subsection (d) of section 55 is amended to
2 read as follows:

3 “(d) EXEMPTION AMOUNT.—For purposes of this
4 section—

5 “(1) IN GENERAL.—The term ‘exemption
6 amount’ means \$40,000.

7 “(2) PHASE-OUT OF EXEMPTION AMOUNT.—
8 The exemption amount of any taxpayer shall be re-
9 duced (but not below zero) by an amount equal to
10 25 percent of the amount by which the alternative
11 minimum taxable income of the taxpayer exceeds
12 \$150,000.”.

13 (10)(A) Paragraph (6) of section 56(a) is
14 amended to read as follows:

15 “(6) ADJUSTED BASIS.—The adjusted basis of
16 any property to which paragraph (1) or (5) applies
17 (or with respect to which there are any expenditures
18 to which paragraph (2) applies) shall be determined
19 on the basis of the treatment prescribed in para-
20 graph (1), (2), or (5), whichever applies.”.

21 (B) Section 56 is amended by striking sub-
22 section (b).

23 (C) Subsection (c) of section 56 is amended by
24 striking so much of the subsection as precedes para-
25 graph (1), by redesignating paragraphs (1), (2), and

1 (3) as paragraphs (8), (9), and (10), respectively,
2 and moving them to the end of subsection (a).

3 (D) Paragraph (8) of section 56(a), as redesignating by subparagraph (C), is amended by striking
4 “subsection (g)” and inserting “subsection (e)”.

5 (E) Section 56 is amended by striking subsection (e) and by redesignating subsections (d) and
6 (g) as subsections (b) and (e), respectively.

7 (11)(A) Section 58 is repealed.

8 (B) Clause (i) of section 56(b)(2)(A) (as redesignated by paragraph (10)(E)), is amended by inserting
9 “, in the case of taxable years beginning before January 1, 2001,” before “section 58”.

10 (C) Subsection (h) of section 59 is amended—

11 (i) by striking “, 465, and 1366(d)” and
12 inserting “and 465”, and

13 (ii) by striking “56, 57, and 58” and inserting “56 and 57”.

14 (12)(A) Subparagraph (C) of section 59(a)(1)
15 is amended by striking “subparagraph (A)(i) or
16 (B)(i) of section 55(b)(1) (whichever applies)” and
17 inserting “section 55(b)(1)(A)”.

18 (B) Paragraph (3) of section 59(a) is amended
19 to read as follows:
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1 “(3) PRE-CREDIT TENTATIVE MINIMUM TAX.—
2 For purposes of this subsection, the term ‘pre-credit
3 tentative minimum tax’ means the amount deter-
4 mined under section 55(b)(1)(A).”.

5 (C) Section 59 is amended by striking sub-
6 section (c).

7 (D) Section 59 is amended by striking sub-
8 section (j).

9 (13) Paragraph (7) of section 382(l) is amend-
10 ed by striking “section 56(d)” and inserting “section
11 56(b)”.

12 (14) Paragraph (2) of section 641(c) is amend-
13 ed by striking subparagraph (B) and by redesign-
14 ating subparagraphs (C) and (D) as subparagraphs
15 (B) and (C), respectively.

16 (15) Subsections (b) and (c) of section 666 are
17 each amended by striking “(other than the tax im-
18 posed by section 55)”.

19 (16) Subsections (c)(5) and (d)(3)(B) of section
20 772 are each amended by striking “56, 57, and 58”
21 and inserting “56 and 57”.

22 (17) Sections 847 and 848(i) are each amended
23 by striking “section 56(g)” and inserting “section
24 56(c)”.

1 (18) Sections 871(b)(1) and 877(b) are each
2 amended by striking “or 55”.

3 (19) Subsection (a) of section 897 is amended
4 to read as follows:

5 “(a) GENERAL RULE.—For purposes of this title,
6 gain or loss of a nonresident alien individual or a foreign
7 corporation from the disposition of a United States real
8 property interest shall be taken into account—

9 “(1) in the case of a nonresident alien indi-
10 vidual, under section 871(b)(1), or

11 “(2) in the case of a foreign corporation, under
12 section 882(a)(1),

13 as if the taxpayer were engaged in a trade or business
14 within the United States during the taxable year and as
15 if such gain or loss were effectively connected with such
16 trade or business.”.

17 (20) Paragraph (1) of section 962(a) is amend-
18 ed by striking “sections 1 and 55” and inserting
19 “section 1”.

20 (21) Paragraph (1) of section 1397E(c) is
21 amended to read as follows:

22 “(1) the regular tax liability (as defined in sec-
23 tion 26(b), over”

1 (22) The last sentence of section 1563(a) is
2 amended by striking “section 55(d)(3)” and insert-
3 ing “section 55(d)(2)”.

4 (23) Subparagraph (B) of section 6015(d)(2) is
5 amended by striking “or 55”.

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

9 (d) TRANSITIONAL RULE RELATING TO MINIMUM
10 TAX CREDIT.—

11 (1) IN GENERAL.—The pre-effective date min-
12 imum tax credit of a taxpayer other than a corpora-
13 tion shall not be allowed under section 53 of the In-
14 ternal Revenue Code of 1986 but shall be allowed
15 under this subsection.

16 (2) PRE-EFFECTIVE DATE MINIMUM TAX CRED-
17 IT.—For purposes of this subsection, the term “pre-
18 effective date minimum tax credit” means the
19 amount determined under section 53(b) of such
20 Code for the first taxable year beginning after De-
21 cember 31, 2000.

22 (3) AMOUNT OF CREDIT.—

23 (A) IN GENERAL.—The pre-effective date
24 minimum tax credit of a taxpayer other than a
25 corporation shall be allowed ratably over the pe-

1 riod of 10 taxable years beginning with the first
2 taxable year beginning after December 31,
3 2000.

4 (B) LIMITATION.—The credit allowable by
5 this subsection for any taxable year shall not
6 exceed the regular tax liability of the taxpayer
7 for such taxable year reduced by the sum of the
8 credits allowable under subparts A, B, D, E,
9 and F of part IV of subchapter A of chapter 1
10 of the Internal Revenue Code of 1986.

11 (C) CARRYFORWARD.—If the credit allow-
12 able by this subsection exceeds the limitation
13 imposed by subparagraph (B), such excess shall
14 be carried to the succeeding taxable year and
15 added to the credit allowable under this sub-
16 section for such succeeding taxable year.

17 (4) ACCELERATION OF CREDIT WHERE PRE-
18 VIOUSLY TAXED INCOME.—

19 (A) IN GENERAL.—The credit allowed
20 under this subsection for any taxable year shall
21 not be less than so much of the limitation de-
22 scribed in paragraph (3)(B) for the taxable year
23 as is attributable to previously taxed incentive
24 stock option gain. Proper adjustments shall be
25 made in the amount allowed under this sub-

1 section for subsequent taxable years to take
2 into account any increased credit allowed by
3 reason of this paragraph.

4 (B) INCENTIVE STOCK OPTION GAIN.—For
5 purposes of subparagraph (A), the term “pre-
6 viously taxed incentive stock option gain”
7 means the amount of gain recognized during
8 the taxable year on account of the disposition of
9 stock acquired by exercising an incentive stock
10 option (as defined in section 422 of such Code)
11 to the extent such gain does not exceed the
12 amount of gain previously taken into account
13 by reason of section 56(b)(3) of such Code (as
14 in effect on the day before the date of the en-
15 actment of this Act) with respect to such op-
16 tion.

17 (5) DEFINITIONS.—Terms used in this sub-
18 section which are also used in section 53 of such
19 Code shall have the respective meanings given to
20 such terms by such section 53.

1 **TITLE II—SIMPLIFICATION OF**
2 **CAPITAL GAINS TAX**

3 **SEC. 201. CAPITAL GAINS DEDUCTION.**

4 (a) IN GENERAL.—Part I of subchapter P of chapter
5 1 (relating to treatment of capital gains) is amended by
6 adding at the end the following new section:

7 **“SEC. 1203. CAPITAL GAINS DEDUCTION.**

8 “If for any taxable year a taxpayer other than a cor-
9 poration has a net capital gain, 50 percent of such gain
10 shall be a deduction from gross income.”.

11 (b) DEDUCTION ALLOWABLE WHETHER OR NOT
12 TAXPAYER ITEMIZES OTHER DEDUCTIONS.—

13 (1) Subsection (b) of section 63 is amended by
14 striking “and” at the end of paragraph (1), by strik-
15 ing the period at the end of paragraph (2) and in-
16 serting “, and”, and by adding at the end the fol-
17 lowing new paragraph:

18 “(3) the deduction allowed by section 1203.”.

19 (2) Subsection (d) of section 63 is amended by
20 striking “and” at the end of paragraph (1), by strik-
21 ing the period at the end of paragraph (2) and in-
22 serting “, and”, and by adding at the end the fol-
23 lowing new paragraph:

24 “(3) the deduction allowed by section 1203.”.

1 (c) REPEAL OF TAX PREFERENCE FOR EXCLUSION
2 ON SMALL BUSINESS STOCK.—Subsection (a) of section
3 57 is amended by striking paragraph (7).

4 (d) TECHNICAL AND CONFORMING AMENDMENTS.—

5 (1) Section 1 is amended by striking subsection
6 (h).

7 (2) Subparagraph (E) of section 163(d)(4) is
8 amended to read as follows:

9 “(E) COORDINATION WITH CAPITAL GAINS
10 DEDUCTION.—The net capital gain taken into
11 account under section 1203 for any taxable
12 year shall be reduced (but not below zero) by
13 the amount which the taxpayer takes into ac-
14 count as investment income under subpara-
15 graph (B)(iii) for such year.”.

16 (3) Paragraph (1) of section 170(e) is amended
17 by striking “the amount of gain” in the material fol-
18 lowing subparagraph (B)(ii) and inserting “50 per-
19 cent (100 percent in the case of a corporation) of
20 the amount of gain”.

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

23 “(B) the exclusion under section 1202 and
24 the deduction under section 1203 shall not be
25 allowed.”.

1 (5) The last sentence of section 453A(c)(3) is
2 amended by striking all that follows “long-term cap-
3 ital gain,” and inserting “the maximum rate on net
4 capital gain under section 1201 or the deduction
5 under section 1203 (whichever is appropriate) shall
6 be taken into account.”.

7 (6)(A) Section 641(c)(2)(B), as redesignated by
8 section 101(b)(14), is amended by striking “Except
9 as provided in section 1(h), the” and inserting
10 “The”.

11 (B) Section 641(c)(2)(B), as redesignated by
12 section 101(b)(14), is amended by inserting after
13 clause (iii) the following new clause:

14 “(iv) The deduction under section
15 1203.”.

16 (7) Paragraph (4) of section 642(c) is amended
17 to read as follows:

18 “(4) ADJUSTMENTS.—To the extent that the
19 amount otherwise allowable as a deduction under
20 this subsection consists of gain from the sale or ex-
21 change of capital assets held for more than 1 year,
22 proper adjustment shall be made for any exclusion
23 allowable under section 1202 and any deduction al-
24 lowable under section 1203 to the estate or trust. In
25 the case of a trust, the deduction allowed by this

1 subsection shall be subject to section 681 (relating
2 to unrelated business income).”.

3 (8) Section 642 is amended by adding at the
4 end the following new subsection:

5 “(j) CAPITAL GAINS DEDUCTION.—The deduction
6 under section 1203 to an estate or trust shall be computed
7 by excluding the portion (if any) of the gains for the tax-
8 able year which is includible by the income beneficiaries
9 under sections 652 and 662 (relating to inclusions of
10 amounts in gross income of beneficiaries of trusts) as gain
11 derived from the sale or exchange of capital assets.”.

12 (9) The last sentence of section 643(a)(3) is
13 amended to read as follows: “The exclusion under
14 section 1202 and the deduction under section 1203
15 shall not be taken into account.”.

16 (10) Subparagraph (C) of section 643(a)(6) is
17 amended by inserting “(i)” before “there shall” and
18 by inserting before the period “, and (ii) the deduc-
19 tion under section 1203 (relating to capital gains de-
20 duction) shall not be taken into account”.

21 (11) Paragraph (4) of section 691(c) is amend-
22 ed by striking “1(h),” and by inserting “1203,”
23 after “1202,”.

1 (12) The second sentence of paragraph (2) of
2 section 871(a) is amended by striking “section
3 1202” and inserting “sections 1202 and 1203”.

4 (13)(A) Paragraph (2) of section 904(b) is
5 amended by striking subparagraphs (A) and (C), by
6 redesignating subparagraph (B) as subparagraph
7 (A), and by inserting after subparagraph (A) (as so
8 redesignated) the following new subparagraph:

9 “(B) OTHER TAXPAYERS.—In the case of
10 a taxpayer other than a corporation, taxable in-
11 come from sources outside the United States
12 shall include gain from the sale or exchange of
13 capital assets only to the extent of foreign
14 source capital gain net income.”.

15 (B) Subparagraph (A) of section 904(b)(2), as
16 so redesignated, is amended—

17 (i) by striking all that precedes clause (i)
18 and inserting the following:

19 “(A) CORPORATIONS.—In the case of a
20 corporation—”, and

21 (ii) by striking in clause (i) “in lieu of ap-
22 plying subparagraph (A),”.

23 (C) Paragraph (3) of section 904(b) is amended
24 by striking subparagraphs (D) and (E) and inserting
25 the following new subparagraph:

1 “(D) RATE DIFFERENTIAL PORTION.—The
2 rate differential portion of foreign source net
3 capital gain, net capital gain, or the excess of
4 net capital gain from sources within the United
5 States over net capital gain, as the case may
6 be, is the same proportion of such amount as
7 the excess of the highest rate of tax specified in
8 section 11(b) over the alternative rate of tax
9 under section 1201(a) bears to the highest rate
10 of tax specified in section 11(b).”.

11 (14) Paragraph (1) of section 1402(i) is amend-
12 ed by inserting “, and the deduction provided by sec-
13 tion 1203 shall not apply” before the period at the
14 end thereof.

15 (15) Paragraph (1) of section 1445(e) is
16 amended by striking “20 percent” and inserting
17 “19.8 percent”.

18 (16)(A) The second sentence of section
19 7518(g)(6)(A) is amended—

20 (i) by striking “during a taxable year to
21 which section 1(h) or 1201(a) applies”, and

22 (ii) by striking “20 percent” and inserting
23 “19.8 percent”.

1 (B) The second sentence of section
2 607(h)(6)(A) of the Merchant Marine Act, 1936, is
3 amended—

4 (i) by striking “during a taxable year to
5 which section 1(h) or 1201(a) of such Code ap-
6 plies”, and

7 (ii) by striking “20 percent” and inserting
8 “19.8 percent”.

9 (e) CLERICAL AMENDMENT.—The table of sections
10 for part I of subchapter P of chapter 1 is amended by
11 adding at the end the following new item:

 “Sec. 1203. Capital gains deduction.”.

12 (f) EFFECTIVE DATES.—

13 (1) IN GENERAL.—Except as otherwise pro-
14 vided in this subsection, the amendments made by
15 this section shall apply to taxable years beginning
16 after December 31, 2000.

17 (2) WITHHOLDING.—The amendments made by
18 subsection (e)(14) shall apply only to amounts paid
19 after December 31, 2000.

20 (3) REPEAL OF ELECTION.—Section 311 of the
21 Taxpayer Relief Act of 1997 is amended by striking
22 subsection (e).

23 (4) COORDINATION WITH PRIOR TRANSITION
24 RULE.—Any amount treated as long-term capital
25 gain by reason of paragraph (3) of section 1122(h)

1 of the Tax Reform Act of 1986 shall not be taken
2 into account for purposes of applying section 1203
3 of the Internal Revenue Code of 1986 (as added by
4 this section).

5 **SEC. 202. INDEXING OF EXCLUSION FOR CAPITAL GAINS ON**
6 **SALE OF PRINCIPAL RESIDENCE.**

7 (a) IN GENERAL.—Section 121(b)(1) (relating to
8 limitations) is amended by striking “\$250,000” and in-
9 serting “applicable amount”.

10 (b) APPLICABLE AMOUNT.—Section 121(b) is
11 amended by adding at the end the following new para-
12 graph:

13 “(4) APPLICABLE AMOUNT.—

14 “(A) IN GENERAL.—For purposes of this
15 section, the term ‘applicable amount’ means
16 \$250,000.

17 “(B) INFLATION ADJUSTMENT.—

18 “(i) IN GENERAL.—In the case of a
19 taxable year beginning in any calendar
20 year after 2000, the \$250,000 amount
21 under subparagraph (a) shall be increased
22 by an amount equal to—

23 “(I) such dollar amount, multi-
24 plied by

1 “(II) the cost-of-living adjust-
2 ment determined under section 1(f)(3)
3 for the calendar year in which the tax-
4 able year begins, determined by sub-
5 stituting ‘calendar year 1999’ for ‘cal-
6 endar year 1992’ in subparagraph (B)
7 thereof.

8 “(ii) ROUNDING.—If any amount as
9 adjusted under clause (i) is not a multiple
10 of \$1,000, such amount shall be rounded
11 to the next lowest multiple of \$1,000.”.

12 (b) CONFORMING AMENDMENTS.—Section
13 121(b)(2)(A) (relating to \$500,000 limitation for certain
14 joint returns) is amended—

15 (1) by striking “substituting” and all that fol-
16 lows through “if” and inserting “substituting an
17 amount equal to 200 percent of the applicable
18 amount in effect under such paragraph for the tax-
19 able year for ‘the applicable amount’ if”, and

20 (2) by striking “\$500,000” in the heading and
21 inserting “INCREASED”.

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

1 **TITLE III—SIMPLIFICATION AND**
 2 **EXPANSION OF THE EARNED**
 3 **INCOME TAX CREDIT**

4 **SEC. 301. MODIFICATION OF DEFINITION OF EARNED IN-**
 5 **COME.**

6 (a) IN GENERAL.—Section 32(c)(2)(A)(i) (defining
 7 earned income) is amended by striking “tips, and other
 8 employee compensation” and inserting “and tips, and
 9 other employee compensation includible in gross income
 10 for the taxable year”.

11 (b) EFFECTIVE DATE.—The amendment made by
 12 subsection (a) shall apply to amounts received in taxable
 13 years beginning after December 31, 2000.

14 **SEC. 302. SIMPLIFICATION OF DEFINITION OF CHILD DE-**
 15 **PENDENT.**

16 (a) REMOVAL OF SUPPORT TEST FOR CERTAIN INDI-
 17 VIDUALS.—Section 152(a) (relating to definition of de-
 18 pendent) is amended to read as follows:

19 “(a) GENERAL DEFINITION.—For purposes of this
 20 subtitle—

21 “(1) DEPENDENT.—The term ‘dependent’
 22 means—

23 “(A) any individual described in paragraph
 24 (2) over half of whose support, for the calendar
 25 year in which the taxable year of the taxpayer

1 begins, was received from the taxpayer (or is
2 treated under subsection (c) as received from
3 the taxpayer), and

4 “(B) any individual described in subsection
5 (d).

6 “(2) INDIVIDUALS.—An individual is described
7 in this paragraph if such individual is—

8 “(A) a brother, sister, stepbrother, or step-
9 sister of the taxpayer,

10 “(B) the father or mother of the taxpayer,
11 or an ancestor of either,

12 “(C) a stepfather or stepmother of the tax-
13 payer,

14 “(D) a son or daughter of a brother or sis-
15 ter of the taxpayer,

16 “(E) a brother or sister of the father or
17 mother of the taxpayer,

18 “(F) a son-in-law, daughter-in-law, father-
19 in-law, mother-in-law, brother-in-law, or sister-
20 in-law of the taxpayer, or

21 “(G) an individual (other than an indi-
22 vidual who at any time during the taxable year
23 was the spouse, determined without regard to
24 section 7703, of the taxpayer) who, for the tax-
25 able year of the taxpayer, has as their principal

1 place of abode the home of the taxpayer and is
2 a member of the taxpayer's household.”.

3 (b) OTHER MODIFICATIONS.—Section 152(d) is
4 amended to read as follows:

5 “(d) SUBSECTION (d) DEPENDENTS.—

6 “(1) IN GENERAL.—An individual is described
7 in this subsection for the taxable year if such
8 individual—

9 “(A) bears a relationship to the taxpayer
10 described in paragraph (2), and

11 “(B) except in the case of an eligible foster
12 child or as provided in subsection (e), has the
13 same principal place of abode as the taxpayer
14 for more than one-half of such taxable year.

15 “(2) RELATIONSHIP TEST.—An individual bears
16 a relationship to the taxpayer described in this para-
17 graph if such individual is—

18 “(A) a son or daughter of the taxpayer, or
19 a descendant of either, or

20 “(B) a stepson or stepdaughter of the tax-
21 payer.

22 “(3) SPECIAL RULES.—

23 “(A) 2 OR MORE CLAIMING DEPENDENT.—
24 Except as provided in subparagraph (B), if an
25 individual may be claimed as a dependent by 2

1 or more taxpayers (but for this subparagraph)
2 for a taxable year beginning in the same cal-
3 endar year, only the taxpayer with the highest
4 modified adjusted gross income for such taxable
5 year shall be allowed the deduction with respect
6 to such individual.

7 “(B) RELEASE OF CLAIM TO EXEMP-
8 TION.—Subparagraph (A) shall not apply with
9 respect to an individual if—

10 “(i) the taxpayer with the highest
11 modified adjusted gross income under sub-
12 paragraph (A), for any calendar year signs
13 a written declaration (in such manner and
14 form as the Secretary may by regulations
15 prescribe) that such taxpayer will not claim
16 such individual as a dependent for any tax-
17 able year beginning in such calendar year,
18 and

19 “(ii) such other taxpayer attaches
20 such written declaration to such taxpayer’s
21 return for the taxable year beginning dur-
22 ing such calendar year.”.

23 (c) RULES RELATING TO FOSTER CHILD.—Section
24 152(b)(2) (relating to rules relating to general definition)
25 is amended by striking “a foster child” and all that follows

1 through “individual)” and inserting “an eligible foster
 2 child (as defined in section 32(c)(3)(B)(iii)) of an indi-
 3 vidual”.

4 (d) EXEMPTION FROM GROSS INCOME TEST.—Sec-
 5 tion 151(c)(3) (relating to definition of child) is amended
 6 by striking “or stepdaughter” and inserting “step-
 7 daughter, or a descendant of such individual”.

8 (e) WAIVER OF DEDUCTION FOR DIVORCED PAR-
 9 ENTS.—

10 (1) IN GENERAL.—So much of section 152(e)
 11 as precedes paragraph (4) (relating to support test
 12 in case of child of divorced parents, etc.) is amended
 13 to read as follows:

14 “(e) SPECIAL RULES FOR CHILD OF DIVORCED PAR-
 15 ENTS.—

16 “(1) RELEASE OF CLAIM TO EXEMPTION.—In
 17 the case of a child (as defined in section 151(c)(3))
 18 of parents—

19 “(A) who are divorced or legally separated
 20 under a decree of divorce or separate mainte-
 21 nance,

22 “(B) who are separated under a written
 23 separation agreement, or

24 “(C) who live apart at all times during the
 25 last 6 months of the calendar year,

1 the custodial parent who is entitled to the deduction
2 under section 151 for a taxable year with respect to
3 such child may release such deduction to such other
4 parent.

5 “(2) PROCEDURE.—Such other parent may
6 claim a child described in paragraph (1) as a de-
7 pendent for the taxable year if—

8 “(A) the custodial parent signs a written
9 declaration (in such manner and form as the
10 Secretary may by regulations prescribe) that
11 such parent will not claim such child as a de-
12 pendent for any taxable year beginning in such
13 calendar year, and

14 “(B) such other parent attaches such writ-
15 ten declaration to such taxpayer’s return for
16 the taxable year beginning during such calendar
17 year.

18 “(C) CUSTODIAL PARENT.—For purposes
19 of this subsection, the term ‘custodial parent’
20 means, with regard to an individual, a parent
21 who has custody of such individual for a greater
22 portion of the calendar year than such other
23 parent.”.

24 (2) PRE-1985 INSTRUMENTS.—Section 152(e) is
25 amended by striking paragraph (5), by redesignating

1 paragraphs (4) and (6) as paragraphs (3) and (4),
2 respectively, and by striking “A child” and all that
3 follows through “noncustodial parent” in paragraph
4 (3)(A), as so redesignated, and inserting “A non-
5 custodial parent described in paragraph (1) shall be
6 entitled to the deduction under section 151 for a
7 taxable year with respect to a child if”.

8 (3) NONCUSTODIAL PARENT.—Section
9 152(e)(3)(A), as redesignated in paragraph (2), is
10 amended by adding at the end the following new
11 sentence: “For purposes of this subsection, the term
12 ‘noncustodial parent’ means the parent who is not
13 the custodial parent.”.

14 (f) CONFORMING AMENDMENTS.—

15 (1) Section 1(g)(5)(A) is amended by inserting
16 “as in effect on the day before the date of the enact-
17 ment of the Tax Ease and Modernization Act-Part
18 I” after “152(e)”.

19 (2) Section 2(b)(1)(A)(i) is amended by striking
20 “paragraph (2) or (4) of”.

21 (3) Section 2(b)(3)(B)(i) is amended by striking
22 “paragraph (9)” and inserting “paragraph (2)(G)”.

23 (4) Section 21(e)(5)(A) is amended by striking
24 “paragraph (2) or (4) of”.

1 (5) Section 21(e)(5) is amended in the matter
2 following subclause (B) by inserting “as in effect on
3 the day before the date of the enactment of the Tax
4 Ease and Modernization Act-Part I” after
5 “152(e)(1)”.

6 (6) Section 32(c)(3)(B)(ii) is amended by strik-
7 ing “paragraph (2) or (4) of”.

8 (7) Section 51(i)(1)(C) is amended by striking
9 “152(a)(9)” and inserting “152(a)(2)(G)”.

10 (8) Section 152(b) is amended by striking
11 “specified in subsection (a)” and inserting “specified
12 in subsection (a)(2) or (d)(2)”.

13 (9) Section 152(e) is amended by striking “(a)”
14 and inserting “(a)(1)”.

15 (10) Section 7703(b)(1) is amended by striking
16 “paragraph (2) or (4) of”.

17 (11) The following provisions are each amended
18 by striking “paragraphs (1) through (8) of section
19 152(a)” and inserting “subparagraphs (A) through
20 (F) of subsection (a)(2) or subsection (d)(2) of sec-
21 tion 152”:

22 (A) Section 170(g)(3).

23 (B) Subparagraphs (A) and (B) of section
24 51(i)(1).

1 (C) The second sentence of section
2 213(d)(11).

3 (D) Section 529(e)(2)(B).

4 (E) Section 7702B(f)(2)(C)(iii).

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

8 **SEC. 303. CREDIT ALLOWED FOR TAXPAYERS WHO RESIDE**
9 **WITH OTHER ELIGIBLE INDIVIDUALS.**

10 (a) IN GENERAL.—Section 32(c)(3)(A) (relating to
11 definition of qualifying child) is amended by striking
12 “and” at the end of clause (ii), by striking the period at
13 the end of clause (iii) and inserting “, and”, and by adding
14 at the end the following new clause:

15 “(iv) in the case of an individual de-
16 scribed in subclause (I) or (II) of subpara-
17 graph (B)(i), with respect to whom the
18 taxpayer meets the identification require-
19 ments of subparagraph (D).”.

20 (b) CONFORMING AMENDMENT.—Section
21 32(c)(1)(C) (relating to 2 or more eligible individuals) is
22 amended by inserting “and the requirement of paragraph
23 (3)(A)(iv)” after “subparagraph (B)”.

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

4 **SEC. 304. EXPANSION OF CREDIT.**

5 (a) INCREASED CREDIT PERCENTAGE FOR 3 OR
 6 MORE QUALIFYING CHILDREN.—The table in section
 7 32(b)(1)(A) is amended—

8 (1) in the second item, by striking “or more”,
 9 and

10 (2) by inserting after the second item the fol-
 11 lowing new item:

“3 or more qualifying children	43	21.06”
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12 (b) INCREASE IN PHASEOUT AMOUNTS.—

13 (1) IN GENERAL.—The table in section 32(b)(2)
 14 is amended to read as follows:

“In the case of an eligible indi- vidual with:	The earned income amount is:	The phaseout amount is:
1 qualifying child	\$6,920	\$15,000
2 or more qualifying children ..	\$9,720	\$15,000
No qualifying children	\$4,610	\$5,770.”.

15 (2) REDUCTION IN MARRIAGE PENALTY.—Para-
 16 graph (2) of section 32(b) is amended—

17 (A) by striking “AMOUNTS.—The earned”
 18 and inserting “AMOUNTS.—

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

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

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

7 (3) INFLATION ADJUSTMENT.—Section 32(j)(1)
8 (relating to inflation adjustments) is amended—

9 (A) by striking “subsections (b)(2)” and
10 inserting “subsections (b)(2)(A)”, and

11 (B) by striking “calendar year 1995” in
12 subparagraph (A) and inserting “calendar year
13 1999”.

14 (4) ROUNDING.—Section 32(j)(2)(A) (relating
15 to rounding) is amended by striking “subsection
16 (b)(2)” and inserting “subsection (b)(2)(A) (after
17 being increased under subparagraph (B) thereof)”.

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

1 **TITLE IV—LIMITATIONS ON**
2 **ITEMIZED DEDUCTIONS AND**
3 **PERSONAL EXEMPTIONS**

4 **SEC. 401. REPEAL OF OVERALL LIMITATION ON ITEMIZED**
5 **DEDUCTIONS.**

6 (a) IN GENERAL.—Section 68 (relating to overall
7 limitation on itemized deductions) is hereby repealed.

8 (b) CONFORMING AMENDMENTS.—

9 (1) Subparagraph (A) of section 1(f)(6) is
10 amended by striking “section 68(b)(2)”.

11 (2) Subparagraph (B) of section 773(a)(3) is
12 amended by striking clause (i) and by redesignating
13 clauses (ii), (iii), and (iv), as clauses (i), (ii), and
14 (iii), respectively.

15 (3) The table of sections for subchapter B of
16 chapter 1 is amended by striking the item relating
17 to section 68.

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

21 **SEC. 402. REPEAL OF PHASEOUT OF PERSONAL EXEMP-**
22 **TIONS.**

23 (a) IN GENERAL.—Subsection (d) of section 151 (re-
24 lating to allowance of deductions for personal exemptions)

1 is amended by striking paragraph (3) and by redesignating paragraph (4) as paragraph (3).

3 (b) CONFORMING AMENDMENTS.—

4 (1) Paragraph (6) of section 1(f) is amended—

5 (A) by striking “section 151(d)(4)” in sub-
6 paragraph (A) and inserting “section
7 151(d)(3)”, and

8 (B) by striking “section 151(d)(4)(A)” in
9 subparagraph (B) and inserting “section
10 151(d)(3)”.

11 (2) Paragraph (3) of section 151(d), as redesignated by subsection (a), is amended to read as follows:

14 “(3) INFLATION ADJUSTMENT.—In the case of
15 any taxable year beginning in a calendar year after
16 1989, the dollar amount contained in paragraph (1)
17 shall be increased by an amount equal to—

18 “(A) such dollar amount, multiplied by

19 “(B) the cost-of-living adjustment determined under section 1(f)(3) for the calendar
20 year in which the taxable year begins, by substituting ‘calendar year 1988’ for ‘calendar year
21 1992’ in subparagraph (B) thereof.”.

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

4 **TITLE V—BUSINESS TAX**
 5 **SIMPLIFICATION PROVISIONS**

6 **SEC. 501. SINGLE RATE OF INTEREST ON CORPORATE AND**
 7 **INDIVIDUAL OVERPAYMENTS AND UNDER-**
 8 **PAYMENTS.**

9 (a) OVERPAYMENT RATE.—Section 6621(a)(1) (re-
 10 lating to overpayment rate) is amended—

11 (1) by striking “(2 percentage points in the
 12 case of a corporation)” in subparagraph (B), and

13 (2) by striking the second sentence.

14 (b) UNDERPAYMENT RATE FOR LARGE CORPORATE
 15 UNDERPAYMENTS.—Section 6621 (relating to determina-
 16 tion of rate of interest) is amended by striking subsection
 17 (c) and redesignating subsection (d) as subsection (c).

18 (c) CONFORMING AMENDMENT.—Section 6601(f) is
 19 amended by striking “6621(d)” and inserting “6621(c)”.

20 (d) EFFECTIVE DATE.—The amendments made by
 21 this section shall apply for purposes of determining inter-
 22 est for periods after December 31, 2000.

23 **SEC. 502. CLARIFICATION OF INTEREST NETTING.**

24 (a) IN GENERAL.—Section 6621(c) (relating to elimi-
 25 nation of interest on overlapping periods of tax overpay-

1 ments and underpayments), as redesignated by section
2 501(b), is amended to read as follows:

3 “(c) **ELIMINATION OF INTEREST ON OVERLAPPING**
4 **PERIODS OF TAX OVERPAYMENTS AND UNDERPAY-**
5 **MENTS.**—To the extent that, for any period, there exist
6 equivalent overpayments and underpayments by the same
7 taxpayer of the tax imposed under this title, the net rate
8 of interest under this section on such amounts shall be
9 zero for such period, whether or not such overpayments
10 or underpayments are currently outstanding.”.

11 (b) **EFFECTIVE DATE.**—The amendment made by
12 subsection (a) shall take effect as if included in section
13 3301 of the Internal Revenue Service Restructuring and
14 Reform Act of 1998.

15 **SEC. 503. EXPENSING ALLOWED FOR CERTAIN COMPUTER**
16 **SOFTWARE.**

17 (a) **IN GENERAL.**—Part VI of subchapter B of chap-
18 ter 1 is amended by adding at the end the following new
19 section:

20 **“SEC. 199. EXPENSING OF COMPUTER SOFTWARE.**

21 “(a) **TREATMENT AS EXPENSES.**—

22 “(1) **IN GENERAL.**—A taxpayer may elect to
23 treat any computer software expenditure which is
24 paid or incurred by the taxpayer as an expense
25 which is not chargeable to capital account. Any ex-

1 penditure which is so treated shall be allowed as a
2 deduction for the taxable year in which it is paid or
3 incurred.

4 “(2) ELECTION.—An election under paragraph
5 (1) shall be made at such time and in such manner
6 as the Secretary prescribes by regulation.

7 “(b) COMPUTER SOFTWARE EXPENDITURE.—For
8 purposes of this section, the term ‘computer software ex-
9 penditure’ means an expenditure—

10 “(1) for computer software (within the meaning
11 of section 197(e)(3),

12 “(2) for which depreciation would otherwise be
13 allowable under section 167(f), and

14 “(3) which is not deductible under any provi-
15 sion of this title other than section 167(f) or 197.

16 “(c) LIMITATION.—The deduction allowed under sub-
17 section (a) for any taxable year shall not exceed \$20,000.

18 “(d) NO OTHER DEPRECIATION OR AMORTIZATION
19 DEDUCTION ALLOWED.—Except as provided in subsection
20 (a), no depreciation or amortization deduction shall be al-
21 lowable with respect to any computer software.

22 “(e) INFLATION ADJUSTMENT.—

23 “(1) IN GENERAL.—In the case of a taxable
24 year beginning after 2001, the \$20,000 amount

1 under subsection (c) shall be increased by an
2 amount equal to—

3 “(A) such dollar amount, multiplied by

4 “(B) the cost-of-living adjustment deter-
5 mined under section 1(f)(3) for the calendar
6 year in which the taxable year begins, deter-
7 mined by substituting ‘calendar year 2000’ for
8 ‘calendar year 1992’ in subparagraph (B)
9 thereof.

10 “(2) ROUNDING.—If any amount as adjusted
11 under paragraph (1) is not a multiple of \$100, such
12 amount shall be rounded to the next lowest multiple
13 of \$100.”.

14 (b) CONFORMING AMENDMENT.—The table of sec-
15 tions for part IV of subchapter B of chapter 1 is amended
16 by adding at the end the following new item:

“Sec. 199. Expensing of computer software.”.

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

1 **TITLE VI—MISCELLANEOUS**
2 **SIMPLIFICATION PROVISIONS**
3 **Subtitle A—Penalty and Interest**
4 **Provisions**

5 **SEC. 601. FAILURE BY INDIVIDUAL TO PAY ESTIMATED TAX**
6 **PENALTY CONVERTED TO INTEREST CHARGE**
7 **ON ACCUMULATED UNPAID BALANCE.**

8 (a) PENALTY MOVED TO INTEREST CHAPTER OF
9 CODE.—The Internal Revenue Code of 1986 is amended
10 by redesignating section 6654 as section 6641 and by
11 moving section 6641 (as so redesignated) from part I of
12 subchapter A of chapter 68 to the end of subchapter E
13 of chapter 67 (as added by subsection (e)(1) of this sec-
14 tion).

15 (b) PENALTY CONVERTED TO INTEREST CHARGE.—
16 The heading and subsections (a) and (b) of section 6641
17 (as so redesignated) are amended to read as follows:

18 **“SEC. 6641. INTEREST ON FAILURE BY INDIVIDUAL TO PAY**
19 **ESTIMATED INCOME TAX.**

20 “(a) IN GENERAL.—Interest shall be paid on any un-
21 derpayment of estimated tax by an individual for a taxable
22 year for each day of such underpayment. The amount of
23 such interest for any day shall be the product of the un-
24 derpayment rate established under subsection (b)(2) mul-
25 tiplied by the amount of the underpayment.

1 “(b) AMOUNT OF UNDERPAYMENT; INTEREST
2 RATE.—For purposes of subsection (a)—

3 “(1) AMOUNT.—The amount of the under-
4 payment on any day shall be the excess of—

5 “(A) the sum of the required installments
6 for the taxable year the due dates for which are
7 on or before such day, over

8 “(B) the sum of the amounts (if any) of
9 estimated tax payments made on or before such
10 day on such required installments.

11 “(2) DETERMINATION OF INTEREST RATE.—

12 “(A) IN GENERAL.—The underpayment
13 rate with respect to any day in an installment
14 underpayment period shall be the under-
15 payment rate established under section 6621
16 for the first day of the calendar quarter in
17 which such installment underpayment period
18 begins.

19 “(B) INSTALLMENT UNDERPAYMENT PE-
20 RIOD.—For purposes of subparagraph (A), the
21 term ‘installment underpayment period’ means
22 the period beginning on the day after the due
23 date for a required installment and ending on
24 the due date for the subsequent required in-
25 stallment (or in the case of the 4th required

1 installment, the 15th day of the 4th month fol-
 2 lowing the close of a taxable year).

3 “(C) DAILY RATE.—The rate determined
 4 under subparagraph (A) shall be applied on a
 5 daily basis and shall be based on the assump-
 6 tion of 365 days in a calendar year.

7 “(3) TERMINATION OF ESTIMATED TAX INTER-
 8 EST.—No day after the end of the installment un-
 9 derpayment period for the 4th required installment
 10 specified in paragraph (2)(B) for a taxable year
 11 shall be treated as a day of underpayment with re-
 12 spect to such taxable year.”.

13 (c) INCREASE IN SAFE HARBOR WHERE TAX IS
 14 SMALL.—

15 (1) IN GENERAL.—Clause (i) of section
 16 6641(d)(1)(B) (as so redesignated) is amended to
 17 read as follows:

18 “(i) the lesser of—

19 “(I) 90 percent of the tax shown
 20 on the return for the taxable year (or,
 21 if no return is filed, 90 percent of the
 22 tax for such year), or

23 “(II) the tax shown on the return
 24 for the taxable year (or, if no return

1 is filed, the tax for such year) reduced
2 (but not below zero) by \$2,000, or”.

3 (2) CONFORMING AMENDMENT.—Subsection (e)
4 of section 6641 (as so redesignated) is amended by
5 striking paragraph (1) and redesignating paragraphs
6 (2) and (3) as paragraphs (1) and (2), respectively.

7 (d) CONFORMING AMENDMENTS.—

8 (1) Paragraphs (1) and (2) of subsection (e)
9 (as redesignated by subsection (c)(2)) and sub-
10 section (h) of section 6641 (as so designated) are
11 each amended by striking “addition to tax” each
12 place it occurs and inserting “interest”.

13 (2) Section 167(g)(5)(D) is amended by strik-
14 ing “6654” and inserting “6641”.

15 (3) Section 460(b)(1) is amended by striking
16 “6654” and inserting “6641”.

17 (4) Section 3510(b) is amended—

18 (A) by striking “section 6654” in para-
19 graph (1) and inserting “section 6641”,

20 (B) by amending paragraph (2)(B) to read
21 as follows:

22 “(B) no interest would be required to be
23 paid (but for this section) under 6641 for such
24 taxable year by reason of the \$2,000 amount
25 specified in section 6641(d)(1)(B)(i)(II).”,

1 (C) by striking “section 6654(d)(2)” in
2 paragraph (3) and inserting “section
3 6641(d)(2)”, and

4 (D) by striking paragraph (4).

5 (5) Section 6201(b)(1) is amended by striking
6 “6654” and inserting “6641”.

7 (6) Section 6601(h) is amended by striking
8 “6654” and inserting “6641”.

9 (7) Section 6621(b)(2)(B) is amended by strik-
10 ing “addition to tax under section 6654” and insert-
11 ing “interest required to be paid under section
12 6641”.

13 (8) Section 6622(b) is amended—

14 (A) by striking “PENALTY FOR” in the
15 heading, and

16 (B) by striking “addition to tax under sec-
17 tion 6654 or 6655” and inserting “interest re-
18 quired to be paid under section 6641 or addi-
19 tion to tax under section 6655”.

20 (9) Section 6658(a) is amended—

21 (A) by striking “6654, or 6655” and in-
22 serting “or 6655, and no interest shall be re-
23 quired to be paid under section 6641,” and

24 (B) by inserting “or paying interest” after
25 “the tax” in paragraph (2)(B)(ii).

1 (10) Section 6665(b) is amended—

2 (A) in the matter preceding paragraph (1)
3 by striking “, 6654,” and

4 (B) in paragraph (2) by striking “6654
5 or”.

6 (11) Section 7203 is amended by striking “sec-
7 tion 6654 or 6655” and inserting “section 6655 or
8 interest required to be paid under section 6641”.

9 (e) CLERICAL AMENDMENTS.—

10 (1) Chapter 67 is amended by inserting after
11 subchapter D the following:

12 **“Subchapter E—Interest on Failure by**
13 **Individual to Pay Estimated Income Tax**

“Sec. 6641. Interest on failure by individual to pay estimated in-
come tax.”.

14 (2) The table of subchapters for chapter 67 is
15 amended by adding at the end the following new
16 items:

“Subchapter D. Notice requirements.

“Subchapter E. Interest on failure by individual to pay estimated
income tax.”.

17 (3) The table of sections for part I of sub-
18 chapter A of chapter 68 is amended by striking the
19 item relating to section 6654.

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

1 **SEC. 602. EXCLUSION FROM GROSS INCOME FOR INTEREST**
2 **ON OVERPAYMENTS OF INCOME TAX BY INDI-**
3 **VIDUALS.**

4 (a) IN GENERAL.—Part III of subchapter B of chap-
5 ter 1 (relating to items specifically excluded from gross
6 income) is amended by redesignating section 139 as sec-
7 tion 139A and by inserting after section 138 the following
8 new section:

9 **“SEC. 139. EXCLUSION FROM GROSS INCOME FOR INTER-**
10 **EST ON OVERPAYMENTS OF INCOME TAX BY**
11 **INDIVIDUALS.**

12 “(a) IN GENERAL.—In the case of an individual,
13 gross income shall not include interest paid under section
14 6611 on any overpayment of tax imposed by this subtitle.

15 “(b) EXCEPTION.—Subsection (a) shall not apply in
16 the case of a failure to claim items resulting in the over-
17 payment on the original return if the Secretary determines
18 that the principal purpose of such failure is to take advan-
19 tage of subsection (a).

20 “(c) SPECIAL RULE FOR DETERMINING MODIFIED
21 ADJUSTED GROSS INCOME.—For purposes of this title,
22 interest not included in gross income under subsection (a)
23 shall not be treated as interest which is exempt from tax
24 for purposes of sections 32(i)(2)(B) and 6012(d) or any
25 computation in which interest exempt from tax under this
26 title is added to adjusted gross income.”.

1 (b) CLERICAL AMENDMENT.—The table of sections
 2 for part III of subchapter B of chapter 1 is amended by
 3 striking the item relating to section 139 and inserting the
 4 following new items:

“Sec. 139. Exclusion from gross income for interest on overpay-
 ments of income tax by individuals.

“Sec. 139A. Cross references to other Acts.”.

5 (c) EFFECTIVE DATE.—The amendments made by
 6 this section shall apply to interest received in calendar
 7 years beginning after the date of the enactment of this
 8 Act.

9 **SEC. 603. REDUCTIONS OF PENALTY FOR FAILURE TO PAY**
 10 **TAX.**

11 (a) REDUCTIONS OF PENALTY FOR FAILURE TO PAY
 12 TAX.—

13 (1) REDUCTION OF PENALTY BY 50 PER-
 14 CENT.—

15 (A) IN GENERAL.—Paragraphs (2) and (3)
 16 of section 6651(a) are each amended by strik-
 17 ing “0.5” each place it appears and inserting
 18 “0.25”.

19 (B) CONFORMING AMENDMENT.—Para-
 20 graph (1) of section 6651(d) is amended by
 21 striking “by substituting ‘1 percent’ for ‘0.5
 22 percent’” and inserting “by substituting ‘0.5
 23 percent’ for ‘0.25 percent’”.

1 (2) REDUCTION OF PENALTY TO ZERO DURING
2 PERIOD OF INSTALLMENT AGREEMENT.—Subsection
3 (h) of section 6651 is amended by striking “by sub-
4 stituting ‘0.25’ for ‘0.5’” and inserting “by sub-
5 stituting ‘zero’ for ‘0.25’”.

6 (3) EFFECTIVE DATE.—The amendments made
7 by this subsection shall apply for purposes of deter-
8 mining additions to tax for months beginning after
9 December 31, 2000.

10 (b) PROHIBITION OF FEE FOR INSTALLMENT
11 AGREEMENTS USING AUTOMATED WITHDRAWALS.—

12 (1) IN GENERAL.—Section 6159 (relating to
13 agreements for payment of tax liability in install-
14 ments) is amended by redesignating subsection (e)
15 as subsection (f) and by inserting after subsection
16 (d) the following new subsection:

17 “(e) PROHIBITION OF FEE FOR INSTALLMENT
18 AGREEMENTS USING AUTOMATED WITHDRAWALS.—The
19 Secretary may not charge a taxpayer a fee for entering
20 into an agreement with the Secretary under this section
21 only for so long as payments under such agreement are
22 made by means of electronic transfer or by similar auto-
23 mated means.”.

24 (2) EFFECTIVE DATE.—The amendments made
25 by this subsection shall apply to installment agree-

1 ments entered into more than 30 days after the date
2 of the enactment of this Act.

3 **SEC. 604. ABATEMENT OF INTEREST.**

4 (a) ABATEMENT OF INTEREST IF GROSS INJUSTICE
5 WOULD OTHERWISE RESULT.—Section 6404 is amended
6 by redesignating subsection (i) as subsection (j) and by
7 inserting after subsection (h) the following new subsection:

8 “(i) ABATEMENT OF INTEREST IF GROSS INJUSTICE
9 WOULD OTHERWISE RESULT.—The Secretary may abate
10 the assessment of all or any part of interest on any
11 amount of tax imposed by this title for any period if the
12 Secretary determines that—

13 “(1) a gross injustice would otherwise result if
14 interest were to be charged, and

15 “(2) no significant aspect of the events giving
16 rise to the accrual of the interest can be attributed
17 to the taxpayer involved.”.

18 (b) ABATEMENT OF INTEREST FOR PERIODS AT-
19 TRIBUTABLE TO ANY UNREASONABLE IRS ERROR OR
20 DELAY.—Subparagraphs (A) and (B) of section
21 6404(e)(1) are each amended by striking “in performing
22 a ministerial or managerial act”.

23 (c) ABATEMENT OF INTEREST WITH RESPECT TO
24 ERRONEOUS REFUND CHECK WITHOUT REGARD TO SIZE
25 OF REFUND.—Paragraph (2) of section 6404(e) is amend-

1 ed by striking “unless—” and all that follows and insert-
2 ing “unless the taxpayer (or a related party) has in any
3 way caused such erroneous refund.”

4 (d) ABATEMENT OF INTEREST TO EXTENT INTER-
5 EST IS ATTRIBUTABLE TO TAXPAYER RELIANCE ON
6 WRITTEN STATEMENTS OF THE IRS.—Subsection (f) of
7 section 6404 is amended—

8 (1) in the subsection heading, by striking
9 “PENALTY OR ADDITION” and inserting “INTEREST,
10 PENALTY, OR ADDITION”, and

11 (2) in paragraph (1) and in subparagraph (B)
12 of paragraph (2), by striking “penalty or addition”
13 and inserting “interest, penalty, or addition”.

14 (e) EFFECTIVE DATE.—The amendments made by
15 this section shall apply with respect to interest accruing
16 on or after the date of the enactment of this Act.

17 **SEC. 605. ANNUAL REPORT ON ABATEMENT OF PENALTIES.**

18 Not later than 6 months after the close of each Fed-
19 eral fiscal year after fiscal year 1999, the Treasury In-
20 spector General for Tax Administration shall submit a re-
21 port to Congress on abatements of penalties under the In-
22 ternal Revenue Code of 1986 during such year, including
23 information on the reasons and criteria for such abate-
24 ments.

1 **Subtitle B—Procedural Provisions**

2 **SEC. 611. AUTHORITY TO CORRECT ERRORS BY THE IRS** 3 **WITH RESPECT TO TAXPAYER.**

4 (a) IN GENERAL.—The Secretary of the Treasury
5 shall promulgate regulations to allow the Secretary or the
6 Secretary’s delegate to provide appropriate relief to any
7 individual taxpayer if the Secretary or delegate determines
8 that—

9 (1) any action taken by an officer or employee
10 of the Internal Revenue Service (acting in an official
11 capacity) in connection with an assessment or collec-
12 tion of tax liability of a taxpayer was in error at the
13 time of such action,

14 (2) no significant aspect of such error can be
15 attributed to the taxpayer involved,

16 (3) with the consent of the taxpayer, such relief
17 would be in the best interests of the taxpayer and
18 the United States, and

19 (4) such action results in substantially less fa-
20 vorable treatment of the taxpayer with respect to the
21 assessment or collection.

22 (b) APPROPRIATE RELIEF.—For purposes of sub-
23 section (a), the term “appropriate relief” means any relief
24 intended to return the taxpayer to the same position in

1 which such taxpayer was prior to the action taken under
2 subsection (a)(1).

3 (c) RELIEF OTHERWISE AVAILABLE.—Subsection (a)
4 shall not apply to any action for which relief is otherwise
5 provided under internal revenue laws.

6 (d) REGULATIONS.—The Secretary of the Treasury
7 shall promulgate such regulations as necessary to carry
8 out the purposes of this section.

9 (e) EFFECTIVE DATE.—This section shall apply with
10 respect to actions taken after the date of the enactment
11 of this Act.

12 **SEC. 612. MODIFICATION OF FILING DATE.**

13 (a) IN GENERAL.—Section 7502(a)(2) (relating to
14 mailing requirements) is amended by—

15 (1) striking subparagraph (A) and inserting the
16 following new subparagraph:

17 “(A) in the case of a payment, the post-
18 mark date falls within the prescribed period or
19 on or before the prescribed date for making the
20 payment (including any extension granted for
21 making such payment), and”, and

22 (2) striking “or other document, or” in sub-
23 paragraph (B) and inserting “or other document
24 was, or”.

1 (b) EFFECTIVE DATE.—The amendments made by
2 subsection (a) shall apply to deposits required to be made
3 after December 31, 2000.

4 **SEC. 613. WAIVER OF ADDITION TO TAX FOR EARLY WITH-**
5 **DRAWAL FROM IRA.**

6 (a) IN GENERAL.—Section 72(t) (relating to 10-per-
7 cent additional tax on early distributions from qualified
8 retirement plans) is amended by adding at the end the
9 following new paragraph:

10 “(9) HARDSHIP EXCEPTION.—The Secretary
11 may waive part or all of the tax imposed under para-
12 graph (1) to any distribution if the Secretary deter-
13 mines that—

14 “(A) adequate notice is not received by the
15 taxpayer as required under section 402(f)(1)
16 with respect to an eligible rollover distribution,

17 “(B) the taxpayer has no reason to know
18 the information required to be contained in
19 such notice, and

20 “(C) the application of such tax would re-
21 sult in undue hardship due to the financial con-
22 dition of the taxpayer.”.

23 (b) EFFECTIVE DATE.—The amendment made by
24 subsection (a) shall apply to distributions made in taxable
25 years beginning after December 31, 2000.

1 **SEC. 614. FIXED RATE OF INTEREST FOR INSTALLMENT**
2 **AGREEMENT.**

3 (a) IN GENERAL.—Section 6621(b)(2) (relating to
4 period during which rate applies) is amended by adding
5 at the end the following new subparagraph:

6 “(C) SPECIAL RULE FOR INSTALLMENT
7 AGREEMENTS.—In the case of an installment
8 agreement under section 6159, the Federal
9 short-term rate which applies with respect to
10 any day of the installment agreement period
11 shall be the rate determined under paragraph
12 (1) for the first day of the calendar quarter in
13 which such installment agreement is entered
14 into.”.

15 (b) ADJUSTMENT FOR CHANGING RATES.—Section
16 6159(b) (relating to extent to which agreements remain
17 in effect) is amended by adding at the end the following
18 new paragraph:

19 “(6) CHANGE IN INTEREST RATE.—Notwith-
20 standing section 6621(b)(2)(C), the Secretary may
21 alter or modify such agreement with respect to the
22 rate of interest in effect for such agreement if the
23 Secretary determines that such rate is higher than
24 the rate determined under section 6621(b) for the
25 current calendar quarter.”.

1 (c) EFFECTIVE DATE.—The amendments made by
 2 this section shall apply to installment agreements entered
 3 into after December 31, 2000.

4 **SEC. 615. EXCEPTION TO TAX ON EARLY WITHDRAWAL**
 5 **FROM IRA.**

6 (a) IN GENERAL.—Subparagraph (A) of section
 7 72(t)(2) (relating to subsection not to apply to certain dis-
 8 tributions) is amended by striking “, or” at the end of
 9 clause (vi), by striking the period at the end of clause (vii)
 10 and inserting “, or”, and by adding at the end the fol-
 11 lowing new clause:

12 “(viii) used to satisfy part or all of
 13 any liability for tax imposed under this
 14 subtitle of the person receiving such dis-
 15 tribution.”.

16 (b) EFFECTIVE DATE.—The amendment made by
 17 subsection (a) shall apply to distributions made in taxable
 18 years beginning after December 31, 2000.

19 **Subtitle C—Small Investors Tax**
 20 **Simplification Act**

21 **SEC. 621. ELECTION TO USE SIMPLIFIED METHOD FOR**
 22 **QUALIFIED INVESTMENT CLUBS.**

23 (a) IN GENERAL.—Part I of subchapter K of chapter
 24 1 (relating to determination of tax liability of partners and

1 partnerships) is amended by inserting after section 704
2 the following new section:

3 **“SEC. 704A. ELECTION TO USE SIMPLIFIED METHOD FOR**
4 **QUALIFIED INVESTMENT CLUBS.**

5 “(a) IN GENERAL.—Notwithstanding any other pro-
6 vision of this subchapter, a partner’s distributive share of
7 all items of income, gain, loss, deduction, or credit of a
8 qualified investment club shall be determined under the
9 simplified method.

10 “(b) SIMPLIFIED METHOD.—For purposes of this
11 section—

12 “(1) IN GENERAL.—The term ‘simplified meth-
13 od’ means a method pursuant to which a partnership
14 allocates each of the items of income, gain, loss, de-
15 duction, and credit for its taxable year to its part-
16 ners based on their proportionate interests on the
17 last day of such taxable year in partnership profits.

18 “(2) EXCEPTION FOR DISTRIBUTIONS DURING
19 YEAR.—The partnership may take into account the
20 partners’ varying interests in partnership profits re-
21 sulting from distributions during the taxable year in
22 determining the partners’ interests in partnership
23 profits for purposes of paragraph (1).

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

1 “(1) QUALIFIED INVESTMENT CLUB.—The
2 term ‘qualified investment club’ means, with respect
3 to any taxable year, any partnership—

4 “(A) which is not required to be registered
5 under the Investment Company Act of 1940,

6 “(B) for which no person who is registered
7 as an investment adviser under the Investment
8 Advisers Act of 1940 substantially participates
9 in the management or investment decisions
10 thereof,

11 “(C) all of the partners of which are quali-
12 fied partners for the calendar year in which the
13 taxable year of the partnership ends,

14 “(D) at least 90 percent of the gross in-
15 come of which is derived from items described
16 in section 851(b)(2),

17 “(E) at least 90 percent of the value of the
18 total assets of which, at the end of each quarter
19 of such year, consists of cash, cash items (in-
20 cluding receivables), and securities,

21 “(F) the taxable year of which is the cal-
22 endar year, and

23 “(G) for which an election under sub-
24 section (e) is in effect.

25 “(2) QUALIFIED PARTNER.—

1 “(A) IN GENERAL.—The term ‘qualified
2 partner’ means—

3 “(i) any individual other than a non-
4 resident alien,

5 “(ii) any individual retirement plan,
6 and

7 “(iii) any education individual retire-
8 ment account (as defined in section 530).

9 “(B) LIMITATION ON CONTRIBUTIONS BY
10 INDIVIDUALS.—An individual shall not be a
11 qualified partner for any calendar year if the
12 aggregate contributions by such individual to
13 qualified investment clubs (determined without
14 regard to paragraph (1)(C)) during such cal-
15 endar year exceeds \$3,000 or exceeds \$3,000
16 during any of the 5 preceding calendar years.

17 “(C) LIMITATION ON CONTRIBUTIONS BY
18 TRUSTS.—

19 “(i) IN GENERAL.—A plan or account
20 referred to in subparagraph (A) (hereafter
21 in this subparagraph referred to as a
22 ‘trust’) shall not be a qualified partner for
23 any calendar year if the aggregate con-
24 tributions to qualified investment clubs
25 (determined without regard to paragraph

1 (1)(C)) during such calendar year by such
2 trust exceeds the excess of—

3 “(I) the product of \$3,000 and
4 the number of years before such cal-
5 endar year that such trust held any
6 asset, over

7 “(II) the aggregate contributions
8 made to qualified investment clubs (as
9 so determined) by such trust during
10 all prior calendar years.

11 “(ii) AGGREGATION OF RELATED
12 TRUSTS.—For purposes of this
13 subparagraph—

14 “(I) all trusts having the same
15 beneficiary shall be treated as 1 trust,
16 and

17 “(II) only the trust having the
18 longest period described in clause
19 (i)(I) shall be taken into account
20 thereunder.

21 “(iii) FRACTIONS OF A YEAR.—For
22 purposes of clause (i)(I), a fraction of a
23 year shall be counted as a whole year.

24 “(D) NO ATTRIBUTION BETWEEN INDIVID-
25 UALS AND TRUSTS.—Notwithstanding any other

1 provision of this title, there shall be no attribu-
2 tion of contributions between a trust and an in-
3 dividual.

4 “(3) SECURITIES.—

5 “(A) DEFINITION.—The term ‘security’
6 has the meaning given to such term by section
7 475(c)(2) (determined without regard to sub-
8 paragraph (F) thereof).

9 “(B) CERTAIN RULES TO APPLY.—For
10 purposes of paragraph (1)(E), rules similar to
11 the rules of paragraphs (4) and (5) of section
12 851(c), shall apply.

13 “(d) INFLATION ADJUSTMENT.—In the case of cal-
14 endar years after 2000, the \$3,000 amounts contained in
15 subsection (c)(2) shall each be increased for any calendar
16 year after 2001 by an amount equal to—

17 “(1) \$3,000, multiplied by

18 “(2) the cost-of-living adjustment under section
19 1(f)(3) for such calendar year, determined by sub-
20 stituting ‘calendar year 2000’ for ‘calendar year
21 1992’ in subparagraph (B) thereof.

22 Any increase under this subsection which is not a multiple
23 of \$50 shall be rounded to the nearest multiple of \$50.

24 “(e) ELECTION.—An election under this subsection
25 shall be made on the return for the taxable year for which

1 it is made and shall apply to such taxable year and all
2 subsequent taxable years for which the partnership is a
3 qualified investment club, unless the election is revoked
4 with the consent of the Secretary.

5 “(f) TERMINATION OF QUALIFIED INVESTMENT
6 CLUB STATUS.—An election under subsection (e) shall
7 terminate as of the 1st day of any taxable year during
8 which the partnership ceases to be a qualified investment
9 club and, solely for purposes of section 704(c), each part-
10 ner shall be treated as contributing on such first day such
11 partner’s pro rata share of the partnership’s assets and
12 liabilities on such first day to a new partnership.

13 “(g) INADVERTENT INVALID ELECTIONS OR TERMI-
14 NATIONS.—The Secretary shall provide a relief mechanism
15 for treating a partnership as a qualified investment club
16 in circumstances where—

17 “(1) an election under subsection (e) was not
18 effective for the taxable year for which made by rea-
19 son of an inadvertent failure to satisfy any require-
20 ment of subsection (e), or

21 “(2) there is an inadvertent termination under
22 subsection (f) of such an election.

23 “(h) ELECTION AFTER TERMINATION.—If an elec-
24 tion under subsection (e) by a partnership is terminated
25 or revoked, such partnership shall not be eligible to make

1 an election under subsection (e) for any taxable year be-
 2 fore its 5th taxable year which begins after the 1st taxable
 3 year for which such termination or revocation is effective,
 4 unless the Secretary consents to such election.

5 “(i) REGULATIONS.—The Secretary shall prescribe
 6 such regulations as may be necessary to carry out the pur-
 7 poses of this section, including regulations regarding the
 8 status of an individual or trust as a qualified partner.”.

9 (b) CLERICAL AMENDMENT.—The table of sections
 10 for part I of subchapter K of chapter 1 is amended by
 11 inserting after the item relating to section 704 the fol-
 12 lowing new item:

“Sec. 704A. Election to use simplified method for qualified invest-
 ment clubs.”

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 **Subtitle D—Other Provisions**

17 **SEC. 631. ABOVE-THE-LINE DEDUCTION FOR UNREIM-** 18 **BURSED BUSINESS EXPENSES.**

19 (a) IN GENERAL.—Section 62(a)(2) (relating to cer-
 20 tain trade and business deductions of employees) is
 21 amended to read as follows:

22 “(2) TRADE AND BUSINESS DEDUCTIONS OF
 23 EMPLOYEES.—The deductions allowed by part VI
 24 (section 161 and following) which consist of ex-

1 penses paid or incurred by the taxpayer, whether or
2 not such expenses are reimbursed, in connection
3 with the performance by the taxpayer of services as
4 an employee.”.

5 (b) CONFORMING AMENDMENTS.—

6 (1) Section 62 is amended—

7 (A) by striking “(a) GENERAL RULE.—
8 For purposes” and inserting the following:

9 “For purposes”, and

10 (B) by striking subsections (b) and (c).

11 (2) Section 67 is amended by striking sub-
12 section (f).

13 (3) Section 162(o)(1) is amended by striking
14 “such services” the first place it occurs and all that
15 follows and inserting “such services, the amount al-
16 lowable as a deduction under this chapter for the
17 use of a vehicle in performing such services shall be
18 equal to the amount of such qualified reimburse-
19 ments.”.

20 (4) Section 3402(m)(1) is amended by striking
21 “62(a)” and inserting “62”.

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

1 **SEC. 632. EXPENSING OF CERTAIN PERSONAL PROPERTY**
2 **USED IN CONNECTION WITH RESIDENTIAL**
3 **RENTAL PROPERTY.**

4 (a) IN GENERAL.—Section 179(d)(1) (defining sec-
5 tion 179 property) is amended by inserting “(without re-
6 gard to paragraph (2) thereof)” after “50(b)”.

7 (b) EFFECTIVE DATE.—The amendment made by
8 subsection (a) shall apply to property placed in service in
9 taxable years beginning after December 31, 2000.

10 **SEC. 633. INCLUSION OF CERTAIN OLDER FOSTER CHIL-**
11 **DREN IN DEFINITION OF DEPENDENT.**

12 (a) IN GENERAL.—Section 151(c)(1)(B)(ii) (relating
13 to additional exemption for dependents) is amended by in-
14 serting “or a foster child” after “student”.

15 (b) EFFECTIVE DATE.—The amendment made by
16 subsection (a) shall apply to taxable years beginning after
17 December 31, 2000.

18 **SEC. 634. EXCLUSION FOR FOSTER CARE PAYMENTS TO**
19 **APPLY TO PAYMENTS BY QUALIFIED PLACE-**
20 **MENT AGENCIES.**

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

24 “(1) IN GENERAL.—The term ‘qualified foster
25 care payment’ means any payment made pursuant to

1 a foster care program of a State or political subdivi-
 2 sion thereof—

3 “(A) which is paid by—

4 “(i) the State or political subdivision
 5 thereof, or

6 “(ii) a qualified foster care placement
 7 agency, and”.

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

12 “(B) a qualified foster care placement
 13 agency.”.

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

18 “(3) QUALIFIED FOSTER CARE PLACEMENT
 19 AGENCY.—The term ‘qualified foster care placement
 20 agency’ means any placement agency which is li-
 21 censed or certified by—

22 “(A) a State or political subdivision there-
 23 of, or

24 “(B) an entity designated by a State or
 25 political subdivision thereof,

1 for the foster care program of such State or political
2 subdivision to make foster care payments to pro-
3 viders of foster care.”.

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

7 **SEC. 635. SIMPLIFICATION AND INCREASE IN STANDARD**
8 **DEDUCTION FOR DEPENDENTS.**

9 (a) IN GENERAL.—Section 63(c)(5) (relating to limi-
10 tation on basic standard deduction in the case of certain
11 dependents) is amended by striking “exceed the greater”
12 and all that follows through the period and inserting the
13 following: “exceed the lesser of—

14 “(A) the basic standard deduction under
15 paragraph (2) applicable to such individual for
16 such individual’s taxable year (determined with-
17 out regard to this paragraph), or

18 “(B) the sum of \$1,000 and such individ-
19 ual’s earned income.”.

20 (b) ADJUSTMENTS FOR INFLATION.—Section
21 63(c)(4)(B) (relating to adjustments for inflation) is
22 amended—

23 (1) by striking “or 5(A)” in clause (i), and

24 (2) by amending clause (ii) to read as follows:

1 “(ii) ‘calendar year 1999’ in the case
2 of the dollar amount contained in para-
3 graph (5)(B).”.

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

7 **SEC. 636. 2-PERCENT FLOOR ON MISCELLANEOUS**
8 **ITEMIZED DEDUCTIONS NOT TO APPLY TO**
9 **QUALIFIED PROFESSIONAL DEVELOPMENT**
10 **EXPENSES OF ELEMENTARY AND SEC-**
11 **ONDARY SCHOOL TEACHERS.**

12 (a) IN GENERAL.—Section 67(b) (defining miscella-
13 neous itemized deductions) is amended by striking “and”
14 at the end of paragraph (11), by striking the period at
15 the end of paragraph (12) and inserting “, and”, and by
16 adding at the end the following new paragraph:

17 “(13) any deduction allowable for the qualified
18 professional development expenses paid or incurred
19 by an eligible teacher.”.

20 (b) DEFINITIONS.—Section 67 (relating to 2-percent
21 floor on miscellaneous itemized deductions) is amended by
22 adding at the end the following new subsection:

23 “(g) QUALIFIED PROFESSIONAL DEVELOPMENT EX-
24 PENSES OF ELIGIBLE TEACHERS.—For purposes of sub-
25 section (b)(13)—

1 “(1) QUALIFIED PROFESSIONAL DEVELOPMENT
2 EXPENSES.—

3 “(A) IN GENERAL.—The term ‘qualified
4 professional development expenses’ means
5 expenses—

6 “(i) for tuition, fees, books, supplies,
7 equipment, and transportation required for
8 the enrollment or attendance of an indi-
9 vidual in a qualified course of instruction,
10 and

11 “(ii) with respect to which a deduction
12 is allowable under section 162 (determined
13 without regard to this section).

14 “(B) QUALIFIED COURSE OF INSTRU-
15 TION.—The term ‘qualified course of instruc-
16 tion’ means a course of instruction which—

17 “(i) is—

18 “(I) directly related to the cur-
19 riculum and academic subjects in
20 which an eligible teacher provides in-
21 struction, or

22 “(II) designed to enhance the
23 ability of an eligible teacher to under-
24 stand and use State standards for the

1 academic subjects in which such
2 teacher provides instruction,

3 “(ii) may—

4 “(I) provide instruction in how to
5 teach children with different learning
6 styles, particularly children with dis-
7 abilities and children with special
8 learning needs (including children who
9 are gifted and talented), or

10 “(II) provide instruction in how
11 best to discipline children in the class-
12 room and identify early and appro-
13 priate interventions to help children
14 described in subclause (I) to learn,

15 “(iii) is tied to challenging State or
16 local content standards and student per-
17 formance standards,

18 “(iv) is tied to strategies and pro-
19 grams that demonstrate effectiveness in in-
20 creasing student academic achievement
21 and student performance, or substantially
22 increasing the knowledge and teaching
23 skills of an eligible teacher,

24 “(v) is of sufficient intensity and du-
25 ration to have a positive and lasting im-

1 pact on the performance of an eligible
2 teacher in the classroom (which shall not
3 include 1-day or short-term workshops and
4 conferences), except that this clause shall
5 not apply to an activity if such activity is
6 1 component described in a long-term com-
7 prehensive professional development plan
8 established by an eligible teacher and the
9 teacher’s supervisor based upon an assess-
10 ment of the needs of the teacher, the stu-
11 dents of the teacher, and the local edu-
12 cational agency involved, and

13 “(vi) is part of a program of profes-
14 sional development which is approved and
15 certified by the appropriate local edu-
16 cational agency as furthering the goals of
17 the preceding clauses.

18 “(C) LOCAL EDUCATIONAL AGENCY.—The
19 term ‘local educational agency’ has the meaning
20 given such term by section 14101 of the Ele-
21 mentary and Secondary Education Act of 1965,
22 as in effect on the date of the enactment of this
23 subsection.

24 “(2) ELIGIBLE TEACHER.—

1 “(A) IN GENERAL.—The term ‘eligible
2 teacher’ means an individual who is a kinder-
3 garten through grade 12 classroom teacher in
4 an elementary or secondary school.

5 “(B) ELEMENTARY OR SECONDARY
6 SCHOOL.—The terms ‘elementary school’ and
7 ‘secondary school’ have the meanings given
8 such terms by section 14101 of the Elementary
9 and Secondary Education Act of 1965 (20
10 U.S.C. 8801), as so in effect.”.

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

○